

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

Annual report pursuant to section 13 or 15(d) of
The Securities Exchange Act of 1934

For the fiscal year ended
December 31, 2006

Commission file
number 1-5805

JPMorgan Chase & Co.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-2624428
(I.R.S. employer
identification no.)

270 Park Avenue, New York, NY
(Address of principal executive offices)

10017
(Zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common stock
6 1/8% subordinated notes due 2008
6.75% subordinated notes due 2008
6.50% subordinated notes due 2009
Guarantee of 7.00% Capital Securities, Series J, of J.P. Morgan
Chase Capital X
Guarantee of 57/8% Capital Securities, Series K, of J.P. Morgan Chase
Capital XI
Guarantee of 6.25% Capital Securities, Series L, of J.P. Morgan
Chase Capital XII
Guarantee of 6.20% Capital Securities, Series N, of JPMorgan
Chase Capital XIV
Guarantee of 6.35% Capital Securities, Series P, of JPMorgan
Chase Capital XVI
Guarantee of 6.625% Capital Securities, Series S, of JPMorgan
Chase Capital XIX
Guarantee of 7.20% Preferred Securities of BANK ONE Capital VI
Indexed Linked Notes on the S&P 500® Index due November 26, 2007

JPMorgan Market Participation Notes on the S&P 500® Index due
March 12, 2008
Capped Quarterly Observation Notes Linked to S&P 500® Index due
September 22, 2008
Capped Quarterly Observation Notes Linked to S&P 500® Index due
October 30, 2008
Capped Quarterly Observation Notes Linked to S&P 500® Index due
January 21, 2009
JPMorgan Market Participation Notes on the S&P 500® Index due
March 31, 2009
Capped Quarterly Observation Notes Linked to S&P 500® Index due
July 7, 2009
Capped Quarterly Observation Notes Linked to S&P 500® Index due
September 21, 2009
Consumer Price Indexed Securities due January 15, 2010
Principal Protected Notes Linked to S&P 500® Index due
September 30, 2010

The Indexed Linked Notes, JPMorgan Market Participation Notes, Capped Quarterly Observation Notes, Consumer Price
Indexed Securities and Principal Protected Notes are listed on the American Stock Exchange;
all other securities named above are listed on the New York Stock Exchange.

Securities registered pursuant to Section 12(g) of the Act: none

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☒ Yes ☐ No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the
preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past
90 days. ☒ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be
contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment
to this Form 10-K. ☒

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large
accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): ☒ Large accelerated filer ☐ Accelerated filer
☐ Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

The aggregate market value of JPMorgan Chase & Co. common stock held by non-affiliates of JPMorgan Chase & Co. on June 30, 2006 was approximately
\$144,956,714,582.

Number of shares of common stock outstanding on January 31, 2007: 3,473,349,593

Documents Incorporated by Reference: Portions of the Registrant's Proxy Statement for the annual meeting of stockholders to be held on May 15, 2007, are incorporated
by reference in this Form 10-K in response to Items 10, 11, 12, 13 and 14 of Part III.

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Part I

Item 1: Business

Overview

JPMorgan Chase & Co. ("JPMorgan Chase" or the "Firm") is a financial holding company incorporated under Delaware law in 1968. JPMorgan Chase is one of the largest banking institutions in the United States, with \$1.4 trillion in assets, \$116 billion in stockholders' equity and operations worldwide.

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 banking association that is the Firm's credit card-issuing bank. JPMorgan Chase's principal nonbank subsidiary is J.P. Morgan Securities Inc. ("JPMorgan Securities"), its U.S. investment banking firm. The bank and nonbank subsidiaries of JPMorgan Chase operate nationally as well as through overseas branches and subsidiaries, representative offices and subsidiary foreign banks.

On July 1, 2004, Bank One Corporation ("Bank One") merged with and into JPMorgan Chase (the "Merger"). Bank One's results of operations were included in the Firm's results beginning July 1, 2004. Therefore, the results of operations for the 12 months ended December 31, 2004, reflect six months of operations of heritage JPMorgan Chase only and six months of operations of the combined Firm; results of operations for all periods prior to 2004 reflect the operations of heritage JPMorgan Chase only.

The Firm's website is www.jpmorganchase.com. JPMorgan Chase makes available free of charge, through its website, annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after it electronically files such material with, or furnishes such material to, the Securities and Exchange Commission (the "SEC"). The Firm has adopted, and posted on its website, a Code of Ethics for its Chairman and Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer and other senior financial officers.

Business segments

JPMorgan Chase's activities are organized, for management reporting purposes, into six business segments (Investment Bank, Retail Financial Services, Card Services, Commercial Banking, Treasury & Securities Services and Asset Management) and Corporate, which includes its Private Equity and Treasury businesses, as well as corporate support functions. A description of the Firm's business segments and the products and services they provide to their respective client bases is provided in the "Business segment results" section of Management's discussion and analysis ("MD&A"), beginning on page 34, and in Note 33 on page 139.

Competition

JPMorgan Chase and its subsidiaries and affiliates operate in a highly competitive environment. Competitors include other banks, brokerage firms, investment banking companies, merchant banks, insurance companies, mutual fund companies, credit card companies, mortgage banking companies, hedge funds, trust companies, securities processing companies, automobile financing companies, leasing companies, e-commerce and other Internet-based companies, and a variety of other financial services and advisory companies. JPMorgan Chase's businesses compete with these other firms with respect to the quality and range of products and services offered and the types of clients, customers, industries and geogra-

phies served. With respect to some of its geographies and products, JPMorgan Chase competes globally; with respect to others, the Firm competes on a regional basis. JPMorgan Chase's ability to compete effectively depends upon the relative performance of its products, the degree to which the features of its products appeal to customers, and the extent to which the Firm is able to meet its clients' objectives or needs. The Firm's ability to compete also depends upon its ability to attract and retain its professional and other personnel, and on its reputation.

The financial services industry has experienced consolidation and convergence in recent years, as financial institutions involved in a broad range of financial products and services have merged. This convergence trend is expected to continue. Consolidation could result in competitors of JPMorgan Chase gaining greater capital and other resources, such as a broader range of products and services and geographic diversity. It is possible that competition will become even more intense as the Firm continues to compete with other financial institutions that may be larger or better capitalized, or that may have a stronger local presence in certain geographies. For a discussion of certain risks relating to the Firm's competitive environment, see the Risk factors on page 4.

Supervision and regulation

Permissible business activities: The Firm is subject to regulation under state and federal law, including the Bank Holding Company Act of 1956, as amended (the "BHCA"). JPMorgan Chase elected to become a financial holding company as of March 13, 2000, pursuant to the provisions of the Gramm-Leach-Bliley Act ("GLBA").

Under regulations implemented by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), if any depository institution controlled by a financial holding company ceases to meet certain capital or management standards, the Federal Reserve Board may impose corrective capital and/or managerial requirements on the financial holding company and place limitations on its ability to conduct the broader financial activities permissible for financial holding companies. In addition, the Federal Reserve Board may require divestiture of the holding company's depository institutions if the deficiencies persist. The regulations also provide that if any depository institution controlled by a financial holding company fails to maintain a satisfactory rating under the Community Reinvestment Act ("CRA"), the Federal Reserve Board must prohibit the financial holding company and its subsidiaries from engaging in any additional activities other than those permissible for bank holding companies that are not financial holding companies. At December 31, 2006, the depository-institution subsidiaries of JPMorgan Chase met the capital, management and CRA requirements necessary to permit the Firm to conduct the broader activities permitted under GLBA. However, there can be no assurance that this will continue to be the case in the future.

Regulation by Federal Reserve Board under GLBA: Under GLBA's system of "functional regulation," the Federal Reserve Board acts as an "umbrella regulator," and certain of JPMorgan Chase's subsidiaries are regulated directly by additional authorities based upon the particular activities of those subsidiaries. JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A. are regulated by the Office of the Comptroller of the Currency ("OCC"). See "Other Supervision and Regulation" below for a further description of the regulatory supervision to which the Firm's subsidiaries are subject.

Part I

Dividend restrictions: Federal law imposes limitations on the payment of dividends by the subsidiaries of JPMorgan Chase that are national banks. Nonbank subsidiaries of JPMorgan Chase are not subject to those limitations. The amount of dividends that may be paid by national banks, such as JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A., is limited to the lesser of the amounts calculated under a "recent earnings" test and an "undivided profits" test. Under the recent earnings test, a dividend may not be paid if the total of all dividends declared by a bank in any calendar year is in excess of the current year's net income combined with the retained net income of the two preceding years, unless the national bank obtains the approval of the OCC. Under the undivided profits test, a dividend may not be paid in excess of a bank's "undivided profits." See Note 25 on page 129 for the amount of dividends that the Firm's principal bank subsidiaries could pay, at January 1, 2007 and 2006, to their respective bank holding companies without the approval of their banking regulators.

In addition to the dividend restrictions described above, the OCC, the Federal Reserve Board and the Federal Deposit Insurance Corporation (the "FDIC") have authority to prohibit or to limit the payment of dividends by the banking organizations they supervise, including JPMorgan Chase and its bank and bank holding company subsidiaries, if, in the banking regulator's opinion, payment of a dividend would constitute an unsafe or unsound practice in light of the financial condition of the banking organization.

Capital requirements: Federal banking regulators have adopted risk-based capital and leverage guidelines that require the Firm's capital-to-assets ratios to meet certain minimum standards.

The risk-based capital ratio is determined by allocating assets and specified off-balance sheet financial instruments into four weighted categories, with higher levels of capital being required for the categories perceived as representing greater risk. Under the guidelines, capital is divided into two tiers: Tier 1 capital and Tier 2 capital. The amount of Tier 2 capital may not exceed the amount of Tier 1 capital. Total capital is the sum of Tier 1 capital and Tier 2 capital. Under the guidelines, banking organizations are required to maintain a Total capital ratio (total capital to risk-weighted assets) of 8% and a Tier 1 capital ratio of 4%.

The federal banking regulators also have established minimum leverage ratio guidelines. The leverage ratio is defined as Tier 1 capital divided by average total assets (net of the allowance for loan losses, goodwill and certain intangible assets). The minimum leverage ratio is 3% for bank holding companies that are considered "strong" under Federal Reserve Board guidelines or which have implemented the Federal Reserve Board's risk-based capital measure for market risk. Other bank holding companies must have a minimum leverage ratio of 4%. Bank holding companies may be expected to maintain ratios well above the minimum levels, depending upon their particular condition, risk profile and growth plans. See Regulatory capital on page 58 and Note 26 on page 129.

The risk-based capital requirements explicitly identify concentrations of credit risk, certain risks arising from non-traditional banking activities, and the management of those risks as important factors to consider in assessing an institution's overall capital adequacy. Other factors taken into consideration by federal regulators include: interest rate exposure; liquidity, funding and market risk; the quality and level of earnings; the quality of loans and investments; the effectiveness of loan and investment policies; and management's overall ability to monitor and control financial and operational risks, including the risks presented by concentrations of credit and non-traditional banking activities. In addition, the risk-based capital rules incorporate a measure for market risk in foreign exchange and commodity activities and in the trading of debt and equity instruments. The market risk-based capital

rules require banking organizations with large trading activities (such as JPMorgan Chase) to maintain capital for market risk in an amount calculated by using the banking organizations' own internal Value-at-Risk models (subject to parameters set by the regulators).

The minimum risk-based capital requirements adopted by the federal banking agencies follow the Capital Accord of the Basel Committee on Banking Supervision. The Basel Committee has proposed a revision to the Accord ("Basel II"). 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 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.

FDICIA: The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") provides a framework for regulation of depository institutions and their affiliates, including parent holding companies, by their federal banking regulators; among other things, it requires the relevant federal banking regulator to take "prompt corrective action" with respect to a depository institution if that institution does not meet certain capital adequacy standards.

Supervisory actions by the appropriate federal banking regulator under the "prompt corrective action" rules generally depend upon an institution's classification within five capital categories. The regulations apply only to banks and not to bank holding companies such as JPMorgan Chase; however, subject to limitations that may be imposed pursuant to GLBA, the Federal Reserve Board is authorized to take appropriate action at the holding company level, based upon the undercapitalized status of the holding company's subsidiary banking institutions. In certain instances relating to an undercapitalized banking institution, the bank holding company would be required to guarantee the performance of the undercapitalized subsidiary and might be liable for civil money damages for failure to fulfill its commitments on that guarantee.

FDIC Insurance Assessments: In November 2006, the FDIC issued final regulations, as required by the Federal Deposit Insurance Reform Act of 2005, by which the FDIC established a new base rate schedule for the assessment of deposit insurance premiums and set new assessment rates which became effective in January 2007. Under these regulations, each depository institution is assigned to a risk category based upon capital and supervisory measures. Depending upon the risk category to which it is assigned, the depository institution is then assessed insurance premiums based upon its deposits. Some depository institutions are entitled to apply against these premiums a credit that is designed to give effect to premium payments, if any, that the depository institution may have made in certain prior years. The new assessment schedule will not have a material adverse effect on the Firm's earnings or financial condition.

Powers of the FDIC upon insolvency of an insured depository institution: An FDIC-insured depository institution can be held liable for any loss incurred or expected to be incurred by the FDIC in connection with another FDIC-insured institution under common control with such institution being “in default” or “in danger of default” (commonly referred to as “cross-guarantee” liability). An FDIC cross-guarantee claim against a depository institution is generally superior in right of payment to claims of the holding company and its affiliates against such depository institution.

If the FDIC is appointed the conservator or receiver of an insured depository institution upon its insolvency or in certain other events, the FDIC has the power: (1) to transfer any of the depository institution’s assets and liabilities to a new obligor without the approval of the depository institution’s creditors; (2) to enforce the terms of the depository institution’s contracts pursuant to their terms; or (3) to repudiate or disaffirm any contract or lease to which the depository institution is a party, the performance of which is determined by the FDIC to be burdensome and the disaffirmation or repudiation of which is determined by the FDIC to promote the orderly administration of the depository institution. The above provisions would be applicable to obligations and liabilities of JPMorgan Chase’s subsidiaries that are insured depository institutions, such as JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A., including, without limitation, obligations under senior or subordinated debt issued by those banks to investors (referenced below as “public noteholders”) in the public markets.

Under federal law, the claims of a receiver of an insured depository institution for administrative expenses and the claims of holders of U.S. deposit liabilities (including the FDIC, as subrogee of the depositors) have priority over the claims of other unsecured creditors of the institution, including public note-holders and depositors in non-U.S. offices, in the event of the liquidation or other resolution of the institution. As a result, whether or not the FDIC would ever seek to repudiate any obligations held by public noteholders or depositors in non-U.S. offices of any subsidiary of the Firm that is an insured depository institution, such as JPMorgan Chase Bank, N.A. or Chase Bank USA, N.A., such persons would be treated differently from, and could receive, if anything, substantially less than the depositors of the depository institution.

The Bank Secrecy Act: The Bank Secrecy Act, which was amended by the USA Patriot Act of 2001, requires all “financial institutions,” to establish certain anti-money laundering compliance and due diligence programs. The Act also requires financial institutions that maintain correspondent accounts for non-U.S. institutions, or persons that are involved in private banking for “non-United States persons” or their representatives, to establish “appropriate, specific and, where necessary, enhanced due diligence policies, procedures, and controls that are reasonably designed to detect and report instances of money laundering through those accounts.”

Other supervision and regulation: Under current Federal Reserve Board policy, JPMorgan Chase is expected to act as a source of financial strength to its bank subsidiaries and to commit resources to support its bank subsidiaries in circumstances where it might not do so absent such policy. However, because GLBA provides for functional regulation of financial holding company activities by various regulators, GLBA prohibits the Federal Reserve Board from requiring payment by a holding company or subsidiary to a depository institution if the functional regulator of the payor objects to such payment.

In such a case, the Federal Reserve Board could instead require the divestiture of the depository institution and impose operating restrictions pending the divestiture.

Any loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and certain other indebtedness of the subsidiary banks. In the event of a bank holding company’s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank at a certain level would be assumed by the bankruptcy trustee and entitled to a priority of payment.

The bank subsidiaries of JPMorgan Chase are subject to certain restrictions imposed by federal law on extensions of credit to, and certain other transactions with, the Firm and certain other affiliates, and on investments in stock or securities of JPMorgan Chase and those affiliates. These restrictions prevent JPMorgan Chase and other affiliates from borrowing from a bank subsidiary unless the loans are secured in specified amounts. See Note 25 on page 129.

The Firm’s banks and certain of its nonbank subsidiaries are subject to direct supervision and regulation by various other federal and state authorities (some of which are considered “functional regulators” under GLBA). JPMorgan Chase’s national bank subsidiaries, such as JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A., are subject to supervision and regulation by the OCC and, in certain matters, by the Federal Reserve Board and the FDIC. Supervision and regulation by the responsible regulatory agency generally includes comprehensive annual reviews of all major aspects of the relevant bank’s business and condition, as well as the imposition of periodic reporting requirements and limitations on investments and other powers. The Firm also conducts securities underwriting, dealing and brokerage activities through JPMorgan Securities and other broker-dealer subsidiaries, all of which are subject to the regulations of the SEC and the NASD Regulation, Inc. (“NASD”) and other self-regulatory organizations (“SROs”). JPMorgan Securities is a member of the New York Stock Exchange (“NYSE”). The operations of JPMorgan Chase’s mutual funds also are subject to regulation by the SEC. The Firm has subsidiaries that are members of futures exchanges in the U.S. and abroad. One subsidiary is registered as a futures commission merchant, and other subsidiaries are registered as commodity pool operators and commodity trading advisors, all with the Commodity Futures Trading Commission (“CFTC”). These CFTC-registered subsidiaries are also members of the National Futures Association. The Firm’s energy business is also subject to regulation by the Federal Energy Regulatory Commission. The types of activities in which the non-U.S. branches of JPMorgan Chase Bank, N.A. and the international subsidiaries of JPMorgan Chase may engage are subject to various restrictions imposed by the Federal Reserve Board. Those non-U.S. branches and international subsidiaries also are subject to the laws and regulatory authorities of the countries in which they operate.

The activities of JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A. as consumer lenders also are subject to regulation under various U.S. federal laws, including the Truth-in-Lending, Equal Credit Opportunity, Fair Credit Reporting, Fair Debt Collection Practice and Electronic Funds Transfer acts, as well as various state laws. These statutes impose requirements on the making, enforcement and collection of consumer loans and on the types of disclosures that need to be made in connection with such loans.

Part I

In addition, under the requirements imposed by GLBA, JPMorgan Chase and its subsidiaries are required periodically to disclose to their retail customers the Firm's policies and practices with respect to (1) the sharing of nonpublic customer information with JPMorgan Chase affiliates and others; and (2) the confidentiality and security of that information. Under GLBA, retail customers also must be given the opportunity to "opt out" of information-sharing arrangements with nonaffiliates, subject to certain exceptions set forth in GLBA.

For a discussion of certain risks relating to the Firm's regulatory environment, see Risk factors below.

Non-U.S. operations

For geographic distributions of total revenue, total expense, income before income tax expense and net income, see Note 32 on page 138. For information regarding non-U.S. loans, see Note 12 on page 112 and the sections entitled "Emerging markets country exposure" in the MD&A on page 72, Loan portfolio on page 154 and "Cross-border outstandings" on page 155.

Item 1A: Risk factors

The following discussion sets forth some of the more important risk factors that could affect the Firm's business and operations. Other factors that could affect the Firm's business and operations are discussed in the "Forward looking statements" section on page 147. However, factors besides those discussed below, in the MD&A or elsewhere in this or other of the Firm's reports filed or furnished with the SEC also could adversely affect the Firm's business or results. The reader should not consider any descriptions of such factors to be a complete set of all potential risks that may face the Firm.

JPMorgan Chase's results of operations could be adversely affected by U.S. and international markets and economic conditions.

The Firm's businesses are affected by conditions in the global financial markets and economic conditions generally both in the U.S. and internationally. Factors such as the liquidity of the global financial markets; the level and volatility of equity prices, interest rates and commodities prices; investor sentiment; inflation; and the availability and cost of credit can affect significantly the activity level of clients with respect to size, number and timing of transactions involving the Firm's investment banking business, including its underwriting and advisory businesses. These factors also may affect the realization of cash returns from the Firm's private equity business. A market downturn would likely lead to a decline in the volume of transactions that the Firm executes for its customers and, therefore, lead to a decline in the revenues it receives from trading commissions and spreads. In addition, lower market volatility will reduce trading and arbitrage opportunities, which could lead to lower trading revenues. Higher interest rates or weakness in the markets also could adversely affect the number or size of underwritings the Firm manages on behalf of clients and affect the willingness of financial sponsors or investors to participate in loan syndications or underwritings managed by JPMorgan Chase.

The Firm generally maintains large trading portfolios in the fixed income, currency, commodity and equity markets and has significant investment positions, including merchant banking investments held by its private equity business. The revenues derived from mark-to-market values of the Firm's business are affected by many factors, including its credit standing; its success in proprietary positioning; volatility in interest rates and equity and debt markets; and other economic and business factors. JPMorgan Chase anticipates that revenues relating to its trading will experience volatility and there can be no assurance that such volatility relating to the above factors or other conditions could not materially adversely affect the Firm's earnings.

The fees JPMorgan Chase earns for managing third-party assets are also dependent upon general economic conditions. For example, a higher level of U.S. or non-U.S. interest rates or a downturn in trading markets could affect the valuations of the third-party assets managed by the Firm, which, in turn, could affect the Firm's revenues. Moreover, even in the absence of a market downturn, below-market or sub-par performance by JPMorgan Chase's investment management businesses could result in outflows of assets under management and supervision and, therefore, reduce the fees the Firm receives.

The credit quality of JPMorgan Chase's on-balance sheet and off-balance sheet assets may be affected by business conditions. In a poor economic environment there is a greater likelihood that more of the Firm's customers or counterparties could become delinquent on their loans or other obligations to JPMorgan Chase which, in turn, could result in a higher level of charge-offs and provision for credit losses, all of which would adversely affect the Firm's earnings.

The Firm's consumer businesses are particularly affected by domestic economic conditions that can materially adversely affect such businesses and the Firm. Such conditions include U.S. interest rates; the rate of unemployment; the level of consumer confidence; changes in consumer spending; and the number of personal bankruptcies, among others. Certain changes to these conditions can diminish demand for businesses' products and services, or increase the cost to provide such products and services. In addition, a deterioration in consumers' credit quality could lead to an increase in loan delinquencies and higher net charge-offs, which could adversely affect the Firm's earnings.

There is increasing competition in the financial services industry which may adversely affect JPMorgan Chase's results of operations.

JPMorgan Chase operates in a highly competitive environment and expects competitive conditions to continue to intensify as continued merger activity in the financial services industry produces larger, better-capitalized and more geographically diverse companies that are capable of offering a wider array of financial products and services at more competitive prices.

The Firm also faces an increasing array of competitors. Competitors include other banks, brokerage firms, investment banking companies, merchant banks, insurance companies, mutual fund companies, credit card companies, mortgage banking companies, hedge funds, trust companies, securities processing companies, automobile financing companies, leasing companies, e-commerce and other Internet-based companies, and a variety of other financial services and advisory companies. Technological advances and the growth of e-commerce have made it possible for nondepository institutions to offer products and services that traditionally were banking products, and for financial institutions and other companies to provide electronic and Internet-based financial solutions, including electronic securities trading. JPMorgan Chase's businesses generally compete on the basis of the quality and variety of its products and services, transaction execution, innovation, technology, reputation and price. Ongoing or increased competition in any one or all of these areas may put downward pressure on prices for the Firm's products and services or may cause the Firm to lose market share. Increased competition also may require the Firm to make additional capital investment in its businesses in order to remain competitive. These investments may increase expenses or may require the Firm to extend more of its capital on behalf of clients in order to execute larger, more competitive transactions. There can be no assurance that the significant and increasing competition in the financial services industry will not materially adversely affect JPMorgan Chase's future results of operations.

Part I

JPMorgan Chase's acquisitions and integration of acquired businesses may not result in all of the benefits anticipated.

The Firm has in the past and may in the future seek to grow its business by acquiring other businesses. There can be no assurance that the Firm's acquisitions will have the anticipated positive results, including results relating to: the total cost of integration; the time required to complete the integration; the amount of longer-term cost savings; or the overall performance of the combined entity. Integration of an acquired business can be complex and costly, sometimes including combining relevant accounting and data processing systems and management controls, as well as managing relevant relationships with employees, clients, suppliers and other business partners.

There is no assurance that JPMorgan Chase's most recent acquisitions or that any businesses acquired in the future will be successfully integrated and will result in all of the positive benefits anticipated. If JPMorgan Chase is not able to integrate successfully its past and any future acquisitions, there is the risk the Firm's results of operations could be materially and adversely affected.

JPMorgan Chase relies on its systems, employees and certain counterparties, and certain failures could materially adversely affect the Firm's operations.

The Firm's businesses are dependent on its ability to process a large number of increasingly complex transactions. If any of the Firm's financial, accounting, or other data processing systems fail or have other significant shortcomings, the Firm could be materially adversely affected. The Firm is similarly dependent on its employees. The Firm could be materially adversely affected if a Firm employee causes a significant operational break down or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates the Firm's operations or systems. Third parties with which the Firm does business could also be sources of operational risk to the Firm, including relating to break downs or failures of such parties' own systems or employees. Any of these occurrences could result in a diminished ability of the Firm to operate one or more of its businesses, potential liability to clients, reputational damage and regulatory intervention, which could materially adversely affect the Firm.

The Firm also may be subject to disruptions of its operating systems arising from events that are wholly or partially beyond its control, which may include, for example, computer viruses or electrical or telecommunications outages or natural disasters, such as Hurricane Katrina, or events arising from local or regional politics, including terrorist acts. Such disruptions may give rise to losses in service to customers and loss or liability to the Firm.

In a firm as large and complex as JPMorgan Chase, lapses or deficiencies in internal control over financial reporting may occur from time to time, and there is no assurance that significant deficiencies or material weaknesses in internal controls may not occur in the future.

In addition, there is the risk that the Firm's controls and procedures as well as business continuity and data security systems prove to be inadequate. Any such failure could affect the Firm's operations and could materially adversely affect its results of operations by requiring the Firm to expend significant resources to correct the defect, as well as by exposing the Firm to litigation or losses not covered by insurance.

JPMorgan Chase's non-U.S. trading activities and operations are subject to risk of loss, particularly in emerging markets.

The Firm does business throughout the world, including in developing regions of the world commonly known as emerging markets. In the past, many emerging market countries have experienced severe economic and financial disruptions,

including devaluations of their currencies and capital and currency exchange controls, as well as low or negative economic growth.

JPMorgan Chase's businesses and revenues derived from non-U.S. operations are subject to risk of loss from various unfavorable political, economic and legal developments, including currency fluctuations, social instability, changes in governmental policies or policies of central banks, expropriation, nationalization, confiscation of assets and changes in legislation relating to non-U.S. ownership.

The Firm also invests in the securities of corporations located in non-U.S. jurisdictions, including emerging markets. Revenues from the trading of non-U.S. securities also may be subject to negative fluctuations as a result of the above considerations. The impact of these fluctuations could be accentuated as non-U.S. trading markets (particularly in emerging markets) are usually smaller, less liquid and more volatile than U.S. trading markets. There can be no assurance the Firm will not suffer losses in the future arising from its non-U.S. trading activities or operations.

If JPMorgan Chase does not successfully handle issues that may arise in the conduct of its business and operations, its reputation could be damaged, which could in turn negatively affect its business.

The Firm's ability to attract and retain customers and transact with its counter-parties could be adversely affected to the extent its reputation is damaged. The failure of the Firm to deal, or to appear to fail to deal, with various issues that could give rise to reputational risk could cause harm to the Firm and its business prospects. These issues include, but are not limited to, appropriately dealing with potential conflicts of interest, legal and regulatory requirements, ethical issues, money-laundering, privacy, record-keeping, sales and trading practices, and the proper identification of the legal, reputational, credit, liquidity and market risks inherent in its products. The failure to address appropriately these issues could make the Firm's clients unwilling to do business with the Firm, which could adversely affect the Firm's results.

JPMorgan Chase operates within a highly regulated industry and its business and results are significantly affected by the regulations to which it is subject.

JPMorgan Chase operates within a highly regulated environment. The regulations to which the Firm is subject will continue to have a significant impact on the Firm's operations and the degree to which it can grow and be profitable.

Certain regulators to which the Firm is subject have significant power in reviewing the Firm's operations and approving its business practices. Particularly in recent years, the Firm's businesses have experienced increased regulation and regulatory scrutiny, often requiring additional Firm resources. In addition, as the Firm expands its international operations, its activities will become subject to an increasing range of non-U.S. laws and regulations that likely will impose new requirements and limitations on certain of the Firm's operations. There is no assurance that any change to the current regulatory requirements to which JPMorgan Chase is subject, or the way in which such regulatory requirements are interpreted or enforced, will not have a negative effect on the Firm's ability to conduct its business or its results of operations.

JPMorgan Chase faces significant legal risks, both from regulatory investigations and proceedings and from private actions brought against the Firm.

JPMorgan Chase is named as a defendant or is otherwise involved in various legal proceedings, including class actions and other litigation or disputes with third parties, as well as investigations or proceedings brought by regulatory agencies. These or other future actions brought against the Firm may result in judgments, settlements, fines, penalties or other results adverse to the Firm,

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which could materially adversely affect the Firm's business, financial condition or results of operation, or cause it serious reputational harm.

JPMorgan Chase's ability to attract and retain qualified employees is critical to the success of its business and failure to do so may materially adversely affect its performance.

The Firm's employees are its most important resource and, in many areas of the financial services industry, competition for qualified personnel is intense. If JPMorgan Chase is unable to continue to retain and attract qualified employees, its performance, including its competitive position, could be materially adversely affected.

Government monetary policies and economic controls may have a significant adverse affect on JPMorgan Chase's businesses and results of operations.

The Firm's businesses and earnings are affected by the fiscal and other policies that are adopted by various regulatory authorities of the United States, non-U.S. governments and international agencies. For example, policies and regulations of the Federal Reserve Board influence, directly and indirectly, the rate of interest paid by commercial banks on their interest-bearing deposits and also may affect the value of financial instruments held by the Firm. The actions of the Federal Reserve Board also determine to a significant degree the Firm's cost of funds for lending and investing. In addition, these policies and conditions can adversely affect the Firm's customers and counterparties, both in the United States and abroad, which may increase the risk that such customers or counterparties default on their obligations to JPMorgan Chase.

JPMorgan Chase's framework for managing its risks may not be effective in mitigating risk and loss to the Firm.

JPMorgan Chase's risk management framework is made up of various processes and strategies to manage the Firm's risk exposure. Types of risk to which the Firm is subject include liquidity risk, credit risk, market risk, interest rate risk, operational risk, legal and reputational risk, fiduciary risk and private equity risk, among others. There can be no assurance that the Firm's framework to manage risk, including such framework's underlying assumptions, will be effective under all conditions and circumstances.

As the Firm's businesses grow and the markets in which they operate continue to evolve, the Firm's risk management framework may not always keep sufficient pace with those changes. For example, as the derivatives markets continue to grow and the Firm's participation in these markets expands, there is the risk that the credit and market risks associated with new products may not be appropriately identified, monitored or managed or that the documentation of these trades by the Firm or its counterparties will not keep up with the increased pace of settlements. In addition, in the case of credit derivatives that require physical settlement of transactions, many market participants, including the Firm, do not always hold the underlying securities or loans relating to such derivatives; if the Firm is not able to obtain those securities or loans within the required timeframe for delivery, this could cause the Firm to forfeit payments otherwise due to it.

If the Firm's risk management framework proves ineffective, whether because it does not keep pace with changing Firm or market circumstances or otherwise, the Firm could suffer unexpected losses and could be materially adversely affected.

If JPMorgan Chase does not effectively manage its liquidity, its business could be negatively affected.

The Firm's liquidity is critical to its ability to operate its businesses, grow and be profitable. A compromise to the Firm's liquidity could therefore have a negative effect on the Firm. Potential conditions that could negatively affect the Firm's liquidity include diminished access to capital markets, unforeseen cash or capital requirements and an inability to sell assets.

The Firm's credit ratings are an important part of maintaining its liquidity, and a reduction in the Firm's credit ratings would also negatively affect the Firm's liquidity. A credit ratings downgrade, depending on its severity, could potentially increase borrowing costs, limit access to capital markets, require cash payments or collateral posting, and permit termination of certain contracts to which the Firm is a party.

Future events may be different than those anticipated by JPMorgan Chase's management assumptions and estimates, which may cause unexpected losses in the future.

Pursuant to U.S. GAAP, the Firm is required to use certain estimates in preparing its financial statements, including accounting estimates to determine loan loss reserves, reserves related to future litigation, and the fair value of certain assets and liabilities, among other items. Should the Firm's determined values for such items prove substantially inaccurate, the Firm may experience unexpected losses that could be material.

Item 1B: Unresolved SEC Staff comments

None.

Item 2: Properties

The headquarters of JPMorgan Chase is located in New York City at 270 Park Avenue, which is a 50-story bank and office building owned by JPMorgan Chase. This location contains approximately 1.3 million square feet of space. In total, JPMorgan Chase owns or leases approximately 10.7 million square feet of commercial office space and retail space in New York City.

Prior to the merger with Bank One on July 1, 2004, the headquarters of Bank One was located in Chicago at 10 South Dearborn, which continues to be used as an administrative and operational facility. This location is owned by the Firm and contains approximately 2.0 million square feet of space. In total, JPMorgan Chase owns or leases approximately 4.7 million square feet of commercial office and retail space in Chicago.

JPMorgan Chase and its subsidiaries also own or lease significant administrative and operational facilities in Houston and Dallas, Texas (an aggregate 5.8 million square feet); Columbus, Ohio (2.8 million square feet); Phoenix, Arizona (1.4 million square feet); Jersey City, New Jersey (1.2 million square feet); and Wilmington, Delaware (1.0 million square feet).

In the United Kingdom, JPMorgan Chase leases approximately 2.3 million square feet of office space and owns a 350,000 square-foot operations center.

In addition, JPMorgan Chase and its subsidiaries occupy offices and other administrative and operational facilities throughout the world under various types of ownership and leasehold agreements, including 3,079 retail branches in the United States. The properties occupied by JPMorgan Chase are used across all of the Firm's business segments and for corporate purposes.

JPMorgan Chase continues to evaluate its current and projected space requirements and may determine certain of its premises and facilities are no longer necessary for its operations. There is no assurance that the Firm will be able to dispose of any such excess premises or that it will not incur charges in connection with such dispositions. Such disposition costs may be material to the Firm's results of operations in a given period. For a discussion of occupancy expense, see the Consolidated results of operations discussion on page 30.

Item 3: Legal proceedings

Enron litigation. JPMorgan Chase and certain of its officers and directors are involved in a number of lawsuits arising out of its banking relationships with Enron Corp. and its subsidiaries ("Enron"). Several actions and other proceedings against the Firm have been resolved, including adversary proceedings brought by Enron's bankruptcy estate. In addition, as previously reported, the Firm has reached an agreement to settle the lead class action litigation brought on behalf of the purchasers of Enron securities, captioned *Newby v. Enron Corp.*, for \$2.2 billion (pretax). On May 24, 2006, the United States District Court for the Southern District of Texas approved a settlement in the *Newby* action, and entered an order of final judgment and dismissal as to the JPMorgan Chase defendants. Certain plaintiffs have appealed this final judgment to the United States Court of Appeals for the Fifth Circuit, and one such appeal remains pending. The *Newby* settlement does not resolve Enron-related actions filed separately by plaintiffs who opted out of the class action or by certain plaintiffs who are asserting claims not covered by that action, including some of the actions described below.

Enron-related actions, other than *Newby*, include individual actions against the Firm by plaintiffs who were lenders or claim to be successors-in-interest to lenders who participated in Enron credit facilities syndicated by the Firm; individual and putative class actions by Enron investors, creditors and counterparties; and third-party actions brought by defendants in Enron-related cases, alleging federal and state law claims against JPMorgan Chase and many other defendants. Fact and expert discovery in these actions is complete. Plaintiffs in two of the bank lender cases have moved for partial summary judgment, and were subsequently joined in that motion by plaintiffs in the other two cases. The Firm opposed this motion, briefing has been completed, and the parties await the court's ruling.

In addition, in March 2006, two plaintiffs filed complaints in New York Supreme Court against JPMorgan Chase alleging breach of contract, breach of implied duty of good faith and fair dealing and breach of fiduciary duty based upon the Firm's role as Indenture Trustee in connection with two indenture agreements between JPMorgan Chase and Enron. The Firm removed both actions to the United States District Court for the Southern District of New York. The federal court dismissed one of these cases and remanded the other to New York State court where it will now proceed.

In a purported, consolidated class action lawsuit by JPMorgan Chase stockholders alleging that the Firm issued false and misleading press releases and other public documents relating to Enron in violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder, the United States District Court for the Southern District of New York dismissed the lawsuit in its entirety without prejudice in March 2005. Plaintiffs filed an amended complaint in May 2005. The Firm has moved to dismiss the amended complaint, and the motion has been submitted to the court for decision.

A shareholder derivative action was filed against current and former directors of JPMorgan Chase asserting that the Board wrongfully refused plaintiff's demand that it bring suit against current and former directors and senior officers of the company to recover losses allegedly suffered by JPMorgan Chase and its affiliates as a result of various alleged activities, including but not limited to Enron. The complaint asserts derivative claims for breach of fiduciary duty, gross mismanagement, and corporate waste and asserts a violation of Section 14(a) of the Securities Exchange Act of 1934. On October 11, 2006, defendants filed a motion to dismiss the complaint, and oral argument on the

motion was held on January 19, 2007. On February 14, 2007, the court granted defendants' motion to dismiss the complaint without leave to replead.

A putative class action on behalf of JPMorgan Chase employees who participated in the Firm's 401(k) plan alleged claims under the Employee Retirement Income Security Act ("ERISA") for alleged breaches of fiduciary duties and negligence by JPMorgan Chase, its directors and named officers. In August 2005, the United States District Court for the Southern District of New York denied plaintiffs' motion for class certification and ordered some of plaintiffs' claims dismissed. In September 2005, the Firm moved for summary judgment seeking dismissal of this ERISA lawsuit in its entirety and, in September 2006, the court granted summary judgment in part, and ordered plaintiffs to show cause as to why the remaining claims should not be dismissed. On December 27, 2006, the court dismissed the case with prejudice. On December 29, 2006, plaintiffs filed a notice of appeal, which is pending.

IPO allocation litigation. Beginning in May 2001, JPMorgan Chase and certain of its securities subsidiaries were named, along with numerous other firms in the securities industry, as defendants in a large number of putative class action lawsuits filed in the United States District Court for the Southern District of New York. These suits allege improprieties in the allocation of securities in various public offerings, including some offerings for which a JPMorgan Chase entity served as an underwriter. The suits allege violations of securities and antitrust laws arising from alleged material misstatements and omissions in registration statements and prospectuses for the initial public offerings ("IPOs") and alleged market manipulation with respect to aftermarket transactions in the offered securities. The securities lawsuits allege, among other things, misrepresentation and market manipulation of the aftermarket trading for these offerings by tying allocations of shares in IPOs to undisclosed excessive commissions paid to the underwriter defendants, including JPMorgan Securities and to required aftermarket purchase transactions by customers who received allocations of shares in the respective IPOs, as well as allegations of misleading analyst reports. The antitrust lawsuits allege an illegal conspiracy to require customers, in exchange for IPO allocations, to pay undisclosed and excessive commissions and to make aftermarket purchases of the IPO securities at a price higher than the offering price as a precondition to receiving allocations. The securities cases were all assigned to one judge for coordinated pre-trial proceedings, and the antitrust cases were all assigned to another judge. On February 13, 2003, the Court denied the motions of JPMorgan Chase and others to dismiss the securities complaints. On October 13, 2004, the Court granted in part plaintiffs' motion to certify classes in six "focus" cases in the securities litigation. On December 5, 2006, the United States Court of Appeals for the Second Circuit reversed and vacated the Court's class certification ruling. On January 5, 2007, plaintiffs filed a petition for rehearing en banc in the Second Circuit, which is currently pending.

On February 15, 2005, the Court in the securities cases preliminarily approved a proposed settlement of plaintiffs' claims against 298 of the issuer defendants in these cases and a fairness hearing on the proposed settlement was held on April 24, 2006. Pursuant to the proposed issuer settlement, the insurers for the settling issuer defendants, among other things, (1) agreed to guarantee that the plaintiff classes will recover at least \$1 billion from the underwriter defendants in the IPO securities and antitrust cases and to pay any shortfall, and (2) conditionally assigned to the plaintiffs any claims related to any "excess compensation" allegedly paid to the underwriters by their customers for allocations of stock in the offerings at issue in the IPO litigation. At the request of the Court that the parties to the proposed issuer settlement address the announced preliminary memorandum of understanding ("MOU") between plaintiffs and JPMorgan Chase described below, on November 15,

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2006, the issuer defendants submitted to the Court a revised proposed order. On November 29, 2006, the underwriter defendants submitted objections to the revised proposed order. The Court has not yet approved the proposed issuer settlement, and the issuer defendants have raised the question with the Court as to whether the proposed settlement classes can be certified as a result of the Second Circuit's December 5, 2006 decision.

Joseph P. LaSala, the trustee designated by plaintiffs to act as assignee of such issuer excess compensation claims, filed complaints purporting to allege state law claims on behalf of certain issuers against certain underwriters, including JPMorgan Securities (the "LaSala Actions"), together with motions to stay proceedings in each case. On August 30, 2005, the Court stayed until resolution of the proposed issuer settlement the 55 LaSala Actions then pending against JPMorgan Securities and other underwriter defendants at that time, as well as all future-filed LaSala Actions pursuant to the parties' stipulation that the Court's decision would govern stay motions in all future LaSala Actions. On October 12, 2005, the Court granted the underwriter defendants' motion to dismiss one LaSala Action, which by stipulation applied to the parallel motions to dismiss in all other pending and future-filed LaSala Actions. Plaintiffs thereafter filed amended complaints in the lead and other LaSala Actions. On November 21, 2005, the underwriter defendants moved to dismiss the amended complaint in the lead LaSala Action and, by virtue of the stipulation of the parties, thereby moved to dismiss the amended complaints in all other pending and future-filed LaSala Actions. On February 28, 2006, judgment was entered by the Court dismissing all pending LaSala Actions. On March 14, 2006, plaintiffs filed a motion for reconsideration, alteration or amendment of the February 28 judgment. On April 28, 2006, the Court denied plaintiffs' motion for reconsideration.

On April 19, 2006, counsel for JPMorgan Chase and counsel for the plaintiffs in the IPO securities and antitrust litigations entered into a preliminary MOU outlining the general terms of a "proposed settlement" providing that JPMorgan Securities would pay a sum of \$425 million to resolve the claims of the plaintiffs against JPMorgan Chase and JPMorgan Securities in the securities and antitrust cases. The MOU specified that the certification of the classes alleged in the complaints was a condition precedent to any final, binding settlement. By letter dated December 13, 2006, counsel for JPMorgan Chase informed counsel for the plaintiffs in the IPO securities and antitrust litigations that, among other things, due to the Second Circuit's December 5, 2006, class certification decision, the proposed settlement classes upon which the preliminary MOU was conditioned can no longer be certified and, consequently, the MOU is unenforceable. At a December 14, 2006, conference, the Court stayed all proceedings in the IPO securities actions pending the Second Circuit's decision as to whether to grant plaintiffs' petition for rehearing en banc.

With respect to the IPO antitrust lawsuits, on November 3, 2003, the Court granted defendants' motion to dismiss the claims relating to the IPO allocation practices in the IPO Allocation Antitrust Litigation. On September 28, 2005, the United States Court of Appeals for the Second Circuit reversed, vacated and remanded the district court's November 3, 2003, dismissal decision. Defendants thereafter filed a motion for rehearing en banc in the Second Circuit, which was denied on January 11, 2006. Thereafter, defendants filed a petition for writ of certiorari in the United States Supreme Court on March 8, 2006. The certiorari petition was granted by the Supreme Court on December 7, 2006, and oral argument will be held in early 2007.

A wholly separate antitrust class action lawsuit on behalf of purported classes of IPO issuers and investors alleging that certain underwriters, including JPMorgan Securities, conspired to fix their underwriting fees in IPOs is in discovery. On

April 18, 2006, the U.S. District Court for the Southern District of New York denied class certification as to the issuer plaintiffs. The denial of class certification has been appealed to the United States Court of Appeals for the Second Circuit. Further matters are currently stayed pending resolution of the Second Circuit appeal.

National Century Financial Enterprises litigation. JPMorgan Chase, JPMorgan Chase Bank, N.A., JPMorgan Partners, Beacon Group, LLC and three former Firm employees have been named as defendants in more than a dozen actions filed in or transferred to the United States District Court for the Southern District of Ohio (the "MDL Litigation"). In the majority of these actions, Bank One, Bank One, N.A., and Banc One Capital Markets, Inc. also are named as defendants. JPMorgan Chase Bank, N.A. and Bank One, N.A. were also defendants in an action brought by The Unencumbered Assets Trust ("UAT"), a trust created for the benefit of the creditors of National Century Financial Enterprises, Inc. ("NCFE") as a result of NCFE's Plan of Liquidation in bankruptcy. These actions arose out of the November 2002 bankruptcy of NCFE. Prior to bankruptcy, NCFE provided financing to various healthcare providers through wholly owned special-purpose vehicles, including NPF VI and NPF XII, which purchased discounted accounts receivable to be paid under third-party insurance programs. NPF VI and NPF XII financed the purchases of such receivables, primarily through private placements of notes ("Notes") to institutional investors and pledged the receivables for, among other things, the repayment of the Notes. In the MDL Litigation, JPMorgan Chase Bank, N.A. is sued in its role as indenture trustee for NPF VI, which issued approximately \$1 billion in Notes. Bank One, N.A. is sued in its role as indenture trustee for NPF XII, which issued approximately \$2 billion in Notes. The three former Firm employees are sued in their roles as former members of NCFE's board of directors (the "Defendant Employees"). JPMorgan Chase, JPMorgan Partners and Beacon Group, LLC, are claimed to be vicariously liable for the alleged actions of the Defendant Employees. Banc One Capital Markets, Inc. is sued in its role as co-manager for three note offerings made by NPF XII. Other defendants include the founders and key executives of NCFE, its auditors and outside counsel, and rating agencies and placement agents that were involved with the issuance of the Notes. Plaintiffs in these actions include institutional investors who purchased more than \$2.7 billion in original face amount of asset-backed notes issued by NCFE. Plaintiffs allege that the trustees violated fiduciary and contractual duties, improperly permitted NCFE and its affiliates to violate the applicable indentures and violated securities laws by (among other things) failing to disclose the true nature of the NCFE arrangements. Plaintiffs further allege that the Defendant Employees controlled the Board and audit committees of the NCFE entities; were fully aware, or negligent in not knowing, of NCFE's alleged manipulation of its books; and are liable for failing to disclose their purported knowledge of the alleged fraud to the plaintiffs. Plaintiffs also allege that Banc One Capital Markets, Inc. is liable for cooperating in the sale of securities based upon false and misleading statements. Motions to dismiss the complaints were filed on behalf of the Firm and its affiliates. In October 2006, the MDL court issued rulings on some of the motions to dismiss, granting the motions in part and denying the motions in part. Additional motions are still pending, and limited discovery is underway. The Firm has reached settlements with several of the plaintiffs: In February 2006, the JPMorgan Chase entities, the Bank One entities, and the Defendant Employees reached a settlement of \$375 million with the holders of \$1.6 billion face value of Notes (the "Arizona Noteholders") and reached a separate agreement with the UAT for \$50 million; and in June 2006, the JPMorgan entities, the Bank One entities, and the Defendant Employees reached a settlement of approximately \$16 million with holders of about \$89 million face value of Notes (the "New York Pension Fund

Noteholders.”) In addition to the lawsuits described above, the SEC has served subpoenas on JPMorgan Chase Bank, N.A. and Bank One, N.A. and has interviewed certain current and former employees. On April 25, 2005, the staff of the Midwest Regional Office of the SEC wrote to advise Bank One, N.A. that it is considering recommending that the SEC bring a civil injunctive action against Bank One, N.A. and a former employee alleging violations of the securities laws in connection with the role of Banc One, N.A. as indenture trustee for the NPF XII note program. On July 8, 2005, the staff of the Midwest Regional Office of the SEC wrote to advise that it is considering recommending that the SEC bring a civil injunctive action against two individuals, both former employees of the Firm’s affiliates, alleging violations of certain securities laws in connection with their role as former members of NCFE’s board of directors. On July 13, 2005, the staff further advised that it is considering recommending that the SEC also bring a civil injunctive action against the Firm in connection with the alleged activities of the two individuals as alleged agents of the Firm. Lastly, the United States Department of Justice is also investigating the events surrounding the collapse of NCFE, and the Firm is cooperating with that investigation.

In re JPMorgan Chase Cash Balance Litigation. In a putative consolidated class action lawsuit, filed in the District Court for the Southern District of New York, naming the JPMorgan Chase Retirement Plan (together with the predecessor plans of the JPMorgan Chase & Co. predecessor companies, the “Plans”) and the JPMorgan Chase & Co.’s Director of Human Resources as defendants, current and former participants in the Plans allege various claims under the Employee Retirement Income Security Act (“ERISA”). Plaintiffs’ claims are based upon alleged violations of ERISA arising from the conversion to and use of a cash balance formula under the Plans to calculate participants’ pension benefits. Specifically, plaintiffs allege that: (1) the conversion to and use of a cash balance formula under the Plans violated ERISA’s proscription against age discrimination (the “age discrimination claim”); (2) the conversion to a cash balance formula violated ERISA’s proscriptions against the backloading of pension benefits and created an impermissible forfeiture of accrued benefits (the “backloading and forfeiture claims”); and (3) defendants failed to adequately communicate to Plan participants the conversion to a cash balance formula and in general the nature of the Plan (the “notice claims”). In October 2006, the United States District Court for the Southern District of New York denied the Firm’s motion to dismiss the age discrimination and notice claims, but granted the Firm’s motion to dismiss the backloading and forfeiture claims. Plaintiffs’ motion for class certification is fully briefed and remains pending with the Court. Fact discovery is ongoing, but only as to the notice claims. Discovery as to the age discrimination claims has been temporarily stayed, pending resolution of a similar case that is now before the United States Court of Appeals for the Second Circuit.

American Express Litigation. In 1998, the United States Department of Justice (“DOJ”) commenced an action against VISA U.S.A., Inc., VISA International, Inc. and MasterCard International Incorporated alleging that VISA by-law 2.10(e) and MasterCard’s Competitive Programs Policy (the “Exclusionary Rules”), which precluded any member of either of the foregoing associations from issuing payment cards over the Discover or American Express network (or any other competitive network), violated the antitrust laws and were anticompetitive. The United States District Court for the Southern District of New York held that the Exclusionary Rules had an adverse impact on competition and could not be enforced by the associations. The United States Court of Appeals for the Second Circuit affirmed, and the United States Supreme Court denied review on October 4, 2004, resulting in the repeal of the Exclusionary Rules.

On November 15, 2004, American Express filed a complaint against VISA, MasterCard, Chase Bank USA, N.A. JPMorgan Chase & Co., as well as certain other credit card issuing banks, and their respective bank holding companies, in the United States District Court for the Southern District of New York, alleging that it suffered damages from the Exclusionary Rules. American Express claims that, in addition to VISA and MasterCard, member banks were instrumental in adopting and carrying out the Exclusionary Rules and that the Exclusionary Rules were restrictions by and for the member banks; and that the member banks agreed not to compete by means of offering American Express cards. On August 30, 2005, the Court denied the defendants’ respective motions to dismiss, finding that the allegations of the complaint satisfied pleading rules and were therefore sufficient to withstand the motions. The Court also decided that, at this time, the bank defendants, which were not parties to the DOJ action, are not bound by any of the prior findings and decisions in that case. Discovery is ongoing.

Interchange Litigation. On June 22, 2005, a group of merchants filed a putative class action complaint in the United States District Court for the District of Connecticut. The complaint alleges that VISA, MasterCard, Chase Bank USA, N.A. and JPMorgan Chase & Co., as well as certain other banks, and their respective bank holding companies, conspired to set the price of interchange in violation of Section 1 of the Sherman Act. The complaint further alleges tying/bundling and exclusive dealing. Since the filing of the Connecticut complaint, other complaints have been filed in different United States District Courts challenging the setting of interchange, as well the associations’ respective rules. All cases have been consolidated in the Eastern District of New York for pretrial proceedings. An amended consolidated complaint was filed on April 24, 2006. Defendants have filed a motion to dismiss all claims that predate January 1, 2004. The motion has not yet been decided.

Plaintiffs subsequently filed a supplemental complaint challenging MasterCard’s initial public offering in 2006, alleging that the offering violates the Section 7 of the Clayton Act and that the offering was a fraudulent conveyance. Defendants filed a motion to dismiss both of those claims. The motion has not yet been decided. Discovery is ongoing.

In addition to the various cases, proceedings and investigations discussed above, JPMorgan Chase and its subsidiaries are named as defendants or otherwise involved in a number of other legal actions and governmental proceedings arising in connection with their businesses. Additional actions, investigations or proceedings may be initiated from time to time in the future. In view of the inherent difficulty of predicting the outcome of legal matters, particularly where the claimants seek very large or indeterminate damages, or where the cases present novel legal theories, involve a large number of parties or are in early stages of discovery, the Firm cannot state with confidence what the eventual outcome of these pending matters will be, what the timing of the ultimate resolution of these matters will be or what the eventual loss, fines, penalties or impact related to each pending matter may be. JPMorgan Chase believes, based upon its current knowledge, after consultation with counsel and after taking into account its current litigation reserves, that the outcome of the legal actions, proceedings and investigations currently pending against it should not have a material, adverse effect on the consolidated financial condition of the Firm. However, in light of the uncertainties involved in such proceedings, actions and investigations, there is no assurance that the ultimate resolution of these matters will not significantly exceed the reserves currently accrued by the Firm; as a result, the outcome of a particular matter may be material to JPMorgan Chase’s operating results for a particular period, depending upon, among other factors, the size of the loss or liability imposed and the level of JPMorgan Chase’s income for that period.

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Item 4: Submission of matters to a vote of security holders

None.

Executive officers of the registrant

Name	Age (at December 31, 2006)	Positions and offices
James Dimon	50	Chairman of the Board since December 31, 2006, and President and Chief Executive Officer since December 31, 2005. He had been President and Chief Operating Officer from July 1, 2004, until December 31, 2005. Prior to the Merger, he had been Chairman and Chief Executive Officer of Bank One Corporation.
William B. Harrison, Jr.	63	Chairman of the Board from December 31, 2005, until December 31, 2006, prior to which he had been Chairman and Chief Executive Officer from November 2001.
Frank Bisignano	47	Chief Administrative Officer since December 2005. Prior to joining JPMorgan Chase, he had been Chief Executive Officer of Citigroup Inc.'s Global Transaction Services from 2002 until December 2005 and Chief Administrative Officer of Citigroup Inc.'s Global Corporate and Investment Bank from 2000 until 2002.
Steven D. Black	54	Co-Chief Executive Officer of the Investment Bank since March 2004, prior to which he had been Deputy Head of the Investment Bank.
John F. Bradley	46	Director of Human Resources since December 2005. He had been Head of Human Resources for Europe and Asia regions from April 2003 until December 2005, prior to which he was Human Resources executive for Technology and Operations since 2002 and was responsible for human resources integration efforts in 2001.
Michael J. Cavanagh	40	Chief Financial Officer since September 2004, prior to which he had been Head of Middle Market Banking. Prior to the Merger, he had been Chief Administrative Officer of Commercial Banking from February 2003, Chief Operating Officer for Middle Market Banking from August 2003, and Treasurer from 2001 until 2003 at Bank One Corporation.
Stephen M. Cutler	45	General Counsel since February 2007. Prior to joining JPMorgan Chase, he was a partner and co-chair of the Securities Department at the law firm of WilmerHale since October 2005. Prior to joining WilmerHale, he had been Director of the Division of Enforcement at the U.S. Securities and Exchange Commission since October 2001.
Ina R. Drew	50	Chief Investment Officer since February 2005, prior to which she was Head of Global Treasury.
Samuel Todd Maclin	50	Head of Commercial Banking since July 2004, prior to which he had been Chairman and CEO of the Texas Region and Head of Middle Market Banking.
Jay Mandelbaum	44	Head of Strategy and Business Development. Prior to the Merger, he had been Head of Strategy and Business Development since September 2002 at Bank One Corporation. Prior to joining Bank One Corporation, he had been Vice Chairman and Chief Executive Officer of the Private Client Group of Citigroup Inc. subsidiary Salomon Smith Barney.
Heidi Miller	53	Chief Executive Officer of Treasury & Securities Services. Prior to the Merger, she had been Chief Financial Officer at Bank One Corporation since March 2002. Prior to joining Bank One Corporation, she had been Vice Chairman of Marsh, Inc.
Charles W. Scharf	41	Chief Executive Officer of Retail Financial Services. Prior to the Merger, he had been Head of Retail Banking from May 2002, prior to which he was Chief Financial Officer at Bank One Corporation.
Richard J. Srednicki	59	Chief Executive Officer of Card Services.

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James E. Staley	50	Chief Executive Officer of Asset Management.
William T. Winters	45	Co-Chief Executive Officer of the Investment Bank since March 2004, prior to which he had been Deputy Head of the Investment Bank and Head of Credit & Rate Markets.

Unless otherwise noted, during the five fiscal years ended December 31, 2006, all of JPMorgan Chase's above-named executive officers have continuously held senior-level positions with JPMorgan Chase or its predecessor institution, Bank One Corporation. There are no family relationships among the foregoing executive officers.

Part II

Item 5: Market for registrant's common equity, related stockholder matters and issuer purchases of equity securities

The outstanding shares of JPMorgan Chase's common stock are listed and traded on the New York Stock Exchange, the London Stock Exchange Limited and the Tokyo Stock Exchange. For the quarterly high and low prices of JPMorgan Chase's common stock on the New York Stock Exchange for the last two years, see the section entitled "Supplementary information – selected quarterly financial data (unaudited)" on page 143. For a comparison of the cumulative total return for JPMorgan Chase common stock with the

S&P 500 Index and the S&P Financial Index over the five-year period ended December 31, 2006, see "Five-year performance" on page 22 of this Annual Report. JPMorgan Chase declared quarterly cash dividends on its common stock in the amount of \$0.34 per share for each quarter of 2006, 2005 and 2004. The common dividend payout ratio, based upon reported net income, was: 34% for 2006; 57% for 2005; and 88% for 2004. At January 31, 2007, there were 230,273 holders of record of JPMorgan Chase's common stock. For information regarding securities authorized for issuance under the Firm's employee stock-based compensation plans, see Item 12 on page 12.

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, superseding a \$6 billion stock repurchase program authorized in 2004. The \$8 billion authorization includes shares to be purchased to offset issuances under the Firm's employee stock-based plans. The actual number of shares purchased is subject to various factors, including: market conditions; legal considerations affecting the amount and timing of repurchase activity; the Firm's capital position (taking into account goodwill and intangibles); internal capital generation; and alternative potential investment opportunities. The repurchase program does not include specific price targets or timetables; may be executed through open market purchases or privately negotiated transactions, or utilizing Rule 10b5-1 programs; and may be suspended at any time.

The Firm's repurchases of equity securities during 2006 were as follows:

Year ended December 31, 2006	Total open market shares repurchased	Average price paid per share(a)	Dollar value of remaining authorized repurchase program (in millions)
Repurchases under the \$6 billion program:			
January 1 – March 20	28,408,300	\$ 40.39	\$ —
Repurchases under the \$8 billion program:			
March 21 – 31	3,420,300	41.77	7,857
First quarter	31,828,600	40.54	7,857
Second quarter	17,651,000	42.24	7,112
Third quarter	20,052,729	44.88	6,212
October	3,774,000	47.22	6,033
November	9,080,000	47.44	5,603
December	8,280,000	47.27	5,211
Fourth quarter	21,134,000	47.33	5,211
Total for 2006	90,666,329	\$ 43.41	\$ 5,211

(a) Excludes commission costs.

In addition to the repurchases disclosed above, participants in the Firm's stock-based incentive plans may have shares withheld to cover income taxes. Shares withheld to pay income taxes are repurchased pursuant to the terms of the applicable plan and not under the Firm's share repurchase program. Shares repurchased pursuant to these plans during 2006 were as follows:

Year ended December 31, 2006	Total shares repurchased	Average price paid per share
First quarter	7,724,733	\$ 38.72
Second quarter	165,464	42.62
Third quarter	131,969	44.89
October	18,422	45.46
November	9,634	47.43
December	19,310	47.32
Fourth quarter	47,366	46.62
Total for 2006	8,069,532	\$ 38.95

Item 6: Selected financial data

For five-year selected financial data, see "Five-year summary of consolidated financial highlights (unaudited)" on page 22 and "Selected annual financial data (unaudited)" on page 144.

Part II and III

Item 7: Management’s discussion and analysis of financial condition and results of operations

Management's discussion and analysis of the financial condition and results of operations, entitled "Management’s discussion and analysis," appears on pages 23 through 87. Such information should be read in conjunction with the Consolidated financial statements and Notes thereto, which appear on pages 90 through 142.

Item 7A: Quantitative and qualitative disclosures about market risk

For information related to market risk, see the "Market risk management" section on pages 77 through 80 and Note 28 on pages 131–132.

Item 8: Financial statements and supplementary data

The Consolidated financial statements, together with the Notes thereto and the report of PricewaterhouseCoopers LLP dated February 21, 2007 thereon, appear on pages 89 through 142.

Supplementary financial data for each full quarter within the two years ended December 31, 2006, are included on page 143 in the table entitled "Supplementary information – Selected quarterly financial data (unaudited)." Also included is a "Glossary of terms" on pages 145–146.

Item 9: Changes in and disagreements with accountants on accounting and financial disclosure

None.

Item 9A: Controls and procedures

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of the Firm's management, including its Chairman and Chief Executive Officer and its Chief Financial Officer, of the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evalua-

tion, the Chairman and Chief Executive Officer and the Chief Financial Officer concluded that these disclosure controls and procedures were effective. See Exhibits 31.1 and 31.2 for the Certification statements issued by the Chairman and Chief Executive Officer, and Chief Financial Officer.

The Firm is committed to maintaining high standards of internal control over financial reporting. Nevertheless, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

In addition, in a firm as large and complex as JPMorgan Chase, lapses or deficiencies in internal controls may occur from time to time, and there can be no assurance that any such deficiencies will not result in significant deficiencies – or even material weaknesses – in internal controls in the future. See page 88 for Management's report on internal control over financial reporting, and page 89 for the Report of independent registered public accounting firm with respect to management's assessment of internal control. There was no change in the Firm's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that occurred during the fourth quarter of 2006 that has materially affected, or is reasonably likely to materially affect, the Firm's internal control over financial reporting.

Item 9B: Other information

None.

Part III

Item 10: Directors, executive officers and corporate governance

See Item 13 below.

Item 11: Executive compensation

See Item 13 below.

Item 12: Security ownership of certain beneficial owners and management and related stockholder matters

For security ownership of certain beneficial owners and management, see Item 13 below.

The following table details the total number of shares available for issuance under JPMorgan Chase’s employee stock-based incentive plans (including shares available for issuance to nonemployee directors). The Firm is not authorized to grant stock-based incentive awards to nonemployees other than to nonemployee directors.

December 31, 2006 (Shares in thousands)	Number of shares to be issued upon exercise of outstanding options/SARs	Weighted-average exercise price of outstanding options/SARs	Number of shares remaining available for future issuance under stock compensation plans
Employee stock-based incentive plans approved by shareholders	241,004	\$ 38.29	207,924
Employee stock-based incentive plans not approved by shareholders	133,907	43.90	—
Total	374,911	\$ 40.30	207,924(a)

(a) Future shares will be issued under the shareholder-approved 2005 Long-Term Incentive Plan ("2005 Plan").

Parts III and IV

Item 13: Certain relationships and related transactions, and Director independence

Information related to JPMorgan Chase's Executive Officers is included in Part I, Item 4, on pages 10–11. Pursuant to Instruction G(3) to Form 10-K, the remainder of the information to be provided in Items 10, 11, 12, 13 and 14 of Form 10-K (other than information pursuant to Rule 402 (j), (k) and (l) of Regulation S-K) is incorporated by reference to JPMorgan Chase's definitive proxy statement for the 2007 annual meeting of stockholders, which proxy statement will be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days of the close of JPMorgan Chase's 2006 fiscal year.

Item 14: Principal accounting fees and services

See Item 13 above.

Part IV

Item 15: Exhibits, financial statement schedules

Exhibits, financial statement schedules

1. Financial statements

The Consolidated financial statements, the Notes thereto and the report thereon listed in Item 8 are set forth commencing on page 90.

2. Financial statement schedules

3. Exhibits

3.1 Restated Certificate of Incorporation of JPMorgan Chase & Co., effective April 5, 2006 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of JPMorgan Chase & Co. (File No. 1-5805) filed April 7, 2006).

3.2 By-laws of JPMorgan Chase & Co., effective October 17, 2006 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of JPMorgan Chase & Co. (file No. 1-5805) filed October 20, 2006).

4.1 Indenture, dated as of December 1, 1989, between Chemical Banking Corporation (now known as JPMorgan Chase & Co.) and The Chase Manhattan Bank (National Association) (succeeded by Deutsche Bank Trust Company Americas), as Trustee (incorporated by reference to Exhibit 4.2 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2004).

4.2(a) Indenture, dated as of April 1, 1987, as amended and restated as of December 15, 1992, between Chemical Banking Corporation (now known as JPMorgan Chase & Co.) and Morgan Guaranty Trust Company of New York (succeeded by U.S. Bank Trust National Association), as Trustee (incorporated by reference to Exhibit 4.3(a) to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).

4.2(b) Second Supplemental Indenture, dated as of October 8, 1996, between The Chase Manhattan Corporation (now known as JPMorgan Chase & Co.) and First Trust of New York, National Association (succeeded by U.S. Bank Trust National Association), as Trustee, to the Indenture, dated as of April 1, 1987, as amended and restated as of December 15, 1992 (incorporated by reference to Exhibit 4.3(b) to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).

4.2(c) Third Supplemental Indenture, dated as of December 29, 2000, between The Chase Manhattan Corporation (now known as JPMorgan Chase & Co.) and U.S. Bank Trust National Association, as Trustee, to the Indenture, dated as of April 1, 1987, as amended and restated as of December 15, 1992 (incorporated by reference to Exhibit 4.3(c) to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).

4.3(a) Amended and Restated Indenture, dated as of September 1, 1993, between The Chase Manhattan Corporation (succeeded through merger by JPMorgan Chase & Co.) and Chemical Bank (succeeded by U.S. Bank Trust National Association), as Trustee (incorporated by reference to Exhibit 4.4(a) to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).

4.3(b) First Supplemental Indenture, dated as of March 29, 1996, among Chemical Banking Corporation (now known as JPMorgan Chase & Co.), The Chase Manhattan Corporation, (succeeded through merger by JPMorgan Chase & Co.), Chemical Bank, as Resigning Trustee, and First Trust of New York, National Association (succeeded by U.S. Bank Trust National Association), as Successor Trustee, to the Amended and Restated Indenture, dated as of September 1, 1993 (incorporated by reference to Exhibit 4.4(b) to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).

4.3(c) Second Supplemental Indenture, dated as of October 8, 1996, between The Chase Manhattan Corporation (now known as JPMorgan Chase & Co.) and First Trust of New York, National Association (succeeded by U.S. Bank Trust National Association), as Trustee, to the Amended and Restated Indenture, dated as of September 1, 1993 (incorporated by reference to Exhibit 4.4(c) to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).

4.3(d) Third Supplemental Indenture, dated as of December 29, 2000, between The Chase Manhattan Corporation (now known as JPMorgan Chase & Co.) and U.S. Bank Trust National Association, as Trustee, to the Amended and Restated Indenture, dated as of September 1, 1993 (incorporated by reference to Exhibit 4.4(d) to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).

Part IV

- 4.4(a) Indenture, dated as of August 15, 1982, between J.P. Morgan & Co. Incorporated (succeeded through merger by JPMorgan Chase & Co.) and Manufacturers Hanover Trust Company (succeeded by U.S. Bank Trust National Association), as Trustee (incorporated by reference to Exhibit 4.5(a) to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).
- 4.4(b) First Supplemental Indenture, dated as of May 5, 1986, between J.P. Morgan & Co. Incorporated (succeeded through merger by JPMorgan Chase & Co.) and Manufacturers Hanover Trust Company (succeeded by U.S. Bank Trust National Association), as Trustee, to the Indenture, dated as of August 15, 1982 (incorporated by reference to Exhibit 4.5(b) to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).
- 4.4(c) Second Supplemental Indenture, dated as of February 27, 1996, between J.P. Morgan & Co. Incorporated (succeeded through merger by JPMorgan Chase & Co.) and First Trust of New York, National Association (succeeded by U.S. Bank Trust National Association), as Trustee, to the Indenture, dated as of August 15, 1982 (incorporated by reference to Exhibit 4.5(c) to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).
- 4.4(d) Third Supplemental Indenture, dated as of January 30, 1997, between J.P. Morgan & Co. Incorporated (succeeded through merger by JPMorgan Chase & Co.) and First Trust of New York, National Association (succeeded by U.S. Bank Trust National Association), as Trustee, to the Indenture, dated as of August 15, 1982 (incorporated by reference to Exhibit 4.5(d) to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).
- 4.4(e) Fourth Supplemental Indenture, dated as of December 29, 2000, among J.P. Morgan & Co. Incorporated (succeeded through merger by JPMorgan Chase & Co.), The Chase Manhattan Corporation (now known as JPMorgan Chase & Co.) and U.S. Bank Trust National Association, as Trustee, to the Indenture, dated as of August 15, 1982 (incorporated by reference to Exhibit 4.5(e) to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).
- 4.5(a) Indenture, dated as of March 1, 1993, between J.P. Morgan & Co. Incorporated (succeeded through merger by JPMorgan Chase & Co.) and Citibank, N.A. (succeeded by U.S. Bank Trust National Association), as Trustee (incorporated by reference to Exhibit 4.6(a) to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).
- 4.5(b) First Supplemental Indenture, dated as of December 29, 2000, among J.P. Morgan & Co. Incorporated (succeeded through merger by JPMorgan Chase & Co.), The Chase Manhattan Corporation (now known as JPMorgan Chase & Co.) and U.S. Bank Trust National Association, as Trustee, to the Indenture, dated as of March 1, 1993 (incorporated by reference to Exhibit 4.6(b) to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).
- 4.6 Indenture, dated as of May 25, 2001, between J.P. Morgan Chase & Co. and Bankers Trust Company (succeeded by Deutsche Bank Trust Company Americas), as Trustee (incorporated by reference to Exhibit 4(a)(1) to the amended Registration Statement on Form S-3 of J.P. Morgan Chase & Co. (File No. 333-52826) filed June 13, 2001).
- 4.7(a) Junior Subordinated Indenture, dated as of December 1, 1996, between The Chase Manhattan Corporation (now known as JPMorgan Chase & Co.) and The Bank of New York, as Trustee (incorporated by reference to Exhibit 4.8(a) to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2004).
- 4.7(b) Guarantee Agreement, dated as of January 24, 1997, between The Chase Manhattan Corporation (now known as JPMorgan Chase & Co.) and The Bank of New York, as Trustee (incorporated by reference to Exhibit 4.8(b) to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2004).
- 4.7(c) Amended and Restated Trust Agreement, dated as of January 24, 1997, among The Chase Manhattan Corporation (now known as JPMorgan Chase & Co.), The Bank of New York, as Property Trustee, The Bank of New York (Delaware), as Delaware Trustee, and the Administrative Trustees named therein (incorporated by reference to Exhibit 4.8(c) to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2004).
- 4.7(d) Replacement Capital Covenant, dated as of August 17, 2006, by JPMorgan Chase & Co. for the benefit of specified debtholders (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K of JPMorgan Chase & Co. (File No. 1-5805) filed on August 17, 2006).
- 4.7(e) Replacement Capital Covenant, dated as of February 2, 2007, by JPMorgan Chase & Co. for the benefit of specified debtholders (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K of JPMorgan Chase & Co. (File No. 1-5805) filed on February 2, 2007).
- 4.7(f) Amended and Restated Trust Agreement, dated as of August 17, 2006, among JPMorgan Chase & Co., as Depositor, The Bank of New York, as Property Trustee, The Bank of New York (Delaware), as Delaware Trustee, and the Administrative Trustees and Holders specified therein.
- 4.7(g) Amended and Restated Trust Agreement, dated as of February 2, 2007, among JPMorgan Chase & Co., as Depositor, The Bank of New York, as Property Trustee, The Bank of New York (Delaware), as Delaware Trustee, and the Administrative Trustees and Holders specified therein.
- 4.8(a) Indenture, dated as of March 3, 1997, between Banc One Corporation (succeeded through merger by JPMorgan Chase & Co.) and The Chase Manhattan Bank (succeeded by Deutsche Bank Trust Company Americas), as Trustee (incorporated by reference to Exhibit 4.9(a) to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2004).

- 4.8(b) First Supplemental Indenture, dated as of October 2, 1998, between Banc One Corporation (succeeded through merger by JPMorgan Chase & Co.) and The Chase Manhattan Bank (succeeded by Deutsche Bank Trust Company Americas), as Trustee, to the Indenture, dated as of March 3, 1997 (incorporated by reference to Exhibit 4.9(b) to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2004).
- 4.8(c) Form of Second Supplemental Indenture, dated as of July 1, 2004, among J.P. Morgan Chase & Co., Bank One Corporation (succeeded through merger by JPMorgan Chase & Co.), JPMorgan Chase Bank, N.A. as Resigning Trustee, and Deutsche Bank Trust Company Americas, as Successor Trustee, to the Indenture, dated as of March 3, 1997 (incorporated by reference to Exhibit 4.22 to the Registration Statement on Form S-3 (File No. 333-116822) of JPMorgan Chase & Co. filed June 24, 2004).
- 4.9(a) Indenture, dated as of March 3, 1997, between Banc One Corporation (succeeded through merger by JPMorgan Chase & Co.) and The Chase Manhattan Bank (succeeded by U.S. Bank Trust National Association), as Trustee (incorporated by reference to Exhibit 4.10(a) to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2004).
- 4.9(b) First Supplemental Indenture, dated as of October 2, 1998, between Banc One Corporation (succeeded through merger by JPMorgan Chase & Co.) and The Chase Manhattan Bank (succeeded by U.S. Bank Trust National Association), as Trustee, to the Indenture, dated as of March 3, 1997 (incorporated by reference to Exhibit 4.10(b) to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2004).
- 4.9(c) Second Supplemental Indenture, dated as of July 1, 2004, among J.P. Morgan Chase & Co., Bank One Corporation (succeeded through merger by JPMorgan Chase & Co.), JPMorgan Chase Bank, N.A. as Resigning Trustee, and U.S. Bank Trust National Association, as Successor Trustee, to the Indenture, dated as of March 3, 1997 (incorporated by reference to Exhibit 4.25 to the Registration Statement on Form S-3 (File No. 333-116822) of JPMorgan Chase & Co. filed June 24, 2004).
- 4.10(a) Form of Indenture, dated as of July 1, 1995, between Banc One Corporation (succeeded through merger by JPMorgan Chase & Co.) and Citibank N.A., as Trustee (incorporated by reference to Exhibit 4.11(a) to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2004).
- 4.10(b) Form of Supplemental Indenture, dated as of July 1, 2004, among J.P. Morgan Chase & Co., Bank One Corporation (succeeded through merger by JPMorgan Chase & Co.) and Citibank N.A., as Trustee, to the Indenture, dated as of July 1, 1995 (incorporated by reference to Exhibit 4.31 to the amended Registration Statement on Form S-3 (File No. 333-116822) of JPMorgan Chase & Co. filed July 1, 2004).
- 10.1 Deferred Compensation Plan for Non-Employee Directors of The Chase Manhattan Corporation (now known as JPMorgan Chase & Co.) and The Chase Manhattan Bank (now known as JPMorgan Chase Bank, N.A.), as amended and restated effective December, 1996 (incorporated by reference to Exhibit 10.1 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2004).
- 10.2 Post-Retirement Compensation Plan for Non-Employee Directors of The Chase Manhattan Corporation (now known as JPMorgan Chase & Co.), as amended and restated effective May 21, 1996 (incorporated by reference to Exhibit 10.2 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2004).
- 10.3 Deferred Compensation Program of JPMorgan Chase & Co. and Participating Companies, effective as of January 1, 1996 (incorporated by reference to Exhibit 10.3 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2004).
- 10.4 2005 Deferred Compensation Program of JPMorgan Chase & Co., effective December 31, 2005 (incorporated by reference to Exhibit 10.4 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).
- 10.5 JPMorgan Chase & Co. 2005 Long-Term Incentive Plan (incorporated by reference to Appendix C of Schedule 14A of JPMorgan Chase & Co. (File No. 1-5805) filed April 4, 2005).
- 10.6 JPMorgan Chase & Co. 1996 Long-Term Incentive Plan, as amended (incorporated by reference to Exhibit 10.6 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).
- 10.7 Key Executive Performance Plan of JPMorgan Chase & Co., as restated as of January 1, 2005 (incorporated by reference to Exhibit 10.7 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).
- 10.8 Excess Retirement Plan of The Chase Manhattan Bank and Participating Companies, restated effective January 1, 2005 (incorporated by reference to Exhibit 10.8 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).
- 10.9 JPMorgan Chase & Co. 2001 Stock Option Plan.
- 10.10 1995 J.P. Morgan & Co. Incorporated Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.12 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2004).
- 10.11 Executive Retirement Plan of The Chase Manhattan Corporation and Certain Subsidiaries (incorporated by reference to Exhibit 10.13 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).

Part IV

- 10.12 Benefit Equalization Plan of The Chase Manhattan Corporation and Certain Subsidiaries (incorporated by reference to Exhibit 10.14 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).
- 10.13 Summary of Terms of JPMorgan Chase & Co. Severance Policy (incorporated by reference to Exhibit 10.15 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).
- 10.14 Employment Agreement between J. P. Morgan Chase & Co. and James Dimon dated January 14, 2004 (incorporated by reference to Exhibit 10.1 of the Registration Statement on Form S-4 of J.P. Morgan Chase & Co. (File No. 333-112967) filed February 20, 2004).
- 10.15 Summary of Terms of Pension of William B. Harrison, Jr. (incorporated by reference to Exhibit 10.17 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).
- 10.16 Bank One Corporation Director Stock Plan, as amended (incorporated by reference to Exhibit 10(B) to the Form 10-K of Bank One Corporation (File No. 1-15323) for the year ended December 31, 2003).
- 10.17 Summary of Bank One Corporation Director Deferred Compensation Plan (incorporated by reference to Exhibit 10.19 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).
- 10.18 Bank One Corporation Stock Performance Plan (incorporated by reference to Exhibit 10(A) to the Form 10-K of Bank One Corporation (File No. 1-15323) for the year ended December 31, 2002).
- 10.19 Bank One Corporation Supplemental Savings and Investment Plan, as amended (incorporated by reference to Exhibit 10(E) to the Form 10-K of Bank One Corporation (File No. 1-15323) for the year ended December 31, 2003).
- 10.20 Bank One Corporation Supplemental Personal Pension Account Plan, as amended (incorporated by reference to Exhibit 10(F) to the Form 10-K of Bank One Corporation (File No. 1-15323) for the year ended December 31, 2003).
- 10.21 Bank One Corporation Investment Option Plan (incorporated by reference to Exhibit 10.26 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).
- 10.22 Banc One Corporation Revised and Restated 1989 Stock Incentive Plan (incorporated by reference to Exhibit 10.30 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2004).
- 10.23 Banc One Corporation Revised and Restated 1995 Stock Incentive Plan (incorporated by reference to Exhibit 10.31 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2004).
- 10.24 Form of JPMorgan Chase & Co. Long-Term Incentive Plan Award Agreement of January 2005 stock appreciation rights (incorporated by reference to Exhibit 10.31 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).
- 10.25 JPMorgan Chase & Co. Long-Term Incentive Plan Award Agreement of January 2005 restricted stock units (incorporated by reference to Exhibit 10.1 to Form 8-K of JPMorgan Chase & Co. (File No. 1-5805) filed April 11, 2005).
- 10.26 Form of JPMorgan Chase & Co. Long-Term Incentive Plan Award Agreement of October 2005 stock appreciation rights (incorporated by reference to Exhibit 10.33 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).
- 10.27 Amendment and Restatement of Letter Agreement between JPMorgan Chase & Co. and Charles W. Scharf, dated December 29, 2005 (incorporated by reference to Exhibit 10.34 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).
- 12.1 Computation of ratio of earnings to fixed charges.
- 12.2 Computation of ratio of earnings to fixed charges and preferred stock dividend requirements.
- 21.1 List of Subsidiaries of JPMorgan Chase & Co.
- 22.1 Annual Report on Form 11-K of The JPMorgan Chase 401(k) Savings Plan for the year ended December 31, 2006, (to be filed pursuant to Rule 15d-21 under the Securities Exchange Act of 1934).
- 23.1 Consent of independent registered public accounting firm.
- 31.1 Certification.
- 31.2 Certification.
- 32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Certain instruments defining the rights of securities holders are not included in Exhibits 4.1 – 4.7 pursuant to Item 601, Section (b)(4)(iii), of Regulation S-K. JPMorgan Chase hereby agrees to furnish the instruments not included to the SEC upon its request.

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Five-year summary of consolidated financial highlights

JPMorgan Chase & Co.

(unaudited)

(in millions, except per share, headcount and ratio data)

As of or for the year ended December 31,

	2006	2005	2004(d)	Heritage JPMorgan Chase only	
				2003	2002
Selected income statement data					
Total net revenue	\$ 61,437	\$ 53,748	\$ 42,372	\$ 32,803	\$ \$29,076
Provision for credit losses	3,270	3,483	2,544	1,540	4,331
Total noninterest expense	38,281	38,426	33,972	21,490	22,471
Income from continuing operations before income tax expense	19,886	11,839	5,856	9,773	2,274
Income tax expense	6,237	3,585	1,596	3,209	760
Income from continuing operations	13,649	8,254	4,260	6,564	1,514
Income from discontinued operations(a)	795	229	206	155	149
Net income	\$ 14,444	\$ 8,483	\$ 4,466	\$ 6,719	\$ \$1,663
Per common share					
Basic earnings per share					
Income from continuing operations	\$ 3.93	\$ 2.36	\$ 1.51	\$ 3.24	\$ 0.74
Net income	4.16	2.43	1.59	3.32	0.81
Diluted earnings per share					
Income from continuing operations	\$ 3.82	\$ 2.32	\$ 1.48	\$ 3.17	\$ 0.73
Net income	4.04	2.38	1.55	3.24	0.80
Cash dividends declared per share	1.36	1.36	1.36	1.36	1.36
Book value per share	33.45	30.71	29.61	22.10	20.66
Common shares outstanding					
Average: Basic	3,470	3,492	2,780	2,009	1,984
Diluted	3,574	3,557	2,851	2,055	2,009
Common shares at period-end	3,462	3,487	3,556	2,043	1,999
Share price(b)					
High	\$ 49.00	\$ 40.56	\$ 43.84	\$ 38.26	\$ \$39.68
Low	37.88	32.92	34.62	20.13	15.26
Close	48.30	39.69	39.01	36.73	24.00
Market capitalization	167,199	138,387	138,727	75,025	47,969
Selected ratios					
Return on common equity ("ROE"):					
Income from continuing operations	12%	8%	6%	15%	4%
Net income	13	8	6	16	4
Return on assets ("ROA"):(c)					
Income from continuing operations	1.04	0.70	0.44	0.85	0.21
Net income	1.10	0.72	0.46	0.87	0.23
Tier 1 capital ratio	8.7	8.5	8.7	8.5	8.2
Total capital ratio	12.3	12.0	12.2	11.8	12.0
Overhead ratio	62	71	80	66	77
Selected balance sheet data (period-end)					
Total assets	\$ 1,351,520	\$ 1,198,942	\$ 1,157,248	\$ 770,912	\$ 758,800
Loans	483,127	419,148	402,114	214,766	216,364
Deposits	638,788	554,991	521,456	326,492	304,753
Long-term debt	133,421	108,357	95,422	48,014	39,751
Total stockholders' equity	115,790	107,211	105,653	46,154	42,306
Headcount	174,360	168,847	160,968	96,367	97,124

(a) On October 1, 2006, JPMorgan Chase & Co. completed the exchange of selected corporate trust businesses for the consumer, business banking and middle-market banking businesses of The Bank of New York Company Inc. The results of operations of these corporate trust businesses are being reported as discontinued operations for each of the periods presented.

(b) JPMorgan Chase's common stock is listed and traded on the New York Stock Exchange, the London Stock Exchange Limited and the Tokyo Stock Exchange. The high, low and closing prices of JPMorgan Chase's common stock are from The New York Stock Exchange Composite Transaction Tape.

(c) Represents Net income divided by Total average assets.

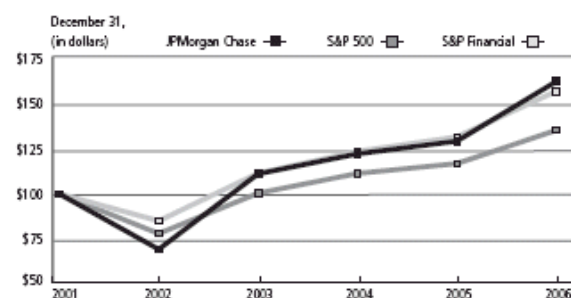
(d) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

Five-year stock performance

The following table and graph compare the five-year cumulative total return for JPMorgan Chase & Co. ("JPMorgan Chase" or the "Firm") common stock with the cumulative return of the S&P 500 Stock Index and the S&P Financial Index. The S&P 500 Index is a commonly referenced U.S. equity benchmark consisting of leading companies from different economic sectors. The S&P Financial Index is an index of 88 financial companies, all of which are within the S&P 500. The Firm is a component of both published industry indices.

The following table and graph assume \$100 invested on December 31, 2001, in JPMorgan Chase common stock and \$100 invested at that same time in each of the S&P indices. The comparison assumes that all dividends are reinvested.

	2001	2002	2003	2004	2005	2006
JPMorgan Chase	\$100.00	\$69.29	\$111.06	\$122.13	\$129.15	\$162.21
S&P Financial Index	100.00	85.00	111.38	123.50	131.53	156.82
S&P500	100.00	78.00	100.37	111.29	116.76	135.20



Management’s discussion and analysis

JPMorgan Chase & Co.

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 busi-

ness 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 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 ("WSS") stores, values, clears and services securities and alternative investments for investors and broker-dealers; and manages Depositary Receipt programs globally.

Management's discussion and analysis

JPMorgan Chase & Co.

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.

EXECUTIVE OVERVIEW

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 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.

Management's discussion and analysis

JPMorgan Chase & Co.

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 partially offset 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.

Management's discussion and analysis

JPMorgan Chase & Co.

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 con-

duits 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.

Management's discussion and analysis

JPMorgan Chase & Co.

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 fur-

ther 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.

Management's discussion and analysis

JPMorgan Chase & Co.

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, (in millions, except per share and ratio data)	2006				2005			
	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.

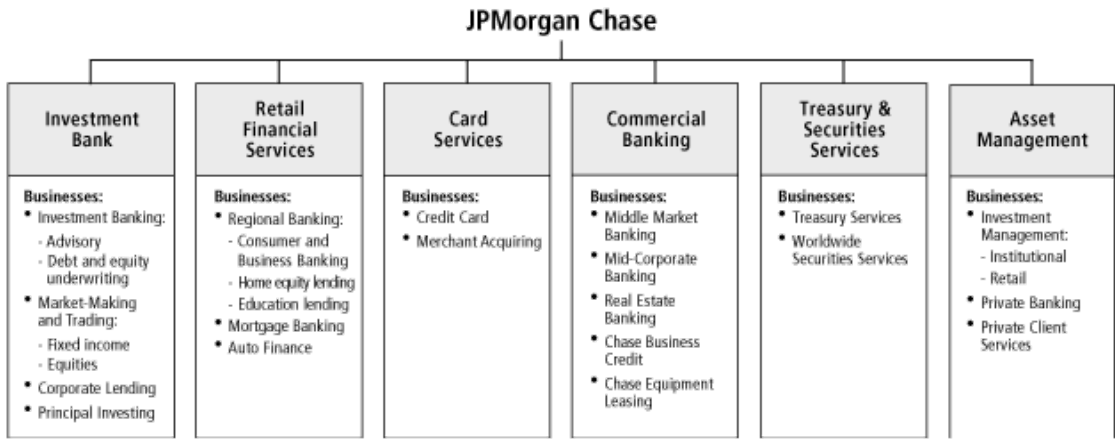
Management’s discussion and analysis

JPMorgan Chase & Co.

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 seg-

ments 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 result of the transaction with The Bank of New York, selected corporate rate 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 cer-

tain 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, (in millions, except ratios)	Total net revenue			Noninterest expense		
	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, (in millions, except ratios)	Net income (loss)			Return on equity		
	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.

Management’s discussion and analysis

JPMorgan Chase & Co.

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

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.

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.

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)

December 31,	2006		2005		2004	
	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

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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.”

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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.

CARD SERVICES

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

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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
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Headcount	18,639	18,629	19,598
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Managed credit quality statistics

Managed 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
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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

Management's discussion and analysis

JPMorgan Chase & Co.

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
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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.

Management's discussion and analysis

JPMorgan Chase & Co.

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.

Management's discussion and analysis

JPMorgan Chase & Co.

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 (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.

Management's discussion and analysis

JPMorgan Chase & Co.

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.

CAPITAL MANAGEMENT

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 (in billions)	Yearly Average	
	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 (in billions)	Yearly Average	
	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

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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 15 on pages 118–120 and Note 16 on pages 121–123 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).

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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					2005 Total
	Under 1 year	1–<3 years	3–5 years	Over 5 years	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.

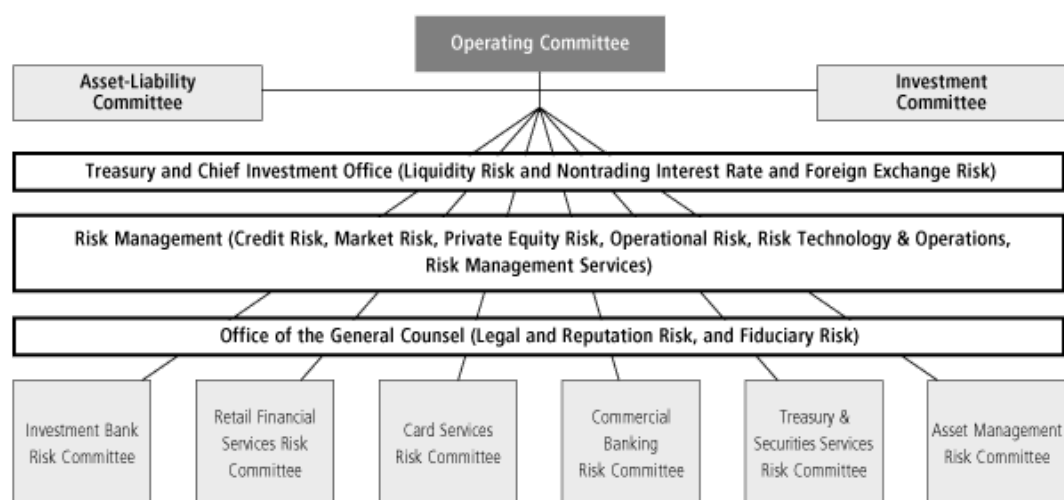
The Asset-Liability Committee is responsible for approving the Firm's liquidity policy, including contingency funding planning and exposure to SPEs (and any required liquidity support by the Firm of such SPEs). The committee also oversees the Firm's capital management and funds transfer pricing policy (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.



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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

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.

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.

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.

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.

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.

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.

Management's discussion and analysis

JPMorgan Chase & Co.

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 sub-prime 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		Nonperforming assets(i)		Net charge-offs		Average annual net charge-off rate	
	2006	2005	2006	2005	2006	2005	2006	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.

Management's discussion and analysis

JPMorgan Chase & Co.

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 derivatives 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

December 31, 2006 (in billions, except ratios)	Maturity profile(d)				Investment-grade ("IG")		Ratings profile		Total % of IG
	Under 1 year	1–5 years	Over 5 years	Total	AAA to BBB-		Noninvestment-grade BB+ & below	Total	
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%

December 31, 2005 (in billions, except ratios)	Maturity profile(d)				Investment-grade ("IG")		Ratings profile		Total % of IG
	Under 1 year	1–5 years	Over 5 years	Total	AAA to BBB-		Noninvestment-grade BB+ & below	Total	
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.

Management's discussion and analysis

JPMorgan Chase & Co.

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 compa-

nies, 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		Net charge-offs/ (recoveries)	Credit derivative hedges(d)	Collateral held against derivative receivables(e)
			Noncriticized	Criticized			
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		Net charge-offs/ (recoveries)	Credit derivative hedges(d)	Collateral held against derivative receivables(e)
			Noncriticized	Criticized			
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

December 31, (in millions, except ratios)	2006		2005	
	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.

Management’s discussion and analysis

JPMorgan Chase & Co.

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)		Derivative receivables MTM(c)	
	2006	2005	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.

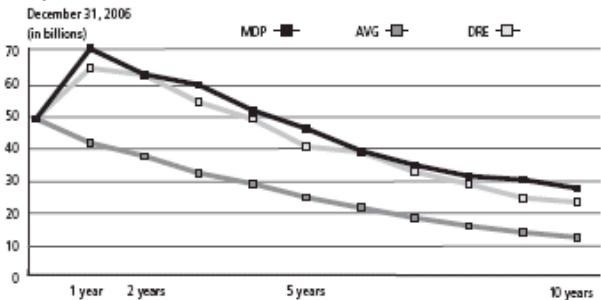
Peak exposure to a counterparty is an extreme measure of exposure calculated at a 97.5% confidence level. However, the total potential future credit risk embedded in the Firm’s derivatives portfolio is not the simple sum of all Peak client credit risks. This is because, at the portfolio level, credit risk is reduced by the fact that when offsetting transactions are done with separate counter-parties, 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 December 31, (in millions, except ratios)	2006		2005	
	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

December 31, (in billions)	Notional amount				Total
	Credit portfolio		Dealer/client		
	Protection purchased	Protection sold	Protection purchased	Protection sold	
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.

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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 tranching 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		Nonperforming assets(e)		Net charge-offs		Average annual net charge-off rate(g)	
	2006	2005	2006	2005	2006	2005	2006	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.

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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%

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 \$1.7 billion of outstanding loans as of December 31, 2006, down from \$4.3 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.

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%

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 com-

ponent 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, (in millions)	2006			2005		
	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.

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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, (in millions)	Provision for loan losses			Provision for lending-related commitments			Total provision for credit losses(c)		
	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 MANAGEMENT

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.

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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

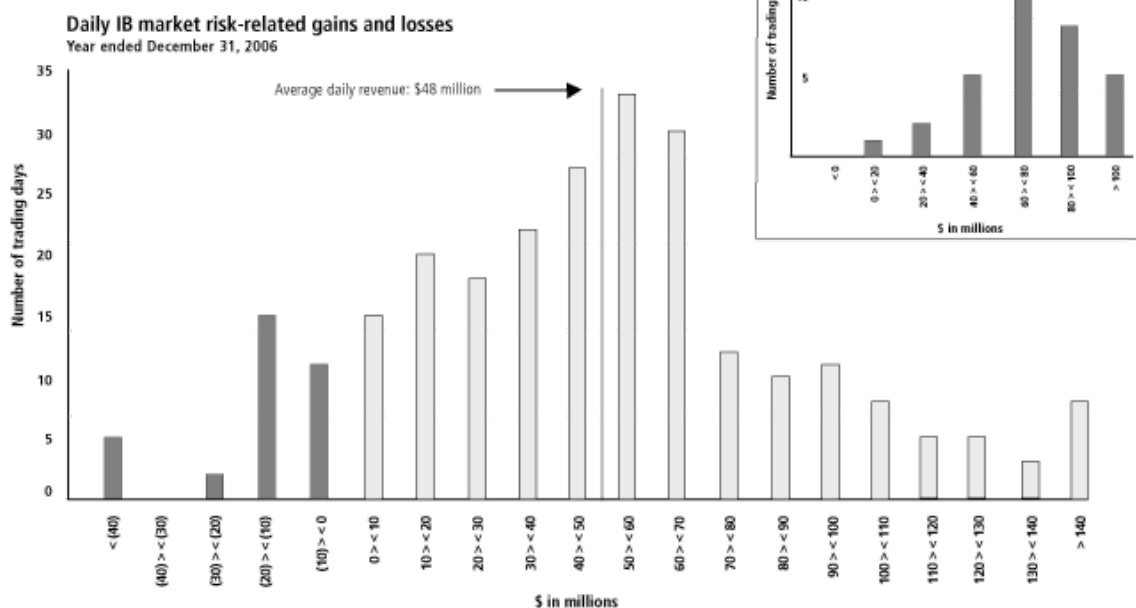
As of or for the year ended December 31, (in millions)	2006			2005			At December 31,	
	Average VAR	Minimum VAR	Maximum VAR	Average VAR	Minimum VAR	Maximum VAR	2006	2005
By risk type:								
Fixed income	\$ 56	\$ 35	\$ 94	\$ 67	\$ 37	\$ 110	\$ 44	\$ 89
Foreign exchange	22	14	42	23	16	32	27	19
Equities	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 trans- actions 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.



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.

Management’s discussion and analysis

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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:

(in millions)	Immediate change in rates			
	+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

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

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.

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.

Management's discussion and analysis

JPMorgan Chase & Co.

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.

CRITICAL ACCOUNTING ESTIMATES USED BY THE FIRM

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

Management's discussion and analysis

JPMorgan Chase & Co.

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:

December 31, 2006	Trading assets		Trading liabilities		AFS securities
	Securities purchased(a)	Derivatives(b)	Securities sold(a)	Derivatives(b)	
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.

Management's discussion and analysis

JPMorgan Chase & Co.

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 the 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.

NON EXCHANGE-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

Management's report on internal control over financial reporting

JPMorgan Chase & Co.

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

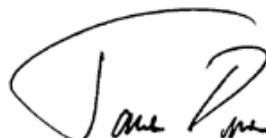
JPMorgan Chase's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records, that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Firm's assets; (2) provide reasonable assurance that transactions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

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

Management has completed an assessment of the effectiveness of the Firm's internal control over financial reporting as of December 31, 2006. In making the assessment, management used the framework in "Internal Control –Integrated Framework" promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based upon the assessment performed, management concluded that as of December 31, 2006, JPMorgan Chase's internal control over financial reporting was effective based upon the COSO criteria. Additionally, based upon management's assessment, the Firm determined that there were no material weaknesses in its internal control over financial reporting as of December 31, 2006.

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



James Dimon
Chairman and Chief Executive Officer



Michael J. Cavanagh
Executive Vice President and Chief Financial Officer

February 21, 2007

Report of independent registered public accounting firm

JPMorgan Chase & Co.



PRICEWATERHOUSECOOPERS LLP • 300 MADISON AVENUE • NEW YORK, NY 10017

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

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

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in stockholders' equity and comprehensive income, and cash flows present fairly, in all material respects, the financial position of JPMorgan Chase & Co. and its subsidiaries (the "Company") at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the accompanying "Management's report on internal control over financial reporting", that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public

Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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

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

A handwritten signature in dark ink, appearing to read 'PricewaterhouseCoopers LLP', is written over a horizontal line.

February 21, 2007

Consolidated statements of income

JPMorgan Chase & Co.

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

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

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

Consolidated balance sheets

JPMorgan Chase & Co.

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

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

Consolidated statements of changes in stockholders' equity and comprehensive income

JPMorgan Chase & Co.

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

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

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

Consolidated statements of cash flows

JPMorgan Chase & Co.

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

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

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

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

Notes to consolidated financial statements

JPMorgan Chase & Co.

Note 1 – Basis of presentation

JPMorgan Chase & Co. ("JPMorgan Chase" or the "Firm"), a financial holding company incorporated under Delaware law in 1968, is a leading global financial services firm and one of the largest banking institutions in the United States, with operations worldwide. The Firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing, asset management and private equity. For a discussion of the Firm's business segment information, see Note 33 on pages 139–141 of this Annual Report.

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

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

Consolidation

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

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

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

There are two different accounting frameworks applicable to SPEs: the qualifying SPE ("QSPE") framework under SFAS 140; and the variable interest entity ("VIE") framework under FIN 46R. The applicable framework depends on the nature of the entity and the Firm's relation to that entity. The QSPE framework is applicable when an entity transfers (sells) financial assets to an SPE meeting certain criteria defined in SFAS 140. These criteria are designed to ensure that the activities of the entity are essentially predetermined at the inception of the vehicle and that the transferor of the financial assets cannot exercise control over the entity and the assets therein. Entities meeting these criteria are not consolidated by the transferor or other counterparties, as long as they do not have the unilateral ability to liquidate or to cause the entity no longer to meet the QSPE criteria. The Firm primarily follows the QSPE model for securitizations of its residential and commercial mortgages, credit card loans and automobile loans. For further details, see Note 14 on pages 114–118 of this Annual Report.

When the SPE does not meet the QSPE criteria, consolidation is assessed pursuant to FIN 46R. Under FIN 46R, a VIE is defined as an entity that: (1) lacks enough equity investment at risk to permit the entity to finance its activities without additional subordinated financial support from other parties; (2) has equity owners that lack the right to make significant decisions affecting the entity's operations; and/or (3) has equity owners that do not have an obligation to absorb the entity's losses or the right to receive the entity's returns.

FIN 46R requires a variable interest holder (i.e., a counterparty to a VIE) to consolidate the VIE if that party will absorb a majority of the expected losses of the VIE, receive the majority of the expected residual returns of the VIE, or both. This party is considered the primary beneficiary. In making this determination, the Firm thoroughly evaluates the VIE's design, capital structure and relationships among variable interest holders. When the primary beneficiary cannot be identified through a qualitative analysis, the Firm performs a quantitative analysis, which computes and allocates expected losses or residual returns to variable interest holders. The allocation of expected cash flows in this analysis is based upon the relative contractual rights and preferences of each interest holder in the VIE's capital structure. For further details, see Note 15 on pages 118–120 of this Annual Report.

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

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

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

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

Use of estimates in the preparation of consolidated financial statements

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, of revenue and expenses, and of disclosures of contingent assets and liabilities. Actual results could be different from these estimates. For discussion of critical accounting estimates used by the Firm, see pages 83–85 of this Annual Report.

Foreign currency translation

JPMorgan Chase revalues assets, liabilities, revenues and expenses denominated in foreign (i.e., non-U.S.) currencies into U.S. dollars using applicable exchange rates.

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

Statements of cash flows

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

Accounting for certain hybrid financial instruments

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

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

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

Significant accounting policies

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

Business changes and developments	Note	2	Page	95
Principal transactions activities	Note	4	Page	98
Other noninterest revenue	Note	5	Page	99
Pension and other postretirement employee benefit plans	Note	7	Page	100
Employee stock-based incentives	Note	8	Page	105
Noninterest expense	Note	9	Page	108
Securities	Note	10	Page	108
Securities financing activities	Note	11	Page	111
Loans	Note	12	Page	112
Allowance for credit losses	Note	13	Page	113
Loan securitizations	Note	14	Page	114
Variable interest entities	Note	15	Page	118
Goodwill and other intangible assets	Note	16	Page	121
Premises and equipment	Note	17	Page	123
Income taxes	Note	24	Page	128
Accounting for derivative instruments and hedging activities	Note	28	Page	131
Off-balance sheet lending-related financial instruments and guarantees	Note	29	Page	132
Fair value of financial instruments	Note	31	Page	135

Note 2 – Business changes and developments

Merger with Bank One Corporation

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

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

Notes to consolidated financial statements

JPMorgan Chase & Co.

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

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

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

Condensed statement of net assets acquired

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

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

Acquired, identified intangible assets

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

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

Unaudited pro forma condensed combined financial information

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

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

Other business events

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

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

intangibles of \$485 million which will be amortized using an accelerated method over a 10 year period. JPMorgan Chase recorded an after-tax gain of \$622 million related to this transaction in the fourth quarter of 2006.

JPMorgan Partners management

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

Sale of insurance underwriting business

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

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

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

Collegiate Funding Services

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

BrownCo

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

Sears Canada credit card business

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

Chase Merchant Services, Paymentech integration

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

into a joint venture, Paymentech has been deconsolidated and JPMorgan Chase's ownership interest in this joint venture is accounted for in accordance with the equity method of accounting.

Cazenove

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

Other acquisitions

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

Note 3 – Discontinued operations

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

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

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

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

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

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

Notes to consolidated financial statements

JPMorgan Chase & Co.

Note 4 – Principal transactions

Principal transactions is a new caption, effective January 1, 2006, in the Consolidated statements of income. Principal transactions revenue consists of: realized and unrealized gains and losses from trading activities (including physical commodities inventories that are accounted for at the lower of cost or fair value); changes in fair value associated with structured notes to which the SFAS 155 fair value election has been applied, and Private equity gains and losses. The prior-period presentation of Trading revenue and Private equity gains (losses) has been reclassified to this new caption. The following table presents Principal transactions revenue:

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

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

Trading assets and liabilities

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

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

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

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

(a) 2005 has been adjusted to reflect more appropriate product classifications of certain balances.

(b) Included in Trading assets and Trading liabilities are the reported receivables (unrealized gains) and payables (unrealized losses) related to derivatives. These amounts are reported net of cash received and paid of \$23.0 billion and \$18.8 billion, respectively, at December 31, 2006, and \$26.7 billion and \$18.9 billion, respectively, at December 31, 2005, under legally enforceable master netting agreements.

(c) Primarily represents securities sold, not yet purchased.

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

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

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

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

Private equity

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

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

Private equity investments are held primarily by the Private equity business within Corporate (which includes investments made by JPMorgan Partners and ONE Equity Partners). The Private Equity business invests in buyouts, growth equity and venture opportunities. These investments are accounted for under investment company guidelines. Accordingly, these investments, irrespective of the percentage of equity ownership interest held by Private equity, are carried on the Consolidated balance sheets at fair value. Realized and unrealized gains and losses arising from changes in value are reported in Principal transactions revenue in the Consolidated statements of income in the period that the gains or losses occur.

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

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

Note 5 – Other noninterest revenue

Investment banking fees

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

The following table presents the components of Investment banking fees:

Year ended December 31, (in millions)	2006	2005	2004(a)
Underwriting:			
Equity	\$ 1,179	\$ 864	\$ 780
Debt	2,703	1,969	1,858
Total Underwriting	3,882	2,833	2,638
Advisory	1,638	1,255	898
Total	\$ 5,520	\$ 4,088	\$ 3,536

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

Lending & deposit related fees

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

Asset management, administration and commissions

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

Mortgage fees and related income

This revenue category includes fees and income derived from mortgage origination, sales and servicing, and includes the effect of risk management activities associated with the mortgage pipeline, warehouse and the mortgage servicing rights ("MSRs") asset (excluding gains and losses on the sale of Available-for-sale ("AFS") securities). Origination fees and gains or losses on loan sales are recognized in income upon sale. Mortgage servicing fees are recognized over the period the related service is provided. Valuation changes in the mortgage pipeline, warehouse, MSR asset and corresponding risk management instruments are recognized in earnings as these changes occur. Net interest income and securities gains and losses on AFS securities used in mortgage-related risk management activities are not included in Mortgage fees and related income. For a further discussion of MSRs, see Note 16 on pages 121–122 of this Annual Report.

Credit card income

This revenue category includes interchange income from credit and debit cards and servicing fees earned in connection with securitization activities. Volume-related payments to partners and expenses for rewards programs are netted against interchange income. Expenses related to rewards programs are recorded when the rewards are earned by the customer. Other Fee revenues are recognized as earned, except for annual fees, which are deferred with direct loan origination costs and recognized on a straight-line basis over the 12-month period to which they pertain.

Credit card revenue sharing agreements

The Firm has contractual agreements with numerous affinity organizations and co-brand partners, which grant to the Firm exclusive rights to market to their members or customers. These organizations and partners endorse the credit card programs and provide their mailing lists to the Firm, and they may also conduct marketing activities and provide awards under the various credit card programs. The terms of these agreements generally range from 3 to 10 years. The economic incentives the Firm pays to the endorsing organizations and partners typically include payments based upon new account originations, charge volumes, and the cost of the endorsing organizations' or partners' marketing activities and awards.

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

Note 6 – Interest income and Interest expense

Details of Interest income and Interest expense were as follows:

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

- (a) As a result of restructuring certain multi-seller conduits the Firm administers, JPMorgan Chase deconsolidated \$29 billion of Interests in purchased receivables, \$3 billion of Loans and \$1 billion of Securities, and recorded \$33 billion of lending-related commitments during the second quarter of 2006.
- (b) Prior periods have been adjusted to reflect the reclassification of certain amounts to more appropriate Interest income and Interest expense lines.
- (c) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

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JPMorgan Chase & Co.

Note 7 – Pension and other postretirement employee benefit plans

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

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

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

Defined benefit pension plans

The Firm has a qualified noncontributory U.S. defined benefit pension plan that provides benefits to substantially all U.S. employees. The U.S. plan employs a cash balance formula, in the form of pay and interest credits, to determine the benefits to be provided at retirement, based upon eligible compensation and years of service. Employees begin to accrue plan benefits after completing one year of service, and benefits generally vest after five years of service. The Firm also offers benefits through defined benefit pension plans to qualifying employees in certain non-U.S. locations based upon factors such as eligible compensation, age and/or years of service.

It is the Firm's policy to fund the pension plans in amounts sufficient to meet the requirements under applicable employee benefit and local tax laws. As a result of the enactment of the Pension Protection Act in August 2006, which increased the maximum amount allowable for tax deduction, the Firm is reviewing 2007 U.S. and non-U.S. defined benefit pension plan contribution alternatives. The amount of potential 2007 contributions, if any, is not reasonably estimable at this time.

JPMorgan Chase has a number of other defined benefit pension plans (i.e., U.S. plans not subject to Title IV of the Employee Retirement Income Security Act). The most significant of these plans is the Excess Retirement Plan, pursuant to which certain employees earn pay and interest credits on compensation amounts above the maximum stipulated by law under a qualified plan. The Excess Retirement Plan is a nonqualified, noncontributory U.S. pension plan with an unfunded projected benefit obligation at December 31, 2006 and 2005, in the amount of \$301 million and \$273 million, respectively. In the current year, this plan has been incorporated into certain of this Note's tables for which it had not been included in prior years.

Defined contribution plans

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

OPEB plans

JPMorgan Chase offers postretirement medical and life insurance benefits to certain retirees and qualifying U.S. employees. These benefits vary with length of service and date of hire and provide for limits on the Firm's share of covered medical benefits. The medical benefits are contributory, while the life insurance benefits are noncontributory. As of August 1, 2005, the eligibility requirements for U.S. employees to qualify for subsidized retiree medical coverage were revised, and life insurance coverage was eliminated for active employees retiring after 2005. Postretirement medical benefits also are offered to qualifying U.K. employees.

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

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

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

(a) Reflects adjustments related to pension plans in Germany and Switzerland, which have defined benefit pension obligations that were not previously measured under SFAS 87 due to immateriality.

(b) Net amount recognized is recorded in Other assets for prepaid pension costs or in Accounts payable, accrued expenses and other liabilities for accrued pension costs.

(c) At December 31, 2006 and 2005, approximately \$282 million and \$405 million, respectively, of U.S. plan assets related to participation rights under participating annuity contracts.

(d) Under SFAS 158, and as noted in the following table, amounts that were previously reported as part of prepaid or accrued pension costs are now reported within AOCI.

(e) Revised primarily to incorporate amounts related to the U.S. defined benefit pension plans not subject to Title IV of the Employee Retirement Income Security Act of 1974 (e.g., Excess Retirement Plan).

(f) At December 31, 2005, Accrued pension costs related to non-U.S. defined benefit pension plans that JPMorgan Chase elected not to prefund fully totaled \$164 million.

(g) Includes accumulated postretirement benefit obligation of \$52 million and \$44 million and postretirement benefit liability (included in Accrued expenses) of \$52 million and \$50 million, at December 31, 2006 and 2005, respectively, for the U.K. plan, which is unfunded.

(h) The U.S. OPEB plan was remeasured as of August 1, 2005, to reflect a midyear plan amendment and the final Medicare Part D regulations that were issued on January 21, 2005; as a result, the benefit obligation was reduced by \$116 million.

Amounts recognized in Accumulated other comprehensive income

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

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

Notes to consolidated financial statements

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

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

(a) Includes overfunded defined benefit pension and OPEB plans of \$2.3 billion.

(b) Includes underfunded defined benefit pension and OPEB plans of \$596 million.

The following tables present the components of net periodic benefit costs reported in the Consolidated statements of income for the Firm's U.S. and non-U.S. defined benefit pension and OPEB plans:

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

(a) Includes immaterial non-U.S. defined benefit pension plans.

(b) Revised primarily to incorporate amounts related to the U.S. defined benefit pension plans not subject to Title IV of the Employee Retirement Income Security Act of 1974 (e.g., Excess Retirement Plan).

(c) Effective July 1, 2004, the Firm assumed the obligations of heritage Bank One's pension and OPEB plans. These plans were similar to those of heritage JPMorgan Chase. The heritage Bank One plans were merged into the JPMorgan Chase plans effective December 31, 2004.

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

(e) The Medicare Prescription Drug, Improvement and Modernization Act of 2003 resulted in a reduction of \$32 million, \$15 million and \$5 million in 2006, 2005 and 2004, respectively, in net periodic benefit cost. The impact on 2006 and 2005 costs were higher as a result of the final Medicare Part D regulations issued on January 21, 2005, which were reflected beginning as of August 1, 2005, the next measurement date for the plan.

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

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

Plan assumptions

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

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

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

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

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

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

(a) The OPEB plan was remeasured as of August 1, 2005, and a rate of 5.25% was used from the period of August 1, 2005, through December 31, 2005.

(b) In 2005 the expected long-term rate of return on plan assets for the Firm's OPEB plan was revised to show the aggregate expected return for the heritage Bank One and JPMorgan Chase plans.

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

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

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

JPMorgan Chase's U.S. defined benefit pension and OPEB plan expenses are most sensitive to the expected long-term rate of return on plan assets. With all other assumptions held constant, a 25-basis point decline in the expected long-term rate of return on U.S. plan assets would result in an increase of approximately \$27 million in 2007 U.S. defined benefit pension and OPEB plan expenses. A 25-basis point decline in the discount rate for the U.S. plans would result in an increase in 2007 U.S. defined benefit pension and OPEB plan expenses of approximately \$3 million and an increase in the related projected benefit obligations of approximately \$217 million. A 25-basis point decline in the discount rates for the non-U.S. plans would result in an increase in the

2007 non-U.S. defined benefit pension and OPEB plan expenses of approximately \$19 million. A 25-basis point increase in the interest crediting rate for the U.S. defined benefit pension plan would result in an increase in 2007 U.S. defined benefit pension expense of approximately \$10 million and an increase in the related projected benefit obligations of approximately \$82 million.

Investment strategy and asset allocation

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

The Firm's U.S. defined benefit pension plan assets are held in various trusts and are invested in a well-diversified portfolio of equities (including U.S. large and small capitalization and international equities), fixed income (including corporate and government bonds), Treasury inflation-indexed and high-yield securities, real estate, cash equivalents, and alternative investments. Non-U.S. defined benefit pension plan assets are held in various trusts and are similarly invested in well-diversified portfolios of equity, fixed income and other securities. Assets of the Firm's COLI policies, which are used to fund partially the U.S. OPEB plan, are held in separate accounts with an insurance company and are invested in equity and fixed income index funds. In addition, tax-exempt municipal debt securities, held in a trust, were used to fund the U.S. OPEB plan in prior periods; as of December 31, 2006, there are no remaining assets in the trust. As of December 31, 2006, the assets used to fund the Firm's U.S. and non-U.S. defined benefit pension and OPEB plans do not include JPMorgan Chase common stock, except in connection with investments in third-party stock-index funds.

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

December 31,	Defined benefit pension plans						OPEB plans(b)		
	U.S.			Non-U.S.(a)					
	Target Allocation	% of plan assets 2006	2005	Target Allocation	% of plan assets 2006	2005	Target Allocation	% of plan assets 2006	2005
Asset category									
Debt securities	10-30%	31%	33%	73%	70%	75%	50%	50%	54%
Equity securities	25-60	55	57	26	26	24	50	50	46
Real estate	5-20	8	6	—	1	1	—	—	—
Alternatives	15-50	6	4	1	3	—	—	—	—
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

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

(b) Represents the U.S. OPEB plan only, as the U.K. OPEB plan is unfunded.

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

December 31,	U.S.			Non-U.S.		
	2006	2005	2004	2006	2005	2004
Actual rate of return:						
Defined benefit pension plans	13.40%	7.50%	12.50%	2.80-7.30%	2.70-15.90%	2.30-10.50%
OPEB plans	9.30	3.30	7.10	NA	NA	NA

Estimated future benefit payments

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

Year ended December 31, (in millions)	U.S. defined benefit pension plans	Non-U.S. defined benefit pension plans	OPEB before Medicare Part D subsidy	Medicare Part D subsidy
2007	\$ 561	\$ 83	\$130	\$ 15
2008	563	81	132	16
2009	583	88	133	18
2010	602	93	135	19
2011	623	97	137	20
Years 2012–2016	3,417	533	657	121

Note 8 — Employee stock-based incentives

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

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

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

Employee stock-based awards

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

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

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

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

Notes to consolidated financial statements

JPMorgan Chase & Co.

The Firm separately recognizes compensation expense for each tranche of each award as if it were a separate award with its own vesting date. For each tranche granted (other than grants to employees who are retirement eligible at the grant date), compensation expense is recognized on a straight-line basis from the grant date until the vesting date of the respective tranche, provided that the employees will not become retirement eligible during the vesting period. For each tranche granted to employees who will become retirement eligible during the vesting period, compensation expense is recognized on a straight-line basis from the grant date until the earlier of the employee's retirement eligibility date or the vesting date of the respective tranche.

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

On March 21, 2006, the Board of Directors approved a stock repurchase program that authorizes the repurchase of up to \$8 billion of the Firm's common shares, which supersedes a \$6 billion stock repurchase program approved in 2004. The \$8 billion authorization includes shares to be repurchased to offset issuances under the Firm's employee stock-based plans. The actual number of shares repurchased is subject to various factors, including: market conditions; legal considerations affecting the amount and timing of repurchase activity; the Firm's capital position (taking into account goodwill and intangibles); internal capital generation; and alternative potential investment opportunities. The repurchase program does not include specific price targets or timetables; may be executed through open market purchases or privately negotiated transactions, or utilizing Rule 10b5-1 programs; and may be suspended at any time.

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

Employee stock option and SARs activity

Compensation expense, which is measured at the grant date as the fair value of employee stock options and SARs, is recognized in Net income as described above. The following table summarizes JPMorgan Chase's employee stock option and SARs activity for the year ended December 31, 2006, including awards granted to key employees and awards granted in prior years under broad-based plans:

Year ended December 31, 2006 (in thousands, except weighted-average data)	Number of options/SARs	Weighted-average exercise price	Weighted-average remaining contractual life (in years)	Aggregate intrinsic value
Outstanding, January 1	444,157	\$ 38.61		
Granted	15,229	45.85		
Exercised	(70,446)	29.93		
Forfeited	(3,365)	36.14		
Canceled	(9,348)	47.88		
Outstanding, December 31	376,227	\$ 40.31	4.3	\$ 3,384,553
Exercisable, December 31	317,174	40.63	3.8	2,794,461

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

was \$51.22 and the closing price of the Firm's common stock on the effective date of the acceleration was \$39.69.

Restricted stock and RSU activity

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

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

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

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

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

Impact of adoption of SFAS 123R

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

The Firm recognized noncash compensation expense related to its various employee stock-based incentive awards of \$2.4 billion (including the \$712 million incremental impact of adopting SFAS 123R), \$1.6 billion and \$1.3 billion for the years ended December 31, 2006, 2005 and 2004, respectively, in its Consolidated statements of income. At December 31, 2006, approximately \$1.0 billion (pretax) of compensation cost related to unvested awards has not yet been charged to Net income. That cost is expected to be amortized into compensation expense over a weighted-average period of 1.2 years. The Firm does not capitalize any compensation cost related to share-based compensation awards to employees.

Cash flows and tax benefits

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

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

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

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

Comparison of the fair and intrinsic value measurement methods

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

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

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

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

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

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

The expected life assumption is an estimate of the length of time that an employee might hold an option or SAR before it is exercised or cancelled. The expected life assumption was developed using historic experience.

Notes to consolidated financial statements

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Note 9 – Noninterest expense

Merger costs

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

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

(a) Represents Compensation and Technology and communications and other.

(b) With the exception of occupancy-related write-offs, all of the costs in the table require the expenditure of cash.

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

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

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

(a) Excludes \$21 million related to The Bank of New York transaction.

(b) 2005 has been revised to reflect the current presentation.

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

Note 10 – Securities

Securities are classified as AFS, Held-to-maturity ("HTM") or Trading. Trading securities are discussed in Note 4 on page 98 of this Annual Report. Securities are classified primarily as AFS when purchased as part of the Firm's management of its structural interest rate risk. AFS securities are carried at fair value on the Consolidated balance sheets. Unrealized gains and losses after SFAS 133 valuation adjustments are reported as net increases or decreases to Accumulated other comprehensive income (loss). The specific identification method is used to determine realized gains and losses on AFS securities, which are included in Securities gains (losses) on the Consolidated statements of income. Securities that the Firm has the positive intent and ability to hold to maturity are classified as HTM and are carried at amortized cost on the Consolidated balance sheets. The Firm has not classified new purchases of securities as HTM for the past several years.

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

Year ended December 31, (in millions)	2006	2005	2004(b)
Realized gains	\$ 399	\$ 302	\$ 576
Realized losses	(942)	(1,638)	(238)
Net realized Securities gains (losses)(a)	\$ (543)	\$ (1,336)	\$ 338

(a) Proceeds from securities sold were generally within 2% of amortized cost.

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

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

December 31, (in millions)	2006				2005			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale securities								
U.S. government and federal agency obligations:								
U.S. treasuries	\$ 2,398	\$ —	\$ 23	\$ 2,375	\$ 4,245	\$ 24	\$ 2	\$ 4,267
Mortgage-backed securities	32	2	1	33	80	3	—	83
Agency obligations	78	8	—	86	165	16	—	181
Collateralized mortgage obligations	—	—	—	—	4	—	—	4
U.S. government-sponsored enterprise obligations	75,434	334	460	75,308	22,604	9	596	22,017
Obligations of state and political subdivisions	637	17	4	650	712	21	7	726
Debt securities issued by non-U.S. governments	6,150	7	52	6,105	5,512	12	18	5,506
Corporate debt securities	611	1	3	609	5,754	39	74	5,719
Equity securities	3,689	125	1	3,813	3,179	110	7	3,282
Other, primarily asset-backed securities(a)	2,890	50	2	2,938	5,738	23	23	5,738
Total available-for-sale securities	\$ 91,919	\$ 544	\$ 546	\$ 91,917	\$ 47,993	\$ 257	\$ 727	\$ 47,523
Held-to-maturity securities(b)								
Total held-to-maturity securities	\$ 58	\$ 2	\$ —	\$ 60	\$ 77	\$ 3	\$ —	\$ 80

(a) Includes collateralized mortgage obligations of private issuers.

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

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

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

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

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

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

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

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

(a) Includes securities with no stated maturity. Substantially all of the Firm's MBSs and CMOs are due in 10 years or more based upon contractual maturity. The estimated duration, which reflects anticipated future prepayments based upon a consensus of dealers in the market, is approximately four years for MBSs and CMOs.

(b) The average yield is based upon amortized cost balances at year end. Yields are derived by dividing interest income by total amortized cost. Taxable-equivalent yields are used where applicable.

Note 11 – Securities financing activities

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

Securities purchased under resale agreements ("resale agreements") and securities sold under repurchase agreements ("repurchase agreements") are generally treated as collateralized financing transactions and are carried on the Consolidated balance sheets at the amounts the securities will be subsequently sold or repurchased, plus accrued interest. Where appropriate, resale and repurchase agreements with the same counterparty are reported on a net basis in accordance with FIN 41. JPMorgan Chase takes possession of securities purchased under resale agreements. On a daily basis, JPMorgan Chase monitors the market value of the underlying collateral, primarily U.S. and non-U.S. government and agency securities that it has received from its counterparties, and requests additional collateral when necessary.

Transactions similar to financing activities that do not meet the SFAS 140 definition of a repurchase agreement are accounted for as "buys" and "sells" rather than financing transactions. These transactions are accounted for as a purchase (sale) of the underlying securities with a forward obligation to sell (purchase) the securities. The forward purchase (sale) obligation, a derivative, is recorded on the Consolidated balance sheets at its fair value, with changes in fair value recorded in Principal transactions revenue.

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

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

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

At December 31, 2006, the Firm had received securities as collateral that could be repledged, delivered or otherwise used with a fair value of approximately \$317 billion. This collateral was generally obtained under resale or securities-borrowing agreements. Of these securities, approximately \$291 billion were repledged, delivered or otherwise used, generally as collateral under repurchase agreements, securities lending agreements or to cover short sales.

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Note 12 – Loans

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

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

Nonaccrual loans are those on which the accrual of interest is discontinued. Loans (other than certain consumer loans discussed below) are placed on nonaccrual status immediately if, in the opinion of management, full payment of principal or interest is in doubt, or when principal or interest is 90 days or more past due and collateral, if any, is insufficient to cover principal and interest. Interest accrued but not collected at the date a loan is placed on nonaccrual status is reversed against Interest income. In addition, the amortization of net deferred loan fees is suspended. Interest income on nonaccrual loans is recognized only to the extent it is received in cash. However, where there is doubt regarding the ultimate collectibility of loan principal, all cash thereafter received is applied to reduce the carrying value of such loans. Loans are restored to accrual status only when interest and principal payments are brought current and future payments are reasonably assured. Loans are charged off to the Allowance for loan losses when it is highly certain that a loss has been realized.

Consumer loans are generally charged to the Allowance for loan losses upon reaching specified stages of delinquency, in accordance with the Federal Financial Institutions Examination Council ("FFIEC") policy. For example, credit card loans are charged off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification of the filing of bankruptcy, whichever is earlier. Residential mortgage products are generally charged off to net realizable value at 180 days past due. Other consumer products, if collateralized, are generally charged off to net realizable value at 120 days past due. Accrued interest on residential mortgage products, automobile financings, education financings and certain other consumer loans are accounted for in accordance with the nonaccrual loan policy discussed in the preceding paragraph. Interest and fees related to credit card loans continue to accrue until the loan is charged off or paid in full. Accrued interest on all other consumer loans is generally reversed against Interest income when the loan is charged off. A collateralized loan is considered an in-substance foreclosure and is reclassified to assets acquired in loan satisfactions, within Other assets, only when JPMorgan Chase has taken physical possession of the collateral, regardless of whether formal foreclosure proceedings have taken place.

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

December 31, (in millions)	2006	2005
U.S. wholesale loans:		
Commercial and industrial	\$ 77,788	\$ 70,233
Real estate	14,237	13,612
Financial institutions	14,103	11,100
Lease financing receivables	2,608	2,621
Other	9,950	14,499
Total U.S. wholesale loans	118,686	112,065

Non-U.S. wholesale loans:		
Commercial and industrial	43,428	27,452
Real estate	1,146	1,475
Financial institutions	19,163	7,975
Lease financing receivables	1,174	1,144
Other	145	—
Total non-U.S. wholesale loans	65,056	38,046

Total wholesale loans:(a)		
Commercial and industrial	121,216	97,685
Real estate(b)	15,383	15,087
Financial institutions	33,266	19,075
Lease financing receivables	3,782	3,765
Other	10,095	14,499
Total wholesale loans	183,742	150,111

Total consumer loans:(c)		
Home equity	85,730	73,866
Mortgage	59,668	58,959
Auto loans and leases	41,009	46,081
All other loans	27,097	18,393
Credit card receivables(d)	85,881	71,738
Total consumer loans	299,385	269,037
Total loans(e)(f)	\$483,127	\$419,148

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

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

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

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

Impaired loans

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

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

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

(a) When the discounted cash flows, collateral value or market price equals or exceeds the carrying value of the loan, then the loan does not require an allowance under SFAS 114.

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

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

Note 13 – Allowance for credit losses

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

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

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

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

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

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

The statistical calculation is the product of probability of default and loss given default. For risk-rated loans (generally loans originated by the wholesale lines of

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

The Allowance for lending-related commitments represents management's estimate of probable credit losses inherent in the Firm's process of extending credit as of December 31, 2006, 2005 and 2004. Management establishes an asset-specific allowance for lending-related commitments that are considered impaired and computes a formula-based allowance for performing wholesale lending-related commitments. These are computed using a methodology similar to that used for the wholesale loan portfolio, modified for expected maturities and probabilities of drawdown.

At least quarterly, the allowance for credit losses is reviewed by the Chief Risk Officer, the Chief Financial Officer and the Controller of the Firm and discussed with the Risk Policy and Audit Committees of the Board of Directors of the Firm. As of December 31, 2006, JPMorgan Chase deemed the allowance for credit losses to be appropriate (i.e., sufficient to absorb losses that are inherent in the portfolio, including those not yet identifiable).

The table below summarizes the changes in the Allowance for loan losses:

Year ended December 31, (in millions)	2006	2005	2004(d)
Allowance for loan losses at January 1	\$ 7,090	\$ 7,320	\$ 4,523
Addition resulting from the Merger, July 1, 2004	—	—	3,123
Gross charge-offs	(3,884)	(4,869)	(3,805)(e)
Gross recoveries	842	1,050	706
Net charge-offs	(3,042)	(3,819)	(3,099)

Provision for loan losses:

Provision excluding accounting policy conformity	3,153	3,575	1,798
Accounting policy conformity	—	—	1,085
Total Provision for loan losses	3,153	3,575	2,883
Other	78(a)	14	(110)(f)
Allowance for loan losses at December 31	\$ 7,279(b)	\$ 7,090(c)	\$ 7,320(g)

(a) Primarily relates to loans acquired in The Bank of New York transaction in the fourth quarter of 2006.

(b) Includes \$51 million of asset-specific and \$7.2 billion of formula-based allowance. Included within the formula-based allowance was \$5.1 billion related to a statistical calculation and an adjustment to the statistical calculation of \$2.1 billion.

(c) Includes \$203 million of asset-specific and \$6.9 billion of formula-based allowance. Included within the formula-based allowance was \$5.1 billion related to a statistical calculation (including \$400 million related to Hurricane Katrina), and an adjustment to a statistical calculation of \$1.8 billion.

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

(e) Includes \$406 million related to the Manufactured Home Loan portfolio in the fourth quarter of 2004.

(f) Primarily represents the transfer of the allowance for accrued interest and fees on reported and securitized credit card loans.

(g) Includes \$469 million of asset-specific and \$6.8 billion of formula-based allowance. Included within the formula-based allowance was \$4.8 billion related to a statistical calculation and an adjustment to the statistical calculation of \$2.0 billion.

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

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

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

Note 14 – Loan securitizations

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

JPMorgan Chase-sponsored securitizations utilize SPEs as part of the securitization process. These SPEs are structured to meet the definition of a QSPE (as discussed in Note 1 on page 94 of this Annual Report); accordingly, the assets and liabilities of securitization-related QSPEs are not reflected in the Firm's Consolidated balance sheets (except for retained interests, as described below) but are included on the balance sheet of the QSPE purchasing the assets. Assets held by securitization-related QSPEs as of December 31, 2006 and 2005, were as follows:

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

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

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

For loan securitizations that meet the accounting sales criteria, the gains or losses recorded depend, in part, on the carrying amount of the loans sold and are allocated between the loans sold and the retained interests, based upon their relative fair values at the date of sale. Gains on securitizations are reported in Noninterest revenue. When quoted market prices for the retained interests are not available, the Firm estimates the fair value for these retained interests by determining the present value of future expected cash flows using modeling techniques. Such models incorporate management's best estimates of key variables, such as expected credit losses, prepayment speeds and the discount rates appropriate for the risks involved.

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

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

2006, 2005 and 2004 Securitization activity

The following table summarizes new securitization transactions that were completed during 2006, 2005 and 2004; the resulting gains arising from

such securitizations; certain cash flows received from such securitizations; and the key economic assumptions used in measuring the retained interests, as of the dates of such sales:

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

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

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

(a) CPR: constant prepayment rate; PPR: principal payment rate; ABS: absolute prepayment speed.

(b) Expected credit losses for prime residential mortgage and certain wholesale securitizations are minimal and are incorporated into other assumptions.

(c) The auto securitization gain of \$9 million does not include the write-down of loans transferred to held-for-sale in 2005 and risk management activities intended to protect the economic value of the loans while held-for-sale.

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

(e) Delineation between Residential mortgage and Commercial and other is not available for 2004.

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

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

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

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

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

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

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

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

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

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

(a) Expected credit losses for prime residential mortgage are minimal and are incorporated into other assumptions.

(b) The Firm sold certain residual interests from subprime mortgage securitizations via Net Interest Margin ("NIM") securitizations and retains residual interests in these NIM transactions, which are valued using a 30% discount rate.

(c) Prepayment risk on certain wholesale retained interests for commercial and other are minimal and are incorporated into other assumptions.

The sensitivity analysis in the preceding table is hypothetical. Changes in fair value based upon a 10% or 20% variation in assumptions generally cannot be extrapolated easily because the relationship of the change in the assumptions to the change in fair value may not be linear. Also, in the table, the

effect that a change in a particular assumption may have on the fair value is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might counteract or magnify the sensitivities.

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

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

(a) Static-pool losses are not applicable to credit card securitizations due to their revolving nature.

(b) Primarily includes subprime residential mortgages securitized in 2006 and 2005 as part of wholesale activities. Expected losses for prime residential mortgage securitizations are minimal for consumer activities.

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

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

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

(a) Includes \$18.6 billion and \$11.9 billion of outstanding principal balances on securitized subprime 1–4 family residential mortgage loans as of December 31, 2006 and 2005, respectively.

(b) Total assets held in securitization-related SPEs were \$262.9 billion and \$204.2 billion at December 31, 2006 and 2005, respectively. The \$120.9 billion and \$93.1 billion of loans securitized at December 31, 2006 and 2005, respectively, excludes: \$122.5 billion and \$85.6 billion of securitized loans, in which the Firm's only continuing involvement is the servicing of the assets; \$19.3 billion and \$24.8 billion of seller's interests in credit card master trusts; and \$0.2 billion and \$0.7 billion of escrow accounts and other assets, respectively.

(c) Represents both loans on the Consolidated balance sheets and loans that have been securitized, but excludes loans for which the Firm's only continuing involvement is servicing of the assets.

(d) Includes nonperforming HFS loans of \$120 million and \$136 million at December 31, 2006 and 2005, respectively.

(e) Excludes nonperforming assets related to (i) loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by U.S. government agencies and U.S. government-sponsored enterprises of \$1.2 billion and \$1.1 billion for December 31, 2006 and 2005, respectively, and (ii) education loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of \$0.2 billion at December 31, 2006. These amounts for GNMA and education loans are excluded, as reimbursement is proceeding normally.

Note 15 – Variable interest entities

Refer to Note 1 on page 94 of this Annual Report for a further description of JPMorgan Chase's policies regarding consolidation of variable interest entities.

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

- **Investment Bank:** Utilizes VIEs to assist clients in accessing the financial markets in a cost-efficient manner by providing flexibility relating to price, yield and desired risk. There are two broad categories of transactions involving VIEs in the IB: (1) multi-seller conduits and (2) client inter-mediation; both are discussed below. The IB also securitizes loans through QSPEs, to create asset-backed securities, as further discussed in Note 14 on pages 114–118 of this Annual Report.
- **Asset Management ("AM"):** Provides investment management services to a limited number of the Firm's mutual funds deemed VIEs. AM earns a fixed fee based upon assets managed; the fee varies with each fund's investment objective and is competitively priced. For the limited number of funds that qualify as VIEs, AM's relationships with such funds are not considered significant variable interests under FIN 46R.
- **Treasury & Securities Services:** Provides services to a number of VIEs. These services are similar to those provided to non-VIEs. TSS earns market-based

fees for services provided. Such relationships are not considered significant variable interests under FIN 46R.

- **Commercial Banking:** Utilizes VIEs to assist clients in accessing the financial markets in a cost-efficient manner. This is often accomplished through the use of products similar to those offered in the Investment Bank. Commercial Banking may assist in the structuring and/or on-going administration of these VIEs and may provide liquidity, letters of credit and/or derivative instruments in support of the VIE. Such relationships are not considered significant variable interests under FIN 46R.
- **The Private Equity business,** included in Corporate, may be involved with entities that could be deemed VIEs. Private equity activities are accounted for in accordance with the Investment Company Audit Guide ("Audit Guide"). The FASB deferred adoption of FIN 46R for nonregistered investment companies that apply the Audit Guide until the proposed Statement of Position on the clarification of the scope of the Audit Guide is finalized. The Firm continues to apply this deferral provision; had FIN 46R been applied to VIEs subject to this deferral, the impact would have had an insignificant impact on the Firm's Consolidated financial statements as of December 31, 2006.

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

Multi-seller conduits

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

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

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

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

Deal-specific credit enhancement that supports the commercial paper issued by the conduits is generally structured to cover a multiple of historical losses expected on the pool of assets and is provided primarily by customers (i.e., sellers) or other third parties. The deal-specific credit enhancement is typically in the form of overcollateralization provided by the seller but also may include any combination of the following: recourse to the seller or originator, cash collateral accounts, letters of credit, excess spread, retention of subordinated interests or third-party guarantees. In certain instances, the Firm provides limited credit enhancement in the form of standby letters of credit.

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

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

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

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

Client intermediation

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

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The Firm structures credit-linked notes in which the VIE purchases highly rated assets (such as asset-backed securities) and enters into a credit derivative contract with the Firm to obtain exposure to a referenced credit not held by the VIE. Credit-linked notes are issued by the VIE to transfer the risk of the referenced credit to the investors in the VIE. Clients and investors often prefer a VIE structure, since the credit-linked notes generally carry a higher credit rating than they would if issued directly by JPMorgan Chase.

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

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

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

(a) Assets of \$1.8 billion reported in the table above were recorded on the Firm's Consolidated balance sheets at December 31, 2006 and 2005, due to contractual relationships held by the Firm that relate to collateral held by the VIE.

(b) Total amounts consolidated due to the Firm owning residual interests were \$4.7 billion and \$4.9 billion at December 31, 2006 and 2005, respectively, and are reported in the table. Total liquidity commitments were \$10.2 billion and \$5.8 billion at December 31, 2006 and 2005, respectively. The Firm's maximum credit exposure to all municipal bond vehicles was \$14.9 billion and \$10.7 billion at December 31, 2006 and 2005, respectively.

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

Consolidated VIE assets

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

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

(a) The Firm also holds \$3.5 billion and \$3.9 billion of assets, at December 31, 2006 and 2005, respectively, primarily as a seller's interest, in certain consumer securitizations in a segregated entity, as part of a two-step securitization transaction. This interest is included in the securitization activities disclosed in Note 14 on pages 114–118 of this Annual Report.

(b) Includes activity conducted by the Firm in a principal capacity, primarily in the IB.

(c) Includes the fair value of securities and derivative receivables.

(d) Certain multi-seller conduits administered by the Firm were deconsolidated as of June 30, 2006; the assets deconsolidated consisted of \$29 billion of Interests in purchased receivables, \$3 billion of Loans and \$1 billion of investment securities.

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

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

FIN 46(R)-6 Transition

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

Note 16 – Goodwill and other intangible assets

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

Goodwill and other intangible assets consist of the following:

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

Goodwill

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

Goodwill attributed to the business segments was as follows:

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

Mortgage servicing rights

JPMorgan Chase recognizes as intangible assets mortgage servicing rights, which represent the right to perform specified residential mortgage servicing activities for others. MSRs are either purchased from third parties or retained upon sale or securitization of mortgage loans. Servicing activities include collecting principal, interest, and escrow payments from borrowers; making tax and insurance payments on behalf of the borrowers; monitoring delinquencies and executing foreclosure proceedings; and accounting for and remitting principal and interest payments to the investors of the mortgage-backed securities.

The amount initially capitalized as MSRs represents the amount paid to third parties to acquire MSRs or is the estimate of fair value, if retained upon the sale or securitization of mortgage loans. The Firm estimates the fair value of MSRs for initial capitalization and ongoing valuation using an option-adjusted spread ("OAS") model, which projects MSR cash flows over multiple interest rate scenarios in conjunction with the Firm's proprietary prepayment model, and then discounts these cash flows at risk-adjusted rates. The model considers portfolio characteristics, contractually specified servicing fees, prepayment assumptions, delinquency rates, late charges, other ancillary revenues, and costs to service, and other economic factors. The Firm compares fair value estimates and assumptions to observable market data where available and to recent market activity and actual portfolio experience.

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

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

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

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

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

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

CPR: Constant prepayment rate.

- (a) Represents MSR asset fair value adjustments due to changes in inputs, such as interest rates and volatility, as well as updates to assumptions used in the valuation model.
(b) Includes changes in the MSR value due to servicing portfolio runoff (or time decay).

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

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

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

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

CPR: Constant prepayment rate

Purchased credit card relationships and All other intangible assets

During 2006, Purchased credit card relationship intangibles decreased by \$340 million as a result of \$731 million in amortization expense, partially offset by increases from various acquisitions of private-label portfolios and purchase accounting adjustments related to the November 2005 acquisition of the Sears Canada credit card business. During 2006, all other intangible assets declined \$461 million, primarily as a result of amortization expense and a reduction of \$436 million related to the transfer of selected corporate trust businesses to The Bank of New York, partially offset by an increase in

core deposit intangibles of \$485 million resulting from the acquisition of The Bank of New York's consumer, business banking and middle-market banking businesses, and further purchase accounting adjustments related to the acquisition of the Sears Canada credit card business. Except for \$513 million of indefinite-lived intangibles related to asset management advisory contracts that are not amortized but instead are tested for impairment at least annually, the remainder of the Firm's other acquired intangible assets are subject to amortization.

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

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

(a) Amounts at December 31, 2006, exclude, and amounts at December 31, 2005, include, other intangibles and related accumulated amortization of selected corporate trust businesses related to the transaction with The Bank of New York.

(b) Includes \$11 million and \$14 million of amortization expense related to servicing assets on securitized automobile loans for the years ended December 31, 2006 and 2005, respectively.

Amortization expense

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

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

(a) Amortization expense related to the aforementioned selected corporate trust businesses were reported in Income from discontinued operations for all periods presented.

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

Future amortization expense

The following table presents estimated future amortization expense related to credit card relationships, core deposits and All other intangible assets at December 31, 2006:

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

Note 17 – Premises and equipment

Premises and equipment, including leasehold improvements, are carried at cost less accumulated depreciation and amortization. JPMorgan Chase computes depreciation using the straight-line method over the estimated useful life of an asset. For leasehold improvements, the Firm uses the straight-line method computed over the lesser of the remaining term of the leased facility or 10 years. JPMorgan Chase has recorded immaterial asset retirement obligations related to asbestos remediation under SFAS 143 and FIN 47 in those cases where it has sufficient information to estimate the obligations' fair value.

JPMorgan Chase capitalizes certain costs associated with the acquisition or development of internal-use software under SOP 98-1. Once the software is ready for its intended use, these costs are amortized on a straight-line basis over the software's expected useful life, and reviewed for impairment on an ongoing basis.

Notes to consolidated financial statements

JPMorgan Chase & Co.

Note 18 – Deposits

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

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

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

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

Note 19 – Long-term debt

JPMorgan Chase issues long-term debt denominated in various currencies, although predominantly U.S. dollars, with both fixed and variable interest rates. The following table is a summary of long-term debt carrying values (including unamortized original issue discount, SFAS 133 valuation adjustments and fair value adjustments, where applicable) by contractual maturity for the current year.

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

- (a) Included are various equity-linked or other indexed instruments. Embedded derivatives separated from hybrid securities in accordance with SFAS 133 are reported at fair value and shown net with the host contract on the Consolidated balance sheets. Changes in fair value of separated derivatives are recorded in Principal transactions revenue. Hybrid securities which the Firm has elected to measure at fair value in accordance with SFAS 155 are classified in the line item of the host contract on the Consolidated balance sheets; changes in fair values are recorded in Principal transactions revenue in the Consolidated statements of income.
- (b) The interest rates shown are the range of contractual rates in effect at year end, including non-U.S. dollar-fixed- and variable-rate issuances, which excludes the effects of the associated derivative instruments used in SFAS 133 hedge accounting relationships if applicable. The use of these derivative instruments modifies the Firm's exposure to the contractual interest rates disclosed in the table above. Including the effects of the SFAS 133 hedge accounting derivatives, the range of modified rates in effect at December 31, 2006, for total long-term debt was 0.11% to 17.00%, versus the contractual range of 0.75% to 17.00% presented in the table above.
- (c) Included on the Consolidated balance sheets in Beneficial interests issued by consolidated variable interest entities.
- (d) At December 31, 2006, long-term debt aggregating \$27.3 billion was redeemable at the option of JPMorgan Chase, in whole or in part, prior to maturity, based upon the terms specified in the respective notes.
- (e) The aggregate principal amount of debt that matures in each of the five years subsequent to 2006 is \$28.3 billion in 2007, \$22.9 billion in 2008, \$18.1 billion in 2009, \$10.6 billion in 2010 and \$17.6 billion in 2011.
- (f) Includes \$3.0 billion of outstanding zero-coupon notes at December 31, 2006. The aggregate principal amount of these notes at their respective maturities was \$6.8 billion.
- (g) Includes \$25.4 billion of outstanding structured notes accounted for at fair value under SFAS 155.

The weighted-average contractual interest rate for total Long-term debt was 4.89% and 4.62% as of December 31, 2006 and 2005, respectively. In order to modify exposure to interest rate and currency exchange rate movements, JPMorgan Chase utilizes derivative instruments, primarily interest rate and cross-currency interest rate swaps, in conjunction with some of its debt issues. The use of these instruments modifies the Firm's interest expense on the associated debt. The modified weighted-average interest rate for total long-term debt, including the effects of related derivative instruments, was 4.99% and 4.65% as of December 31, 2006 and 2005, respectively.

JPMorgan Chase & Co. (Parent Company) has guaranteed certain debt of its subsidiaries, including both long-term debt and structured notes sold as part of the Firm's trading activities. These guarantees rank on a parity with all of the Firm's other unsecured and unsubordinated indebtedness. Guaranteed liabilities totaled \$30 million and \$170 million at December 31, 2006 and 2005, respectively.

The debentures issued to the issuer trusts by the Firm, less the common capital securities of the issuer trusts, qualify as Tier 1 capital. The following is a summary of the outstanding capital debt securities, including unamortized original issue discount, issued by each trust and the junior subordinated deferrable interest debenture issued by JPMorgan Chase to each trust as of December 31, 2006:

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

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

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

Note 20 – Preferred stock

JPMorgan Chase is authorized to issue 200 million shares of preferred stock, in one or more series, with a par value of \$1 per share. There was no outstanding preferred stock at December 31, 2006. Outstanding preferred

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

At December 31, 2006, the Firm had established 22 wholly owned Delaware statutory business trusts ("issuer trusts") that had issued guaranteed capital debt securities.

The junior subordinated deferrable interest debentures issued by the Firm to the issuer trusts, totaling \$12.2 billion and \$11.5 billion at December 31, 2006 and 2005, respectively, were reflected in the Firm's Consolidated balance sheets in the Liabilities section under the caption "Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities" (i.e., trust preferred capital debt securities). The Firm also records the common capital securities issued by the issuer trusts in Other assets in its Consolidated balance sheets at December 31, 2006 and 2005.

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

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

(a) Represented by depositary shares.

(b) Redemption price includes amount shown in the table plus any accrued but unpaid dividends.

Note 21 – Common stock

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

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

(a) Participants in the Firm's stock-based incentive plans may have shares withheld to cover income taxes. The shares withheld amounted to 8.1 million, 8.2 million and 5.7 million for 2006, 2005 and 2004, respectively.

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

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

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

Note 22 – Earnings per share

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

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

(a) Options issued under employee stock-based incentive plans to purchase 150 million, 280 million and 300 million shares of common stock were outstanding for the years ended 2006, 2005 and 2004, respectively, but were not included in the computation of diluted EPS because the options were antidilutive.

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

Note 23 – Accumulated other comprehensive income (loss)

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

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

(a) Balance at December 31, 2003 reflects heritage JPMorgan Chase only. 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

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

(c) The net change during 2004 was due primarily to higher interest rates and recognition of unrealized gains from securities sales.

(d) The net change during 2005 was due primarily to higher interest rates, partially offset by the reversal of unrealized losses from securities sales.

(e) The net change during 2006 was due primarily to the reversal of unrealized losses from securities sales.

(f) For further discussion of SFAS 158, see Note 7 on pages 100–105 of this Annual Report.

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

Year ended December 31, (in millions)	2006			2005			2004(b)		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Unrealized gains (losses) on AFS securities:									
Net unrealized holdings gains									
(losses) arising during the period	\$ (403)	\$ 144	\$ (259)	\$ (1,706)	\$ 648	\$ (1,058)	\$ 68	\$ (27)	\$ 41
Reclassification adjustment for realized (gains) losses included in Net income	797	(285)	512	1,443	(548)	895	(200)	79	(121)
Net change	394	(141)	253	(263)	100	(163)	(132)	52	(80)
Translation adjustments:									
Translation	590	(236)	354	(584)	233	(351)	474	(194)	280
Hedges	(563)	222	(341)	584	(233)	351	(478)	196	(282)
Net change	27	(14)	13	—	—	—	(4)	2	(2)
Cash flow hedges:									
Net unrealized holdings gains									
(losses) arising during the period	(250)	98	(152)	(470)	187	(283)	57	(23)	34
Reclassification adjustment for realized (gains) losses included in Net income	93	(36)	57	46	(18)	28	(216)	86	(130)
Net change	(157)	62	(95)	(424)	169	(255)	(159)	63	(96)
Total Other comprehensive income	\$ 264	\$ (93)	\$ 171	\$ (687)	\$ 269	\$ (418)	\$ (295)	\$ 117	\$ (178)
Net actuarial loss and prior service cost (credit) of defined benefit pension and OPEB plans:									
Adjustments to initially apply SFAS 158(a)	\$ (1,746)	\$ 644	\$ (1,102)	NA	NA	NA	NA	NA	NA

(a) For further discussion of SFAS 158, see Note 7 on pages 100–105 of this Annual Report.

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

Notes to consolidated financial statements

JPMorgan Chase & Co.

Note 24 – Income taxes

JPMorgan Chase and eligible subsidiaries file a consolidated U.S. federal income tax return. JPMorgan Chase uses the asset-and-liability method required by SFAS 109 to provide income taxes on all transactions recorded in the Consolidated financial statements. This method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for book and tax purposes. Accordingly, a deferred tax liability or asset for each temporary difference is determined based upon the tax rates that the Firm expects to be in effect when the underlying items of income and expense are realized. JPMorgan Chase's expense for income taxes includes the current and deferred portions of that expense. A valuation allowance is established to reduce deferred tax assets to the amount the Firm expects to realize.

Due to the inherent complexities arising from the nature of the Firm's businesses, and from conducting business and being taxed in a substantial number of jurisdictions, significant judgments and estimates are required to be made. Agreement of tax liabilities between JPMorgan Chase and the many tax jurisdictions in which the Firm files tax returns may not be finalized for several years. Thus, the Firm's final tax-related assets and liabilities may ultimately be different than those currently reported.

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

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

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

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

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

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

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

The preceding table does not reflect the tax effects of SFAS 52 foreign currency translation adjustments, SFAS 115 unrealized gains and losses on AFS securities, SFAS 133 hedge transactions and certain tax benefits associated with the Firm's employee stock-based compensation plans. Also not reflected are the cumulative tax effects of implementing in 2006, SFAS 155, which applies to certain hybrid financial instruments; SFAS 156, which accounts for servicing financial assets; and SFAS 158, which applies to defined benefit pension and OPEB plans. The tax effect of all items recorded directly in Stockholders' equity was an increase of \$885 million, \$425 million and \$431 million in 2006, 2005 and 2004, respectively.

U.S. federal income taxes have not been provided on the undistributed earnings of certain non-U.S. subsidiaries, to the extent that such earnings have been reinvested abroad for an indefinite period of time. For 2006, such earnings approximated \$423 million on a pretax basis. At December 31, 2006, the cumulative amount of undistributed pretax earnings in these subsidiaries approximated \$1.9 billion. It is not practicable at this time to determine the income tax liability that would result upon repatriation of these earnings.

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

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

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

Year ended December 31,	2006	2005	2004(a)
Statutory U.S. federal tax rate	35.0%	35.0%	35.0%
Increase (decrease) in tax rate resulting from:			
U.S. state and local income taxes, net of federal income tax benefit	2.1	1.4	0.2
Tax-exempt income	(2.2)	(3.1)	(4.2)
Non-U.S. subsidiary earnings	(0.5)	(1.4)	(1.4)
Business tax credits	(2.5)	(3.7)	(4.3)
Other, net	(0.5)	2.1	2.0
Effective tax rate	31.4%	30.3%	27.3%

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

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

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

(a) For purposes of this table, non-U.S. income is defined as income generated from operations located outside the United States of America.

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

Note 25 – Restrictions on cash and intercompany funds transfers

JPMorgan Chase Bank, N.A.'s business is subject to examination and regulation by the Office of the Comptroller of the Currency ("OCC"). The Bank is a member of the U.S. Federal Reserve System and its deposits are insured by the Federal Deposit Insurance Corporation ("FDIC").

The Federal Reserve Board requires depository institutions to maintain cash reserves with a Federal Reserve Bank. The average amount of reserve balances deposited by the Firm's bank subsidiaries with various Federal Reserve Banks was approximately \$2.2 billion in 2006 and \$2.7 billion in 2005.

Restrictions imposed by U.S. federal law prohibit JPMorgan Chase and certain of its affiliates from borrowing from banking subsidiaries unless the loans are secured in specified amounts. Such secured loans to the Firm or to other affiliates are generally limited to 10% of the banking subsidiary's total capital, as determined by the risk-based capital guidelines; the aggregate amount of all such loans is limited to 20% of the banking subsidiary's total capital.

The principal sources of JPMorgan Chase's income (on a parent company-only basis) are dividends and interest from JPMorgan Chase Bank, N.A. and the other banking and nonbanking subsidiaries of JPMorgan Chase. In addition to dividend restrictions set forth in statutes and regulations, the Federal Reserve Board, the OCC and the FDIC have authority under the Financial Institutions Supervisory Act to prohibit or to limit the payment of dividends by the banking organizations they supervise, including JPMorgan Chase and its subsidiaries that are banks or bank holding companies, if, in the banking regulator's opinion, payment of a dividend would constitute an unsafe or unsound practice in light of the financial condition of the banking organization.

At January 1, 2007 and 2006, JPMorgan Chase's banking subsidiaries could pay, in the aggregate, \$14.3 billion and \$7.4 billion, respectively, in dividends to their respective bank holding companies without prior approval of their relevant banking regulators. The capacity to pay dividends in 2007 will be supplemented by the banking subsidiaries' earnings during the year.

In compliance with rules and regulations established by U.S. and non-U.S. regulators, as of December 31, 2006 and 2005, cash in the amount of \$8.6 billion and \$6.4 billion, respectively, and securities with a fair value of \$2.1 billion and \$2.1 billion, respectively, were segregated in special bank accounts for the benefit of securities and futures brokerage customers.

Note 26 – Capital

There are two categories of risk-based capital: Tier 1 capital and Tier 2 capital. Tier 1 capital includes common stockholders' equity, qualifying preferred stock and minority interest less goodwill and other adjustments. Tier 2 capital consists of preferred stock not qualifying as Tier 1, subordinated long-term debt and other instruments qualifying as Tier 2, and the aggregate allowance for credit losses up to a certain percentage of risk-weighted assets. Total regulatory capital is subject to deductions for investments in certain subsidiaries. Under the risk-based capital guidelines of the Federal Reserve Board, JPMorgan Chase is required to maintain minimum ratios of Tier 1 and Total (Tier 1 plus Tier 2) capital to risk weighted assets, as well as minimum leverage ratios (which are defined as Tier 1 capital to average adjusted on-balance sheet assets). Failure to meet these minimum requirements could cause the Federal Reserve Board to take action. Banking subsidiaries also are subject to these capital requirements by their respective primary regulators. As of December 31, 2006 and 2005, JPMorgan Chase and all of its banking subsidiaries were well-capitalized and met all capital requirements to which each was subject.

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The following table presents the risk-based capital ratios for JPMorgan Chase and its significant banking subsidiaries at December 31, 2006, and December 31, 2005:

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

- (a) Asset and capital amounts for JPMorgan Chase's banking subsidiaries reflect intercompany transactions, whereas the respective amounts for JPMorgan Chase reflect the elimination of intercompany transactions.
- (b) As defined by the regulations issued by the Federal Reserve Board, OCC and FDIC.
- (c) Includes off-balance sheet risk-weighted assets in the amounts of \$305.3 billion, \$290.1 billion and \$12.7 billion, respectively, at December 31, 2006, and \$279.2 billion, \$260.0 billion and \$15.5 billion, respectively, at December 31, 2005, for JPMorgan Chase and its significant banking subsidiaries.
- (d) Average adjusted assets for purposes of calculating the leverage ratio include total average assets adjusted for unrealized gains/losses on securities, less deductions for disallowed goodwill and other intangible assets, investments in subsidiaries and the total adjusted carrying value of nonfinancial equity investments that are subject to deductions from Tier 1 capital.
- (e) Represents requirements for banking subsidiaries pursuant to regulations issued under the Federal Deposit Insurance Corporation Improvement Act. There is no Tier 1 leverage component in the definition of a well-capitalized bank holding company.
- (f) The minimum Tier 1 leverage ratio for bank holding companies and banks is 3% or 4% depending on factors specified in regulations issued by the Federal Reserve Board and OCC.

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

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

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

Note 27 – Commitments and contingencies

At December 31, 2006, JPMorgan Chase and its subsidiaries were obligated under a number of noncancelable operating leases for premises and equipment used primarily for banking purposes. Certain leases contain renewal options or escalation clauses providing for increased rental payments based upon maintenance, utility and tax increases or require the Firm to perform restoration work on leased premises. No lease agreement imposes restrictions on the Firm's ability to pay dividends, engage in debt or equity financing transactions or enter into further lease agreements.

The following table presents required future minimum rental payments under operating leases with noncancelable lease terms that expire after December 31, 2006:

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

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

Total rental expense was as follows:

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

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

At December 31, 2006, assets were pledged to secure public deposits and for other purposes. The significant components of the assets pledged were as follows:

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

Litigation reserve

The Firm maintains litigation reserves for certain of its outstanding litigation. In accordance with the provisions of SFAS 5, JPMorgan Chase accrues for a litigation-related liability when it is probable that such a liability has been incurred and the amount of the loss can be reasonably estimated. While the outcome of litigation is inherently uncertain, management believes, in light of all information known to it at December 31, 2006, the Firm's litigation reserves were adequate at such date. Management reviews litigation reserves periodically, and the reserves may be increased or decreased in the future to reflect further litigation developments. The Firm believes it has meritorious defenses to claims asserted against it in its currently outstanding litigation and, with respect to such litigation, intends to continue to defend itself vigorously, litigating or settling cases according to management's judgment as to what is in the best interests of stockholders.

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

Note 28 – Accounting for derivative instruments and hedging activities

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

SFAS 133, as amended by SFAS 138, SFAS 149, and SFAS 155, establishes accounting and reporting standards for derivative instruments, including those used for trading and hedging activities, and derivative instruments embedded in other contracts. All free-standing derivatives, whether designated for hedging relationships or not, are required to be recorded on the Consolidated balance sheets at fair value. The accounting for changes in value of a derivative depends on whether the contract is for trading purposes or has been designated and qualifies for hedge accounting.

In order to qualify for hedge accounting, a derivative must be considered highly effective at reducing the risk associated with the exposure being hedged. In order for a derivative to be designated as a hedge, there must be documentation of the risk management objective and strategy, including identification of the hedging instrument, the hedged item and the risk exposure, and how effectiveness is to be assessed prospectively and retrospectively. To assess effectiveness, the Firm uses statistical methods such as regression analysis, as well as nonstatistical methods including dollar value comparisons of the change in the fair value of the derivative to the change in the fair value or cash flows of the hedged item. The extent to which a hedging instrument has been and is expected to continue to be effective at achieving offsetting changes in fair value or cash flows must be assessed and documented at least quarterly. Any ineffectiveness must be reported in current-period earnings. If it is determined that a derivative is not highly effective at hedging the designated exposure, hedge accounting is discontinued.

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

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

JPMorgan Chase also enters into derivative contracts to hedge exposure to variability in cash flows from floating-rate financial instruments and forecasted transactions, primarily the rollover of short-term assets and liabilities, and foreign currency-denominated revenues and expenses. Interest rate swaps, futures and forward contracts are the most common instruments used to reduce the impact of interest rate and foreign exchange rate changes on future earnings. All amounts affecting earnings have been recognized consistent with the classification of the hedged item, primarily Net interest income.

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

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

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

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

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

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Over the next 12 months, it is expected that \$67 million (after-tax) of net losses recorded in Other comprehensive income at December 31, 2006, will be recognized in earnings. The maximum length of time over which forecasted transactions are hedged is 10 years, and such transactions primarily relate to core lending and borrowing activities.

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

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

JPMorgan Chase utilizes lending-related financial instruments (e.g., commitments and guarantees) to meet the financing needs of its customers. The contractual amount of these financial instruments represents the maximum possible credit risk should the counterparty draw down the commitment or the Firm fulfill its obligation under the guarantee, and the counterparty subsequently fail to perform according to the terms of the contract. Most of these commitments and guarantees expire without a default occurring or without being drawn. As a result, the total contractual amount of these instruments is not, in the Firm's view, representative of its actual future credit exposure or funding requirements. Further, certain commitments, primarily related to consumer financings, are cancelable, upon notice, at the option of the Firm.

To provide for the risk of loss inherent in wholesale-related contracts, an allowance for credit losses on lending-related commitments is maintained. See Note 13 on pages 113–114 of this Annual Report for further discussion of the allowance for credit losses on lending-related commitments.

The following table summarizes the contractual amounts of off-balance sheet lending-related financial instruments and guarantees and the related allowance for credit losses on lending-related commitments at December 31, 2006 and 2005:

Off-balance sheet lending-related financial instruments and guarantees

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

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

Other unfunded commitments to extend credit

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

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

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

Asset purchase agreements

The majority of the Firm's unfunded commitments are not guarantees as defined in FIN 45, except for certain asset purchase agreements that are principally used as a mechanism to provide liquidity to SPEs, primarily multi-seller conduits, as described in Note 15 on pages 118–120 of this Annual Report. Some of these asset purchase agreements can be exercised at any time by the SPE's administrator, while others require a triggering event to occur. Triggering events include, but are not limited to, a need for liquidity, a decline

in market value of the assets or a downgrade in the rating of JPMorgan Chase Bank, N.A. These agreements may cause the Firm to purchase an asset from the SPE at an amount above the asset's fair value, in effect providing a guarantee of the initial value of the reference asset as of the date of the agreement. In most instances, third-party credit enhancements of the SPE mitigate the Firm's potential losses on these agreements.

Standby letters of credit and financial guarantees

Standby letters of credit and financial guarantees are conditional lending commitments issued by JPMorgan Chase to guarantee the performance of a customer to a third party under certain arrangements, such as commercial paper facilities, bond financings, acquisition financings, trade and similar transactions. Approximately 50% of these arrangements mature within three years. The Firm typically has recourse to recover from the customer any amounts paid under these guarantees; in addition, the Firm may hold cash or other highly liquid collateral to support these guarantees.

Securities lending indemnification

Through the Firm's securities lending program, customers' securities, via custodial and non-custodial arrangements, may be lent to third parties. As part of this program, the Firm issues securities lending indemnification agreements to the lender which protects it principally against the failure of the third-party borrower to return the lent securities. To support these indemnification agreements, the Firm obtains cash or other highly liquid collateral with a market value exceeding 100% of the value of the securities on loan from the borrower. Collateral is marked to market daily to help assure that collateralization is adequate. Additional collateral is called from the borrower if a shortfall exists or released to the borrower in the event of overcollateralization. If an indemnifiable default by a borrower occurs, the Firm would expect to use the collateral held to purchase replacement securities in the market or to credit the lending customer with the cash equivalent thereof.

Also as part of this program, the Firm invests cash collateral received from the borrower in accordance with approved guidelines. On an exceptional basis the Firm may indemnify the lender against this investment risk when certain types of investments are made.

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

Indemnification agreements – general

In connection with issuing securities to investors, the Firm may enter into contractual arrangements with third parties that may require the Firm to make a payment to them in the event of a change in tax law or an adverse interpretation of tax law. In certain cases, the contract also may include a termination clause, which would allow the Firm to settle the contract at its fair value; thus, such a clause would not require the Firm to make a payment under the indemnification agreement. Even without the termination clause, management does not expect such indemnification agreements to have a material adverse effect on the consolidated financial condition of JPMorgan Chase. The Firm may also enter into indemnification clauses when it sells a business or assets to a third party, pursuant to which it indemnifies that third party for losses it may incur due to actions taken by the Firm prior to the sale. See below for more information regarding the Firm's loan securitization activities. It is difficult to estimate the Firm's maximum exposure under these indemnification arrangements, since this would require an assessment of future changes in tax law and future claims that may be made against the Firm that have not yet occurred. However, based upon historical experience, management expects the risk of loss to be remote.

Securitization-related indemnifications

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

Credit card charge-backs

The Firm is a partner with one of the leading companies in electronic payment services in a joint venture operating under the name of Chase Paymentech Solutions, LLC (the "joint venture"). The joint venture was formed in October 2005, as a result of an agreement by the Firm and First Data Corporation, its joint venture partner, to integrate the companies' jointly owned Chase Merchant Services ("CMS") and Paymentech merchant businesses. The joint venture provides merchant processing services in the United States and Canada. Under the rules of Visa USA, Inc. and Mastercard International, JPMorgan Chase Bank, N.A., is liable primarily for the amount of each processed credit card sales transaction that is the subject of a dispute between a cardmember and a merchant. The joint venture is contractually liable to JPMorgan Chase Bank, N.A. for these disputed transactions. If a dispute is resolved in the cardmember's favor, the joint venture will (through the cardmember's issuing bank) credit or refund the amount to the cardmember and will charge back the transaction to the merchant. If the joint venture is unable to collect the amount from the merchant, the joint venture will bear the loss for the amount credited or refunded to the cardmember. The joint venture mitigates this risk by withholding future settlements, retaining cash reserve accounts or by obtaining other security. However, in the unlikely event that: (1) a merchant ceases operations and is unable to deliver products, services or a refund; (2) the joint venture does not have sufficient collateral from the merchant to provide customer refunds; and (3) the joint venture does not have sufficient financial resources to provide customer refunds, JPMorgan Chase Bank, N.A. would be liable for the amount of the transaction, although it would have a contractual right to recover from its joint venture partner an amount proportionate to such partner's equity interest in the joint venture. For the year ended December 31, 2006, the joint venture incurred aggregate credit losses of \$9 million on \$661 billion of aggregate volume processed. At December 31, 2006, the joint venture held \$893 million of collateral. For the year ended December 31, 2005, the CMS and Paymentech ventures incurred aggregate credit losses of \$11 million on \$563 billion of aggregate volume processed. At December 31, 2005, the joint venture held \$909 million of collateral. The Firm believes that, based upon historical experience and the collateral held by the joint venture, the fair value of the Firm's chargeback-related obligations would not be different materially from the credit loss allowance recorded by the joint venture; therefore, the Firm has not recorded any allowance for losses in excess of the allowance recorded by the joint venture.

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Exchange and clearinghouse guarantees

The Firm is a member of several securities and futures exchanges and clearing-houses, both in the United States and other countries. Membership in some of these organizations requires the Firm to pay a pro rata share of the losses incurred by the organization as a result of the default of another member. Such obligations vary with different organizations. These obligations may be limited to members who dealt with the defaulting member or to the amount (or a multiple of the amount) of the Firm's contribution to a members' guaranty fund, or, in a few cases, it may be unlimited. It is difficult to estimate the Firm's maximum exposure under these membership agreements, since this would require an assessment of future claims that may be made against the Firm that have not yet occurred. However, based upon historical experience, management expects the risk of loss to be remote.

Derivative guarantees

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

Note 30 – Credit risk concentrations

Concentrations of credit risk arise when a number of customers are engaged in similar business activities or activities in the same geographic region, or when they have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions.

JPMorgan Chase regularly monitors various segments of the credit risk portfolio to assess potential concentration risks and to obtain collateral when deemed necessary. In the Firm's wholesale portfolio, risk concentrations are evaluated primarily by industry and by geographic region. In the consumer portfolio, concentrations are evaluated primarily by product and by U.S. geographic region.

The Firm does not believe exposure to any one loan product with varying terms (e.g., interest-only payments for an introductory period) or exposure to loans with high loan-to-value ratios would result in a significant concentration of credit risk. Terms of loan products and collateral coverage are included in the Firm's assessment when extending credit and establishing its Allowance for loan losses.

For further information regarding on-balance sheet credit concentrations by major product and geography, see Note 12 on pages 112–113 of this Annual Report. For information regarding concentrations of off-balance sheet lending-related financial instruments by major product, see Note 29 on page 132 of this Annual Report. More information about concentrations can be found in the following tables or discussion in the MD&A:

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

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

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

(a) Excludes \$67.0 billion and \$70.5 billion of securitized credit card receivables at December 31, 2006 and 2005, respectively.

(b) Includes HFS loans.

(c) Represents loans, derivative receivables and interests in purchased receivables.

(d) Represents lending-related financial instruments.

Note 31 – Fair value of financial instruments

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

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

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

Determination of fair value

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

- Credit valuation adjustments are necessary when the market price (or parameter) is not indicative of the credit quality of the counterparty. As few derivative contracts are listed on an exchange, the majority of derivative positions are valued using internally developed models that use as their basis observable market parameters. Market practice is to quote parameters equivalent to a AA credit rating; thus, all counterparties are assumed to have the same credit quality. An adjustment is therefore necessary to reflect the credit quality of each derivative counterparty and to arrive at fair value.
- Liquidity adjustments are necessary when the Firm may not be able to observe a recent market price for a financial instrument that trades in inactive (or less active) markets. Thus, valuation adjustments for the risk of loss due to a lack of liquidity are applied to those positions to arrive at fair value. The Firm tries to ascertain the amount of uncertainty in the initial valuation based upon the degree of liquidity or illiquidity, as the case may be, of the market in which the instrument trades and makes liquidity adjustments to the financial instruments. The Firm measures the liquidity adjustment based upon the following factors: (1) the amount of time since the last relevant pricing point; (2) whether there was an actual trade or relevant external quote; and (3) the volatility of the principal component of the financial instrument.
- Concentration valuation adjustments are necessary to reflect the cost of unwinding larger-than-normal market-size risk positions. The cost is determined based upon the size of the adverse market move that is likely to

occur during the extended period required to bring a position down to a nonconcentrated level. An estimate of the period needed to reduce, without market disruption, a position to a nonconcentrated level is generally based upon the relationship of the position to the average daily trading volume of that position. Without these adjustments, larger positions would be valued at a price greater than the price at which the Firm could exit the positions.

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

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

Certain financial instruments and all nonfinancial instruments are excluded from the scope of SFAS 107. Accordingly, the fair value disclosures required by SFAS 107 provide only a partial estimate of the fair value of JPMorgan Chase. For example, the Firm has developed long-term relationships with its customers through its deposit base and credit card accounts, commonly referred to as core deposit intangibles and credit card relationships. In the opinion of management, these items, in the aggregate, add significant value to JPMorgan Chase, but their fair value is not disclosed in this Note.

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

Financial assets

Assets for which fair value approximates carrying value

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

Federal funds sold and securities purchased under resale agreements

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

Trading debt and equity instruments

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

Securities

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

Notes to consolidated financial statements

JPMorgan Chase & Co.

Derivatives

Fair value for derivatives is determined based upon the following:

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

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

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

Interests in purchased receivables

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

Loans

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

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

Other

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

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

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

Financial liabilities

Liabilities for which fair value approximates carrying value

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

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

Interest-bearing deposits

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

Federal funds purchased and securities sold under repurchase agreements

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

Trading liabilities

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

Beneficial interests issued by consolidated VIEs

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

Long-term debt-related instruments

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

Lending-related commitments

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

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

December 31, (in billions)	2006			2005		
	Carrying value	Estimated fair value	Appreciation/ (depreciation)	Carrying value	Estimated fair value	Appreciation/ (depreciation)
Financial assets						
Assets for which fair value approximates carrying value	\$ 150.5	\$ 150.5	\$ —	\$ 155.4	\$ 155.4	\$ —
Federal funds sold and securities purchased under resale agreements	140.5	140.5	—	134.0	134.3	0.3
Trading assets	365.7	365.7	—	298.4	298.4	—
Securities	92.0	92.0	—	47.6	47.6	—
Loans: Wholesale, net of Allowance for loan losses	181.0	184.6	3.6	147.7	150.2	2.5
Consumer, net of Allowance for loan losses	294.8	294.8	—	264.4	262.7	(1.7)
Interests in purchased receivables	—	—	—	29.7	29.7	—
Other	61.8	62.4	0.6	53.4	54.7	1.3
Total financial assets	\$ 1,286.3	\$ 1,290.5	\$ 4.2	\$ 1,130.6	\$ 1,133.0	\$ 2.4
Financial liabilities						
Liabilities for which fair value approximates carrying value	\$ 259.9	\$ 259.9	\$ —	\$ 241.0	\$ 241.0	\$ —
Interest-bearing deposits	498.3	498.4	(0.1)	411.9	411.7	0.2
Federal funds purchased and securities sold under repurchase agreements	162.2	162.2	—	125.9	125.9	—
Trading liabilities	148.0	148.0	—	145.9	145.9	—
Beneficial interests issued by consolidated VIEs	16.2	16.2	—	42.2	42.1	0.1
Long-term debt-related instruments	145.6	147.1	(1.5)	119.9	120.6	(0.7)
Total financial liabilities	\$ 1,230.2	\$ 1,231.8	\$ (1.6)	\$ 1,086.8	\$ 1,087.2	\$ (0.4)
Net appreciation			\$ 2.6			\$ 2.0

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JPMorgan Chase & Co.

Note 32 – International operations

The following table presents income statement information of JPMorgan Chase by major geographic area. The Firm defines international activities as business transactions that involve customers residing outside of the U.S., and the information presented below is based primarily upon the domicile of the customer or the location from which the customer relationship is managed. However, many of the Firm's U.S. operations serve international businesses.

As the Firm's operations are highly integrated, estimates and subjective assumptions have been made to apportion revenue and expense between U.S. and international operations. These estimates and assumptions are consistent with the allocations used for the Firm's segment reporting as set forth in Note 33 on pages 139–141 of this Annual Report.

The Firm's long-lived assets for the periods presented are not considered by management to be significant in relation to total assets. The majority of the Firm's long-lived assets are located in the U.S.

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

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

Note 33 – Business segments

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

Business segment financial disclosures

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

Reported versus Operating Basis Changes

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

Business Segment Disclosures

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

Capital allocation changes

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

Discontinued operations

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

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JPMorgan Chase & Co.

Segment results

The following table provides a summary of the Firm's segment results for 2006, 2005 and 2004 on a managed basis. The impact of credit card securitizations and tax-equivalent adjustments have been included in Reconciling items so that the total Firm results are on a reported basis. The first six

months of 2004 reflect heritage JPMorgan Chase—only results and have been restated to reflect the current business segment organization and reporting classifications.

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

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

(a) In addition to analyzing the Firm's results on a reported basis, management reviews the Firm's lines' of business results on a "managed basis," which is a non-GAAP financial measure. The Firm's definition of managed basis starts with the reported U.S. GAAP results and includes certain reclassifications that do not have any impact on Net income as reported by the lines of business or by the Firm as a whole.

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

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

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

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

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

(f) Managed results for CS exclude the impact of credit card securitizations on Total net revenue, Provision for credit losses and Average assets, as JPMorgan Chase treats the sold receivables as if they were still on the balance sheet in evaluating credit performance and the overall performance of CS' entire managed credit card portfolio as operations are funded, and decisions are made about allocating resources such as employees and capital, based upon managed information. These adjustments are eliminated in Reconciling items to arrive at the Firm's reported U.S. GAAP results. The related securitization adjustments were as follows:

Year ended December 31, (in millions)	2006	2005	2004 ^(b)
Noninterest revenue	\$ (3,509)	\$ (2,718)	\$ (2,353)
Net interest income	5,719	6,494	5,251
Provision for credit losses	2,210	3,776	2,898
Average assets	65,266	67,180	51,084

(table continued from previous page)

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

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

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

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

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JPMorgan Chase & Co.

Note 34 – Parent company

Parent company – statements of income

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

Parent company – balance sheets

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

Parent company – statements of cash flows

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

(a) Subsidiaries include trusts that issued guaranteed capital debt securities ("issuer trusts"). As a result of FIN 46R, the Parent deconsolidated these trusts in 2003. The Parent received dividends of \$23 million, \$21 million and \$15 million from the issuer trusts in 2006, 2005 and 2004, respectively. For further discussion on these issuer trusts, see Note 19 on page 125 of this Annual Report.

(b) At December 31, 2006, debt that contractually matures in 2007 through 2011 totaled \$10.6 billion, \$12.4 billion, \$13.7 billion, \$4.3 billion and \$13.5 billion, respectively.

(c) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. For further discussion of the Merger, see Note 2 on pages 95–96 of this Annual Report.

Supplementary information

Selected quarterly financial data (unaudited)

(in millions, except per share, ratio and headcount data)

As of or for the period ended	2006				2005			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
Selected income statement data								
Noninterest revenue	\$ 10,362	\$ 10,021	\$ 9,762	\$ 10,050	\$ 8,804	\$ 9,482	\$ 7,616	\$ 8,291
Net interest income	5,692	5,379	5,178	4,993	4,678	4,783	4,932	5,162
Total net revenue	16,054	15,400	14,940	15,043	13,482	14,265	12,548	13,453
Provision for credit losses	1,134	812	493	831	1,224	1,245	587	427
Total noninterest expense	9,746	9,651	9,236	9,648	8,430	9,359	10,798	9,839
Income from continuing operations before income tax expense	5,174	4,937	5,211	4,564	3,828	3,661	1,163	3,187
Income tax expense	1,268	1,705	1,727	1,537	1,186	1,192	226	981
Income from continuing operations (after-tax)	3,906	3,232	3,484	3,027	2,642	2,469	937	2,206
Income from discontinued operations (after-tax)(a)	620	65	56	54	56	58	57	58
Net income	\$ 4,526	\$ 3,297	\$ 3,540	\$ 3,081	\$ 2,698	\$ 2,527	\$ 994	\$ 2,264
Per common share								
Basic earnings per share								
Income from continuing operations	\$ 1.13	\$ 0.93	\$ 1.00	\$ 0.87	\$ 0.76	\$ 0.71	\$ 0.27	\$ 0.63
Net income	1.31	0.95	1.02	0.89	0.78	0.72	0.28	0.64
Diluted earnings per share								
Income from continuing operations	1.09	0.90	0.98	0.85	0.74	0.70	0.26	0.62
Net income	1.26	0.92	0.99	0.86	0.76	0.71	0.28	0.63
Cash dividends declared per share	0.34	0.34	0.34	0.34	0.34	0.34	0.34	0.34
Book value per share	33.45	32.75	31.89	31.19	30.71	30.26	29.95	29.78
Common shares outstanding								
Average: Basic	3,465	3,469	3,474	3,473	3,472	3,485	3,493	3,518
Diluted	3,579	3,574	3,572	3,571	3,564	3,548	3,548	3,570
Common shares at period end	3,462	3,468	3,471	3,473	3,487	3,503	3,514	3,525
Selected ratios								
Return on common equity ("ROE")								
Income from continuing operations	14%	11%	13%	11%	10%	9%	4%	8%
Net income	16	12	13	12	10	9	4	9
Return on assets ("ROA")								
Income from continuing operations	1.14	0.98	1.05	0.98	0.87	0.82	0.32	0.77
Net income	1.32	1.00	1.06	1.00	0.89	0.84	0.34	0.79
Tier 1 capital ratio	8.7	8.6	8.5	8.5	8.5	8.2	8.2	8.6
Total capital ratio	12.3	12.1	12.0	12.1	12.0	11.3	11.3	11.9
Tier 1 leverage ratio	6.2	6.3	5.8	6.1	6.3	6.2	6.2	6.3
Overhead ratio	61	63	62	64	63	66	86	73
Selected balance sheet data (period-end)								
Total assets	\$ 1,351,520	\$ 1,338,029	\$ 1,328,001	\$ 1,273,282	\$ 1,198,942	\$ 1,203,033	\$ 1,171,283	\$ 1,178,305
Securities	91,975	86,548	78,022	67,126	47,600	68,697	58,573	75,251
Loans	483,127	463,544	455,104	432,081	419,148	420,504	416,025	402,669
Deposits	638,788	582,115	593,716	584,465	554,991	535,123	534,640	531,379
Long-term debt	133,421	126,619	125,280	112,133	108,357	101,853	101,182	99,329
Total stockholders' equity	115,790	113,561	110,684	108,337	107,211	106,135	105,385	105,340
Credit quality metrics								
Allowance for credit losses	\$ 7,803	\$ 7,524	\$ 7,500	\$ 7,659	\$ 7,490	\$ 7,615	\$ 7,233	\$ 7,423
Nonperforming assets(b)	2,341	2,300	2,384	2,348	2,590	2,839	2,832	2,949
Allowance for loan losses to total loans(c)	1.70%	1.65%	1.69%	1.83%	1.84%	1.86%	1.76%	1.82%
Net charge-offs	\$ 930	\$ 790	\$ 654	\$ 668	\$ 1,360	\$ 870	\$ 773	\$ 816
Net charge-off rate(c)	0.84%	0.74%	0.64%	0.69%	1.39%	0.89%	0.82%	0.88%
Wholesale net charge-off (recovery) rate(c)	0.07	(0.03)	(0.05)	(0.06)	0.07	(0.12)	(0.16)	(0.03)
Managed Card net charge-off rate(c)	3.45	3.58	3.28	2.99	6.39	4.70	4.87	4.83
Headcount	174,360	171,589	172,423	170,787	168,847	168,955	168,708	164,381
Share price(d)								
High	\$ 49.00	\$ 47.49	\$ 46.80	\$ 42.43	\$ 40.56	\$ 35.95	\$ 36.50	\$ 39.69
Low	45.51	40.40	39.33	37.88	32.92	33.31	33.35	34.32
Close	48.30	46.96	42.00	41.64	39.69	33.93	35.32	34.60
Market capitalization	167,199	162,835	145,764	144,614	138,387	118,871	124,112	121,975

(a) 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 results of operations of these corporate trust businesses are being reported as discontinued operations for each of the periods presented.

(b) Excludes wholesale held-for-sale ("HFS") loans purchased as part of the Investment Bank's proprietary activities.

(c) Excluded from the allowance coverage ratios were end-of-period loans held-for-sale; and excluded from the net charge-off rates were average loans held-for-sale.

(d) JPMorgan Chase's common stock is listed and traded on the New York Stock Exchange, the London Stock Exchange Limited and the Tokyo Stock Exchange. The high, low and closing prices of JPMorgan Chase's common stock are from The New York Stock Exchange Composite Transaction Tape.

Supplementary information

Selected annual financial data (unaudited)

(in millions, except per share, headcount and ratio data)

As of or for the year ended December 31,

	2006	2005	2004(e)	Heritage JPMorgan Chase only	
				2003	2002
Selected income statement data					
Noninterest revenue	\$ 40,195	\$ 34,193	\$ 25,845	\$ 19,996	\$ 17,064
Net interest income	21,242	19,555	16,527	12,807	12,012
Total net revenue	61,437	53,748	42,372	32,803	29,076
Provision for credit losses	3,270	3,483	2,544	1,540	4,331
Total noninterest expense	38,281	38,426	33,972	21,490	22,471
Income from continuing operations before income tax expense	19,886	11,839	5,856	9,773	2,274
Income tax expense	6,237	3,585	1,596	3,209	760
Income from continuing operations	13,649	8,254	4,260	6,564	1,514
Income from discontinued operations(a)	795	229	206	155	149
Net income	\$ 14,444	\$ 8,483	\$ 4,466	\$ 6,719	\$ 1,663
Per common share					
Basic earnings per share					
Income from continuing operations	\$ 3.93	\$ 2.36	\$ 1.51	\$ 3.24	\$ 0.74
Net income	4.16	2.43	1.59	3.32	0.81
Diluted earnings per share					
Income from continuing operations	\$ 3.82	\$ 2.32	\$ 1.48	\$ 3.17	\$ 0.73
Net income	4.04	2.38	1.55	3.24	0.80
Cash dividends declared per share	1.36	1.36	1.36	1.36	1.36
Book value per share	33.45	30.71	29.61	22.10	20.66
Common shares outstanding					
Average: Basic	3,470	3,492	2,780	2,009	1,984
Diluted	3,574	3,557	2,851	2,055	2,009
Common shares at period-end	3,462	3,487	3,556	2,043	1,999
Selected ratios					
Return on common equity ("ROE"):					
Income from continuing operations	12%	8%	6%	15%	4%
Net income	13	8	6	16	4
Return on assets ("ROA"):					
Income from continuing operations	1.04	0.70	0.44	0.85	0.21
Net income	1.10	0.72	0.46	0.87	0.23
Tier 1 capital ratio	8.7	8.5	8.7	8.5	8.2
Total capital ratio	12.3	12.0	12.2	11.8	12.0
Overhead ratio	62	71	80	66	77
Selected balance sheet data (period-end)					
Total assets	\$ 1,351,520	\$ 1,198,942	\$ 1,157,248	\$ 770,912	\$ 758,800
Securities	91,975	47,600	94,512	60,244	84,463
Loans	483,127	419,148	402,114	214,766	216,364
Deposits	638,788	554,991	521,456	326,492	304,753
Long-term debt	133,421	108,357	95,422	48,014	39,751
Common stockholders' equity	115,790	107,072	105,314	45,145	41,297
Total stockholders' equity	115,790	107,211	105,653	46,154	42,306
Credit quality metrics					
Allowance for credit losses	\$ 7,803	\$ 7,490	\$ 7,812	\$ 4,847	\$ 5,713
Nonperforming assets(b)	2,341	2,590	3,231	3,161	4,821
Allowance for loan losses to total loans(c)	1.70%	1.84%	1.94%	2.33%	2.80%
Net charge-offs	\$ 3,042	\$ 3,819	\$ 3,099	\$ 2,272	\$ 3,676
Net charge-off rate(c)	0.73%	1.00%	1.08%	1.19%	1.90%
Wholesale net charge-off (recovery) rate(c)	(0.01)	(0.06)	0.18	0.97	NA
Managed Card net charge-off rate	3.33	5.21	5.27	5.90	5.90
Headcount	174,360	168,847	160,968	96,367	97,124
Share price(d)					
High	\$ 49.00	\$ 40.56	\$ 43.84	\$ 38.26	\$ 39.68
Low	37.88	32.92	34.62	20.13	15.26
Close	48.30	39.69	39.01	36.73	24.00
Market capitalization	167,199	138,387	138,727	75,025	47,969

(a) 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 results of operations of these corporate trust businesses are being reported as discontinued operations for each of the periods presented.

(b) Excludes wholesale held-for-sale ("HFS") loans purchased as part of the Investment Bank's proprietary activities.

(c) Excluded from the allowance coverage ratios were end-of-period loans held-for-sale; and excluded from the net charge-off rates were average loans held-for-sale.

(d) JPMorgan Chase's common stock is listed and traded on the New York Stock Exchange, the London Stock Exchange Limited and the Tokyo Stock Exchange. The high, low and closing prices of JPMorgan Chase's common stock are from The New York Stock Exchange Composite Transaction Tape.

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

NA – Data for 2002 is not available on a comparable basis.

Glossary of terms

JPMorgan Chase & Co.

ACH: Automated Clearing House.

APB 25: Accounting Principles Board Opinion No. 25. "Accounting for Stock Issued to Employees."

Assets under management: Represent assets actively managed by Asset Management on behalf of institutional, private banking, private client services and retail clients. Excludes assets managed by American Century Companies, Inc., in which the Firm has a 43% ownership interest.

Assets under supervision: Represent assets under management as well as custody, brokerage, administration and deposit accounts.

Average managed assets: Refers to total assets on the Firm's balance sheet plus credit card receivables that have been securitized.

Beneficial interest issued by consolidated VIEs: Represents the interest of third-party holders of debt/equity securities, or other obligations, issued by VIEs that JPMorgan Chase consolidates under FIN 46R. The underlying obligations of the VIEs consist of short-term borrowings, commercial paper and long-term debt. The related assets consist of trading assets, available-for-sale securities, loans and other assets.

Benefit obligation: Refers to the projected benefit obligation for pension plans and the accumulated postretirement benefit obligation for OPEB plans.

Contractual credit card charge-off: In accordance with the Federal Financial Institutions Examination Council policy, credit card loans are charged off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification of the filing of bankruptcy, whichever is earlier.

Credit derivatives: Contractual agreements that provide protection against a credit event of one or more referenced credits. The nature of a credit event is established by the protection buyer and protection seller at the inception of a transaction, and such events include bankruptcy, insolvency or failure to meet payment obligations when due. The buyer of the credit derivative pays a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of a credit event.

Credit cycle: A period of time over which credit quality improves, deteriorates and then improves again. The duration of a credit cycle can vary from a couple of years to several years.

Discontinued operations: A component of an entity that is classified as held-for-sale or that has been disposed of from ongoing operations in its entirety or piecemeal, and for which the entity will not have any significant, continuing involvement. A discontinued operation may be a separate major business segment, a component of a major business segment or a geographical area of operations of the entity that can be separately distinguished operationally and for financial reporting purposes.

EITF: Emerging Issues Task Force.

EITF Issue 02-3: "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities."

EITF Issue 99-20: "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets."

FASB: Financial Accounting Standards Board.

FIN 39: FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts — an interpretation of APB Opinion No. 10 and FASB Statement No. 105."

FIN 41: FASB Interpretation No. 41, "Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements — an interpretation of APB Opinion No. 10 and a modification of FASB Interpretation No. 39."

FIN 45: FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others — an interpretation of FASB Statements No. 5, 57 and 107 and rescission of FASB Interpretation No. 34."

FIN 46R: FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities — an interpretation of ARB No. 51."

FIN 47: FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations — an interpretation of FASB Statement No. 143."

FIN 48: FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109."

Forward points: Represents the interest rate differential between two currencies, which is either added to or subtracted from the current exchange rate (i.e., "spot rate") to determine the forward exchange rate.

FSP: FASB Staff Position.

FSP FIN 46(R)-6: "Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)."

FSP FAS 123(R)-3: "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards."

FSP FAS 13-2: "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction."

Interchange income: A fee that is paid to a credit card issuer in the clearing and settlement of a sales or cash advance transaction.

Interests in purchased receivables: Represent an ownership interest in cash flows of an underlying pool of receivables transferred by a third-party seller into a bankruptcy-remote entity, generally a trust.

Investment-grade: An indication of credit quality based upon JPMorgan Chase's internal risk assessment system. "Investment-grade" generally represents a risk profile similar to a rating of a BBB-/Baa3 or better, as defined by independent rating agencies.

Managed basis: A non-GAAP presentation of financial results that includes reclassifications related to credit card securitizations and taxable equivalents. Management uses this non-GAAP financial measure at the segment level because it believes this provides information to investors in understanding the underlying operational performance and trends of the particular business segment and facilitates a comparison of the business segment with the performance of competitors.

Managed credit card receivables: Refers to credit card receivables on the Firm's balance sheet plus credit card receivables that have been securitized.

Mark-to-market exposure: A measure, at a point in time, of the value of a derivative or foreign exchange contract in the open market. When the mark-to-market value is positive, it indicates the counterparty owes JPMorgan Chase and, therefore, creates a repayment risk for the Firm. When the mark-to-market value is negative, JPMorgan Chase owes the counterparty. In this situation, the Firm does not have repayment risk.

Master netting agreement: An agreement between two counterparties that have multiple derivative contracts with each other that provides for the net settlement of all contracts through a single payment, in a single currency, in the event of default on or termination of any one contract. See FIN 39.

MSR risk management revenue: Includes changes in MSR asset fair value due to inputs or assumptions in model and derivative valuation adjustments.

Glossary of terms

JPMorgan Chase & Co.

Material legal proceedings: Refers to certain specific litigation originally discussed in the section "Legal Proceedings" in the Firm's Annual Report on Form 10-K for the year ended December 31, 2002. Of such legal proceedings, some lawsuits related to Enron, WorldCom and the IPO allocation allegations remain outstanding as of the date of this Annual Report, as discussed in Part I, Item 3, Legal proceedings in the Firm's Annual Report on Form 10-K for the year ended December 31, 2006, to which reference is hereby made; other such legal proceedings have been resolved.

NA: Data is not applicable or available for the period presented.

Net yield on interest-earning assets: The average rate for interest-earning assets less the average rate paid for all sources of funds.

NM: Not meaningful.

OPEB: Other postretirement employee benefits.

Overhead ratio: Noninterest expense as a percentage of Total net revenue.

Principal transactions: Represents Trading revenue (which includes physical commodities carried at the lower of cost or fair value), primarily in the IB, plus Private equity gains (losses), primarily in the Private Equity business of Corporate.

Reported basis: Financial statements prepared under accounting principles generally accepted in the United States of America ("U.S. GAAP"). The reported basis includes the impact of credit card securitizations, but excludes the impact of taxable-equivalent adjustments.

Return on common equity less goodwill: Represents net income applicable to common stock divided by total average common equity (net of goodwill). The Firm uses return on equity less goodwill, a non-GAAP financial measure, to evaluate the operating performance of the Firm. The Firm also utilizes this measure to facilitate operating comparisons to other competitors.

SFAS: Statement of Financial Accounting Standards.

SFAS 5: "Accounting for Contingencies."

SFAS 13: "Accounting for Leases."

SFAS 52: "Foreign Currency Translation."

SFAS 87: "Employers' Accounting for Pensions."

SFAS 88: "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits."

SFAS 106: "Employers' Accounting for Postretirement Benefits Other Than Pensions."

SFAS 107: "Disclosures about Fair Value of Financial Instruments."

SFAS 109: "Accounting for Income Taxes."

SFAS 114: "Accounting by Creditors for Impairment of a Loan – An amendment of FASB Statements No. 5 and 15."

SFAS 115: "Accounting for Certain Investments in Debt and Equity Securities."

SFAS 123: "Accounting for Stock-Based Compensation."

SFAS 123R: "Share-Based Payment."

SFAS 128: "Earnings per Share."

SFAS 133: "Accounting for Derivative Instruments and Hedging Activities."

SFAS 138: "Accounting for Certain Derivative Instruments and Certain Hedging Activities – an amendment of FASB Statement No. 133."

SFAS 140: "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a replacement of FASB Statement No. 125."

SFAS 142: "Goodwill and Other Intangible Assets."

SFAS 143: "Accounting for Asset Retirement Obligations."

SFAS 149: "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities."

SFAS 155: "Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140."

SFAS 156: "Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140."

SFAS 157: "Fair Value Measurements."

SFAS 158: "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)."

SFAS 159: "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115."

Staff Accounting Bulletin ("SAB") 107: "Application of Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment."

Statement of Position ("SOP") 98-1: "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use."

Stress testing: A scenario that measures market risk under unlikely but plausible events in abnormal markets.

Transactor loan: Loan in which the outstanding balance is paid in full by payment due date.

Unaudited: The financial statements and information included throughout this document, which are labeled unaudited, have not been subjected to auditing procedures sufficient to permit an independent certified public accountant to express an opinion thereon.

U.S. GAAP: Accounting principles generally accepted in the United States of America.

U.S. government and federal agency obligations: Obligations of the U.S. government or an instrumentality of the U.S. government whose obligations are fully and explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.

U.S. government-sponsored enterprise obligations: Obligations of agencies originally established or chartered by the U.S. government to serve public purposes as specified by the U.S. Congress; these obligations are not explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.

Value-at-risk ("VAR"): A measure of the dollar amount of potential loss from adverse market moves in an ordinary market environment.

Forward-looking statements

JPMorgan Chase & Co.

From time to time, the Firm has made and will make forward-looking statements. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often use words such as “anticipate,” “target,” “expect,” “estimate,” “intend,” “plan,” “goal,” “believe,” or other words of similar meaning. Forward-looking statements provide JPMorgan Chase’s current expectations or forecasts of future events, circumstances, results or aspirations. JPMorgan Chase’s disclosures in this report contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Firm also may make forward-looking statements in its other documents filed or furnished with the Securities and Exchange Commission (“SEC”). In addition, the Firm’s senior management may make forward-looking statements orally to analysts, investors, representatives of the media and others.

All forward-looking statements are, by their nature, subject to risks and uncertainties. JPMorgan Chase’s actual future results may differ materially from those set forth in its forward-looking statements. Factors that could cause this difference – many of which are beyond the Firm’s control – include the following: local, regional and international business, political or economic conditions; changes in trade, monetary and fiscal policies and laws; technological changes instituted by the Firm and by other entities which may affect the Firm’s business; mergers and acquisitions, including the Firm’s ability to integrate acquisitions; ability of the Firm to develop new products and services;

acceptance of new products and services and the ability of the Firm to increase market share; the ability of the Firm to control expenses; competitive pressures; changes in laws and regulatory requirements; changes in applicable accounting policies; costs, outcomes and effects of litigation and regulatory investigations; changes in the credit quality of the Firm’s customers; and adequacy of the Firm’s risk management framework.

Additional factors that may cause future results to differ materially from forward-looking statements are discussed in Part I, Item 1A: Risk Factors in the Firm’s Annual Report on Form 10-K for the year ended December 31, 2006, to which reference is hereby made. There is no assurance that any list of risks and uncertainties or risk factors is complete.

Any forward-looking statements made by or on behalf of the Firm speak only as of the date they are made and JPMorgan Chase does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statement was made. The reader should, however, consult any further disclosures of a forward-looking nature the Firm may make in any subsequent Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, or Current Reports on Form 8-K.

Distribution of assets, liabilities and stockholders' equity; interest rates and interest differentials

Consolidated average balance sheet, interest and rates

Provided below is a summary of JPMorgan Chase's consolidated average balances, interest rates and interest differentials on a taxable-equivalent basis for the years 2004 through 2006. Income computed on a taxable-equivalent basis is the income reported in the Consolidated statements of income,

adjusted to make income and earnings yields on assets exempt from income taxes (primarily federal taxes) comparable with other taxable income. The incremental tax rate used for calculating the taxable-equivalent adjustment was approximately 40% in 2006, 2005 and 2004. A substantial portion of JPMorgan Chase's securities are taxable.

(Table continued on next page)

Year ended December 31, (Taxable-equivalent interest and rates; in millions, except rates)	2006		
	Average balance	Interest	Average rate
Assets			
Deposits with banks	\$ 27,730	\$ 1,265	4.56%
Federal funds sold and securities purchased under resale agreements	132,118	5,578	4.22
Securities borrowed	83,831	3,402	4.06
Trading assets – debt instruments	205,506	11,120	5.41
Securities:			
Available-for-sale	77,776	4,299	5.53(e)
Held-to-maturity	69	5	6.57
Interests in purchased receivables	13,941	652	4.68
Loans	454,535	33,014(d)	7.26
Total interest-earning assets	995,506	59,335	5.96
Allowance for loan losses	(7,165)		
Cash and due from banks	31,171		
Trading assets – equity instruments	74,573		
Trading assets – derivative receivables	57,368		
Goodwill	43,872		
Other Intangible Assets			
Mortgage servicing rights	7,484		
Purchased credit card relationships	3,113		
All other intangibles	4,307		
All other assets	87,068		
Assets of discontinued operations held-for-sale(a)	16,497		
Total assets	\$ 1,313,794		
Liabilities			
Interest-bearing deposits	\$ 452,323	\$ 17,042	3.77%
Federal funds purchased and securities sold under repurchase agreements	183,783	8,187	4.45
Commercial paper	17,710	794	4.49
Other borrowings(b)	102,147	5,105	5.00
Beneficial interests issued by consolidated VIEs	28,652	1,234	4.31
Long-term debt	129,667	5,503	4.24
Total interest-bearing liabilities	914,282	37,865	4.14
Noninterest-bearing deposits	124,550		
Trading liabilities – derivative payables	57,938		
All other liabilities, including the allowance for lending-related commitments	90,506		
Liabilities of discontinued operations held-for-sale(a)	15,787		
Total liabilities	1,203,063		
Stockholders' equity			
Preferred stock	34		
Common stockholders' equity	110,697		
Total stockholders' equity	110,731(c)		
Total liabilities, preferred stock of subsidiary and stockholders' equity	\$ 1,313,794		
Interest rate spread			1.82%
Net interest income and net yield on interest-earning assets		\$ 21,470	2.16

(a) For purposes of the consolidated average balance sheet for assets and liabilities transferred to discontinued operations, JPMorgan Chase used Federal funds sold interest income as a reasonable estimate of the earnings on corporate trust deposits; therefore, JPMorgan Chase transferred to Assets of discontinued operations held-for-sale average Federal funds sold, along with the related interest income earned, and transferred to Liabilities of discontinued operations held-for-sale average corporate trust deposits.

(b) Includes securities sold but not yet purchased.

(c) The ratio of average stockholders' equity to average assets was 8.4% for 2006, 8.9% for 2005 and 8.0% for 2004. The return on average stockholders' equity was 13.0% for 2006, 8.0% for 2005 and 5.8% for 2004.

(d) Fees and commissions on loans included in loan interest amounted to \$1.3 billion in 2006, \$1.2 billion in 2005 and \$1.4 billion for 2004.

(e) The annualized rate for available-for-sale securities based on amortized cost was 5.49% in 2006, 4.56% in 2005, and 4.38% in 2004, and does not give effect to changes in fair value that are reflected in Accumulated other comprehensive income (loss).

(f) Prior periods have been adjusted to reflect the reclassification of certain balances to more appropriate income statement and balance sheet line items.

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

Within the Consolidated average balance sheets, interest and rates summary, the principal amounts of nonaccrual loans have been included in the average loan balances used to determine the average interest rate

earned on loans. For additional information on nonaccrual loans, including interest accrued, see Note 12 on pages 112 and 113.

(Continuation of table)

2005(f)			2004(f)(g)		
Average balance	Interest	Average rate	Average balance	Interest	Average rate
\$ 15,203	\$ 660	4.34%	\$ 28,625	\$ 539	1.88%
123,233	3,562	2.89	78,612	1,380	1.76
63,023	1,618	2.57	49,387	578	1.17
187,615	9,312	4.96	169,125	7,535	4.46
71,542	3,276	4.58(e)	78,689	3,471	4.41(e)
95	10	10.42	172	11	6.50
28,397	933	3.29	15,564	291	1.87
409,988	25,973(d)	6.34	308,249	16,661(d)	5.40
899,096	45,344	5.04	728,423	30,466	4.18
(7,074)			(5,951)		
30,635			25,258		
49,458			31,264		
57,365			59,522		
43,074			25,494		
5,523			5,064		
3,524			2,511		
4,820			2,870		
80,219			71,113		
18,426			16,988		
\$ 1,185,066			\$ 962,556		
\$ 383,259	\$ 9,986	2.61%	\$ 297,721	\$ 4,515	1.52%
154,818	4,728	3.05	155,665	2,526	1.62
14,450	407	2.81	12,699	131	1.03
93,765	4,867	5.19	78,355	3,817	4.87
44,675	1,372	3.07	26,815	478	1.78
112,370	4,160	3.70	79,193	2,466	3.11
803,337	25,520	3.18	650,448	13,933	2.14
125,002			97,926		
55,723			52,761		
78,141			69,117		
17,149			15,656		
1,079,352			885,908		
207			1,007		
105,507			75,641		
105,714(c)			76,648(c)		
\$ 1,185,066			\$ 962,556		
	\$ 19,824	1.86%		\$ 16,533	2.04%
		2.20			2.27

Interest rates and interest differential analysis of net interest income – U.S. and non-U.S.

Presented below is a summary of interest rates and interest differentials segregated between U.S. and non-U.S. operations for the years 2004 through 2006. The segregation of U.S. and non-U.S. components is based on the location of the office recording the transaction. Intracompany funding generally

comprises dollar-denominated deposits originated in various locations that are centrally managed by JPMorgan Chase's Treasury unit. U.S. Net interest income was \$19.4 billion in 2006, an increase of \$1.2 billion from the prior

(Table continued on next page)

Year ended December 31, (Taxable-equivalent interest and rates; in millions, except rates)	2006		
	Average balance	Interest	Average rate
Interest-earning assets:			
Deposits with banks, primarily non-U.S.	\$ 27,730	\$ 1,265	4.56%
Federal funds sold and securities purchased under resale agreements:			
U.S.	66,627	3,647	5.47
Non-U.S.	65,491	1,931	2.95
Securities borrowed, primarily U.S.	83,831	3,402	4.06
Trading assets – debt instruments:			
U.S.	88,492	5,471	6.18
Non-U.S.	117,014	5,649	4.83
Securities:			
U.S.	68,477	3,951	5.77
Non-U.S.	9,368	353	3.77
Interests in purchased receivables, primarily U.S.	13,941	652	4.68
Loans:			
U.S.	402,295	29,475	7.33
Non-U.S.	52,240	3,539	6.77
Total interest-earning assets	995,506	59,335	5.96
Interest-bearing liabilities:			
Interest-bearing deposits:			
U.S.	313,835	11,551	3.68
Non-U.S.	138,488	5,491	3.96
Federal funds purchased and securities sold under repurchase agreements:			
U.S.	137,439	6,729	4.90
Non-U.S.	46,344	1,458	3.15
Other borrowed funds:			
U.S.	55,300	3,368	6.09
Non-U.S.	64,557	2,531	3.92
Beneficial interests issued by consolidated VIEs, primarily U.S.	28,652	1,234	4.31
Long-term debt, primarily U.S.	129,667	5,503	4.24
Intracompany funding:			
U.S.	(49,972)	(2,088)	—
Non-U.S.	49,972	2,088	—
Total interest-bearing liabilities	914,282	37,865	4.14
Noninterest-bearing liabilities(a)	81,224		
Total investable funds	\$ 995,506	\$ 37,865	3.80%
Net interest income and net yield:			
U.S.		\$ 21,470	2.16%
Non-U.S.		19,430	2.87
Percentage of total assets and liabilities attributable to non-U.S. operations:		2,040	0.64
Assets			35.3
Liabilities			31.8

(a) Represents the amount of noninterest-bearing liabilities funding interest-earning assets.

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

year. Net interest income from non-U.S. operations was \$2.0 billion for 2006, an increase of \$0.4 billion when compared with \$1.6 billion in 2005.

For further information, see the "Net interest income" discussion in Consolidated results of operations on pages 28–29.

(Continuation of table)			2005			2004(b)		
	Average balance		Interest	Average rate		Average balance	Interest	Average rate
\$	15,203	\$	660	4.34%	\$	28,625	\$ 539	1.88%
	84,713		2,587	3.05		56,061	873	1.56
	38,520		975	2.53		22,551	507	2.25
	63,023		1,618	2.57		49,387	578	1.17
	97,943		4,861	4.96		100,658	4,361	4.33
	89,672		4,451	4.96		68,467	3,174	4.63
	54,434		2,705	4.97		65,845	3,053	4.63
	17,203		581	3.38		13,016	429	3.29
	28,397		933	3.29		15,564	291	1.87
	372,912		24,928	6.68		275,713	15,672	5.68
	37,076		1,045	2.82		32,536	989	3.04
	899,096		45,344	5.04		728,423	30,466	4.18
	266,335		6,497	2.44		193,320	2,639	1.37
	116,924		3,489	2.98		104,401	1,876	1.80
	113,348		3,685	3.25		122,760	1,830	1.49
	41,470		1,043	2.52		32,905	696	2.12
	64,765		2,837	4.38		61,685	2,138	3.47
	43,450		2,437	5.61		29,369	1,810	6.16
	44,675		1,372	3.07		26,815	478	1.78
	112,370		4,160	3.70		79,193	2,466	3.11
	28,800		789	—		26,687	207	—
	(28,800)		(789)	—		(26,687)	(207)	—
	803,337		25,520	3.18		650,448	13,933	2.14
	95,759					77,975		
\$	899,096	\$	25,520	2.84%	\$	728,423	\$ 13,933	1.91%
		\$	19,824	2.20%			\$ 16,533	2.27%
			18,220	2.72			14,990	2.76
			1,604	0.70			1,543	0.83
				29.4				29.7
				29.3				30.6

Changes in net interest income, volume and rate analysis

The table below presents an analysis of the effect on net interest income of volume and rate changes for the periods 2006 versus 2005 and 2005 versus 2004. In this analysis, the change due to the volume/rate variance has been allocated to volume.

(On a taxable-equivalent basis; in millions)	2006 versus 2005			2005 versus 2004(a)		
	Increase (decrease) due to change in:		Net	Increase (decrease) due to change in:		Net
	Volume	Rate	change	Volume	Rate	change
Interest-earning assets						
Deposits with banks, primarily non-U.S.	\$ 572	\$ 33	\$ 605	\$ (583)	\$ 704	\$ 121
Federal funds sold and securities purchased under resale agreements:						
U.S.	(990)	2,050	1,060	879	835	1,714
Non-U.S.	794	162	956	405	63	468
Securities borrowed, primarily U.S.	845	939	1,784	349	691	1,040
Trading assets – debt instruments:						
U.S.	(585)	1,195	610	(134)	634	500
Non-U.S.	1,315	(117)	1,198	1,051	226	1,277
Securities:						
U.S.	811	435	1,246	(572)	224	(348)
Non-U.S.	(295)	67	(228)	140	12	152
Interests in purchased receivables, primarily U.S.	(676)	395	(281)	421	221	642
Loans:						
U.S.	2,123	2,424	4,547	6,499	2,757	9,256
Non-U.S.	1,029	1,465	2,494	128	(72)	56
Change in interest income	4,943	9,048	13,991	8,583	6,295	14,878
Interest-bearing liabilities						
Interest-bearing deposits:						
U.S.	1,751	3,303	5,054	1,789	2,069	3,858
Non-U.S.	856	1,146	2,002	381	1,232	1,613
Federal funds purchased and securities sold under repurchase agreements:						
U.S.	1,174	1,870	3,044	(306)	2,161	1,855
Non-U.S.	154	261	415	215	132	347
Other borrowed funds:						
U.S.	(576)	1,107	531	138	561	699
Non-U.S.	828	(734)	94	789	(162)	627
Beneficial interests issued by consolidated VIEs, primarily U.S.	(692)	554	(138)	548	346	894
Long-term debt, primarily U.S.	736	607	1,343	1,227	467	1,694
Intracompany funding:						
U.S.	(3,292)	415	(2,877)	59	523	582
Non-U.S.	3,292	(415)	2,877	(59)	(523)	(582)
Change in interest expense	4,231	8,114	12,345	4,781	6,806	11,587
Change in net interest income	\$ 712	\$ 934	\$ 1,646	\$ 3,802	\$ (511)	\$ 3,291

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

Securities portfolio

The table below presents the amortized cost, estimated fair value and average yield (including the impact of related derivatives) of JPMorgan Chase's securities by contractual maturity range and type of security.

Maturity schedule of available-for-sale and held-to-maturity securities

December 31, 2006 (in millions, rates on a taxable-equivalent basis)	Due in 1 year or less	Due after 1 through 5 years	Due after 5 through 10 years	Due after 10 years (d)	Total
U.S. government and federal agency obligations:					
Amortized cost	\$ 885	\$ 573	\$ 953	\$ 97	\$ 2,508
Fair value	884	567	936	107	2,494
Average yield(a)	4.42%	4.51%	4.66%	7.35%	4.64%
U.S. government-sponsored enterprise obligations:					
Amortized cost	\$ 4	\$ 20	\$ 22	\$ 75,388	\$ 75,434
Fair value	4	20	22	75,262	75,308
Average yield(a)	3.53%	4.62%	4.90%	5.80%	5.80%
Other:(b)					
Amortized cost	\$ 6,178	\$ 3,414	\$ 249	\$ 4,136	\$ 13,977
Fair value	6,175	3,420	253	4,267	14,115
Average yield(a)	2.58%	3.85%	5.00%	1.53%	2.62%
Total available-for-sale securities:(c)					
Amortized cost	\$ 7,067	\$ 4,007	\$ 1,224	\$ 79,621	\$ 91,919
Fair value	7,063	4,007	1,211	79,636	91,917
Average yield(a)	2.81%	3.95%	4.73%	5.58%	5.28%
Total held-to-maturity securities:(c)					
Amortized cost	\$ —	\$ —	\$ 44	\$ 14	\$ 58
Fair value	—	—	46	14	60
Average yield(a)	—%	—%	6.91%	6.61%	6.84%

(a) The average yield was based on amortized cost balances at the end of the year, and does not give effect to changes in fair value that are reflected in Accumulated other comprehensive income (loss). Yields are derived by dividing interest income (including the effect of related derivatives on available-for-sale securities and the amortization of premiums and accretion of discounts) by total amortized cost. Taxable-equivalent yields are used where applicable.

(b) Includes obligations of state and political subdivisions, debt securities issued by non-U.S. governments, corporate debt securities, CMOs of private issuers and other debt and equity securities.

(c) For the amortized cost of the above categories of securities at December 31, 2005, see Note 10 on page 109. At December 31, 2004, the amortized cost of U.S. government and federal agency obligations was \$16,109 million, U.S. government-sponsored enterprise obligations was \$46,143 million and other available-for-sale securities was \$32,569 million. At December 31, 2004, the amortized cost of U.S. government and federal agency obligations and U.S. government-sponsored enterprise obligations held-to-maturity securities was \$110 million. There were no other held-to-maturity securities at December 31, 2004.

(d) Securities with no stated maturity are included with securities with a contractual maturity of 10 years or more. Substantially all of JPMorgan Chase's mortgaged-backed securities ("MBSs") and collateralized mortgage obligations ("CMOs") are due in 10 years or more based on contractual maturity. The estimated duration, which reflects anticipated future prepayments based on a consensus of dealers in the market, is approximately four years for MBSs and CMOs.

U.S. government-sponsored enterprises were the only issuers whose securities exceeded 10% of JPMorgan Chase's total stockholders' equity at December 31, 2006.

For a further discussion of JPMorgan Chase's securities portfolios, see Note 10 on pages 108–111.

Loan portfolio

The table below presents loans based on customer and collateral type compared with the line of business approach that is presented in Credit risk management on pages 65, 66 and 73, and in Note 12 on page 112:

December 31, (in millions)	2006	2005	2004	2003(a)	2002(a)
U.S. loans:					
Commercial and industrial	\$ 96,897	\$ 84,597	\$ 76,890	\$ 38,879	\$ 49,205
Commercial real estate – commercial mortgage(b)	17,877	16,074	15,323	3,182	3,176
Commercial real estate – construction(b)	4,832	4,143	4,612	589	516
Financial institutions	15,217	13,259	12,664	4,622	3,770
Consumer	288,572	261,361	255,073	136,393	124,687
Total U.S. loans	423,395	379,434	364,562	183,665	181,354
Non-U.S. loans:					
Commercial and industrial	40,287	28,969	27,293	24,618	31,446
Commercial real estate(b)	469	311	929	79	381
Financial institutions	12,793	7,468	6,494	5,671	2,438
Non-U.S. governments	2,532	1,295	2,778	705	616
Consumer	3,651	1,671	58	28	129
Total non-U.S. loans	59,732	39,714	37,552	31,101	35,010
Total loans(c)	\$ 483,127	\$ 419,148	\$ 402,114	\$ 214,766	\$ 216,364

(a) Heritage JPMorgan Chase only.

(b) Represents loans secured by commercial real estate.

(c) Loans are presented net of unearned income and net deferred loan fees of \$2.3 billion, \$3.0 billion, \$4.1 billion, \$1.3 billion and \$1.9 billion at December 31, 2006, 2005, 2004, 2003 and 2002, respectively.

Maturities and sensitivity to changes in interest rates

The table below shows, at December 31, 2006, commercial loan maturity and distribution between fixed and floating interest rates based upon the stated terms of the commercial loan agreements. The table does not include the impact of derivative instruments.

December 31, 2006 (in millions)	Within 1 year(a)	1-5 years	After 5 years	Total
U.S.:				
Commercial and industrial	\$ 46,521	\$ 40,322	\$ 10,054	\$ 96,897
Commercial real estate	5,066	11,186	6,457	22,709
Financial institutions	10,332	3,634	1,251	15,217
Non-U.S.:	22,323	27,144	6,614	56,081
Total commercial loans	\$ 84,242	\$ 82,286	\$ 24,376	\$ 190,904
Loans at fixed interest rates		\$ 38,897	\$ 14,949	
Loans at variable interest rates		43,389	9,427	
Total commercial loans		\$ 82,286	\$ 24,376	

(a) Includes demand loans and overdrafts.

Cross-border outstandings

Cross-border disclosure is based upon the Federal Financial Institutions Examination Council's ("FFIEC") guidelines governing the determination of cross-border risk. Based on new rules from the FFIEC, beginning in 2006 securities purchased under resale agreements are now allocated to a country based upon the domicile of the counterparty; previously they were based upon the domicile of the underlying security's issuer. Additionally, local foreign office commitments are now included in commitments; previously they were excluded from commitments. Prior period data were not revised.

The following table lists all countries in which JPMorgan Chase's cross-border outstandings exceed 0.75% of consolidated assets as of any of the dates

specified. The disclosure includes certain exposures that are not required under the disclosure requirements of the SEC. The most significant differences between the FFIEC and SEC methodologies relate to the treatments of local country exposure and to foreign exchange and derivatives.

For a further discussion of JPMorgan Chase's emerging markets cross-border exposure, see Emerging markets country exposure on page 72.

Cross-border outstandings exceeding 0.75% of total assets

(in millions)	December 31,	Governments	Banks	Other(a)	Net local country assets	Total cross-border outstandings(b)	Commitments(c)	Total exposure
U.K.	2006	\$ 507	\$ 13,116	\$ 11,594	\$ —	\$ 25,217	\$ 306,565	\$ 331,782
	2005	1,108	16,782	9,893	—	27,783	146,854	174,637
	2004	1,531	23,421	24,357	—	49,309	102,770	152,079
Germany	2006	\$ 9,361	\$ 16,384	\$ 16,091	\$ —	\$ 41,836	\$ 186,875	\$ 228,711
	2005	26,959	8,462	10,579	—	46,000	89,112	135,112
	2004	28,114	10,547	9,759	509	48,929	47,268	96,197
France	2006	\$ 5,218	\$ 7,760	\$ 12,747	\$ 575	\$ 26,300	\$ 171,407	\$ 197,707
	2005	8,346	7,890	7,717	305	24,258	75,577	99,835
	2004	3,315	15,178	11,790	2,082	32,365	33,724	66,089
Italy	2006	\$ 6,395	\$ 3,004	\$ 6,328	\$ 364	\$ 16,091	\$ 84,054	\$ 100,145
	2005	14,193	4,053	5,264	308	23,818	36,688	60,506
	2004	12,431	5,589	6,911	180	25,111	14,895	40,006
Netherlands	2006	\$ 1,776	\$ 9,699	\$ 17,878	\$ —	\$ 29,353	\$ 80,337	\$ 109,690
	2005	2,918	2,330	11,410	—	16,658	36,584	53,242
	2004	1,563	4,656	13,302	—	19,521	16,985	36,506
Spain	2006	\$ 722	\$ 3,715	\$ 5,766	\$ 1,136	\$ 11,339	\$ 55,517	\$ 66,856
	2005	2,876	3,108	2,455	733	9,172	24,000	33,172
	2004	4,224	3,781	5,276	659	13,940	11,087	25,027
Japan	2006	\$ 6,758	\$ 8,158	\$ 8,588	\$ —	\$ 23,504	\$ 32,781	\$ 56,285
	2005	2,474	3,008	1,167	—	6,649	20,801	27,450
	2004	25,349	3,869	5,765	—	34,983	23,582	58,565
Switzerland	2006	\$ 372	\$ 5,512	\$ 3,076	\$ —	\$ 8,960	\$ 43,184	\$ 52,144
	2005	207	2,873	3,471	—	6,551	18,794	25,345
	2004	327	4,131	5,184	311	9,953	7,807	17,760
Luxembourg	2006	\$ 1,396	\$ 1,860	\$ 8,592	\$ —	\$ 11,848	\$ 15,667	\$ 27,515
	2005	1,326	2,484	9,082	—	12,892	7,625	20,517
	2004	397	5,000	9,690	—	15,087	1,721	16,808
Belgium	2006	\$ 1,132	\$ 1,671	\$ 1,180	\$ —	\$ 3,983	\$ 2,798	\$ 6,781
	2005	2,350	1,268	1,893	—	5,511	1,481	6,992
	2004	2,899	3,177	3,075	—	9,151	1,254	10,405
Cayman Islands	2006	\$ 20	\$ 125	\$ 21,492	\$ —	\$ 21,637	\$ 10,626	\$ 32,263
	2005	606	193	5,746	—	6,545	10,508	17,053
	2004	—	142	2,837	2,995	5,974	2,455	8,429

(a) Consists primarily of commercial and industrial.

(b) Outstandings includes loans and accrued interest receivable, interest-bearing deposits with banks, acceptances, resale agreements, other monetary assets, cross-border trading debt and equity instruments, mark-to-market exposure of foreign exchange and derivative contracts and local country assets, net of local country liabilities. The amounts associated with foreign exchange and derivative contracts are presented after taking into account the impact of legally enforceable master netting agreements.

(c) Commitments include outstanding letters of credit, undrawn commitments to extend credit and credit derivatives.

JPMorgan Chase's total cross-border exposure tends to fluctuate greatly, and the amount of exposure at year-end tends to be a function of timing rather than representing a consistent trend.

Risk elements

The following table sets forth nonperforming assets and contractually past-due assets at the dates indicated:

December 31, (in millions)	2006	2005	2004	2003(d)	2002(d)
Nonperforming assets					
U.S. nonperforming loans:(a)					
Commercial and industrial	\$ 429	\$ 818	\$ 1,175	\$ 1,060	\$ 1,769
Commercial real estate	188	234	326	31	48
Financial institutions	—	1	1	1	258
Consumer	1,379	1,117	895	542	544
Total U.S. nonperforming loans	1,996	2,170	2,397	1,634	2,619
Non-U.S. nonperforming loans:(a)					
Commercial and industrial	47	135	288	909	1,566
Commercial real estate	13	12	13	13	11
Financial institutions	20	25	43	25	36
Non-U.S. governments	—	—	—	—	—
Consumer	1	1	2	3	2
Total non-U.S. nonperforming loans	81	173	346	950	1,615
Total nonperforming loans	2,077	2,343	2,743	2,584	4,234
Derivative receivables	36	50	241	253	289
Other receivables	—	—	—	108	108
Assets acquired in loan satisfactions	228	197	247	216	190
Total nonperforming assets(b)	\$ 2,341	\$ 2,590	\$ 3,231	\$ 3,161	\$ 4,821

Contractually past-due assets:(c)

U.S. loans:					
Commercial and industrial	\$ 84	\$ 75	\$ 34	\$ 41	\$ 57
Commercial real estate	1	7	—	—	—
Consumer	1,279	1,046	970	269	473
Total U.S. loans	1,364	1,128	1,004	310	530
Non-U.S. loans					
Commercial and industrial	—	—	2	5	—
Consumer	—	—	—	—	—
Total non-U.S. loans	—	—	2	5	—
Total	\$ 1,364	\$ 1,128	\$ 1,006	\$ 315	\$ 530

(a) All nonperforming loans are accounted for on a nonaccrual basis. There were no nonperforming renegotiated loans. Renegotiated loans are those for which concessions, such as the reduction of interest rates or the deferral of interest or principal payments, have been granted as a result of a deterioration in the borrowers' financial condition.

(b) Excludes wholesale purchased held-for-sale ("HFS") loans purchased as part of the Investment Bank's proprietary activities.

(c) Represents accruing loans past-due 90 days or more as to principal and interest, which are not characterized as nonperforming loans.

(d) Heritage JPMorgan Chase only.

For a discussion of nonperforming loans and past-due loan accounting policies, see Credit risk management on pages 64–76, and Note 12 on pages 112–113.

Impact of nonperforming loans on interest income

The negative impact on interest income from nonperforming loans represents the difference between the amount of interest income that would have been recorded on nonperforming loans according to contractual terms and the amount of interest that actually was recognized on a cash basis. The following table sets forth this data for the years specified.

Year ended December 31, (in millions)	2006	2005	2004(a)
U.S.:			
Gross amount of interest that would have been recorded at the original rate	\$ 156	\$ 170	\$ 124
Interest that was recognized in income	(26)	(30)	(8)
Negative impact – U.S.	130	140	116
Non-U.S.:			
Gross amount of interest that would have been recorded at the original rate	5	11	36
Interest that was recognized in income	—	(4)	—
Negative impact – non-U.S.	5	7	36
Total negative impact on interest income	\$ 135	\$ 147	\$ 152

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

Summary of loan and lending-related commitments loss experience

The tables below summarize the changes in the Allowance for loan losses and the Allowance for lending-related commitments, respectively, during the periods indicated. For a further discussion, see Allowance for credit losses on pages 75–76, and Note 13 on pages 113–114.

Allowance for loan losses

Year ended December 31, (in millions)	2006	2005	2004(b)	2003(b)	2002(b)
Balance at beginning of year	\$ 7,090	\$ 7,320	\$ 4,523	\$ 5,350	\$ 4,524
Addition resulting from the Merger, July 1, 2004	—	—	3,123	—	—
Provision for loan losses	3,153	3,575	2,883	1,579	4,039
U.S. charge-offs					
Commercial and industrial	(376)	(456)	(483)	(668)	(967)
Commercial real estate	(28)	(36)	(17)	(2)	(5)
Financial institutions	—	—	(8)	(5)	(19)
Consumer	(3,360)	(4,334)	(3,079)	(1,646)	(2,070)
Total U.S. charge-offs	(3,764)	(4,826)	(3,587)	(2,321)	(3,061)
Non-U.S. charge-offs					
Commercial and industrial	(37)	(33)	(211)	(470)	(955)
Financial institutions	(21)	(1)	(6)	(26)	(43)
Non-U.S. governments	—	—	—	—	—
Consumer	(62)	(9)	(1)	(1)	(1)
Total non-U.S. charge-offs	(120)	(43)	(218)	(497)	(999)
Total charge-offs	(3,884)	(4,869)	(3,805)	(2,818)	(4,060)
U.S. recoveries					
Commercial and industrial	187	202	202	167	45
Commercial real estate	14	10	20	5	24
Financial institutions	3	3	8	5	1
Consumer	563	668	319	191	276
Total U.S. recoveries	767	883	549	368	346
Non-U.S. recoveries					
Commercial and industrial	52	144	124	155	36
Financial institutions	10	20	32	23	1
Non-U.S. governments	—	—	—	—	1
Consumer	13	3	1	—	—
Total non-U.S. recoveries	75	167	157	178	38
Total recoveries	842	1,050	706	546	384
Net charge-offs	(3,042)	(3,819)	(3,099)	(2,272)	(3,676)
Allowance related to purchased portfolios	75	17	—	—	460
Other(a)	3	(3)	(110)	(134)	3
Balance at year-end	\$ 7,279	\$ 7,090	\$ 7,320	\$ 4,523	\$ 5,350

(a) Primarily relates to the transfer of the allowance for accrued interest and fees on reported and securitized credit card loans in 2004 and 2003.

(b) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 and 2002 reflect the results of heritage JPMorgan Chase only.

Allowance for lending-related commitments

Year ended December 31, (in millions)	2006	2005	2004(a)	2003(a)	2002(a)
Balance at beginning of year	\$ 400	\$ 492	\$ 324	\$ 363	\$ 282
Addition resulting from the Merger, July 1, 2004	—	—	508	—	—
Provision for lending-related commitments	117	(92)	(339)	(39)	292
U.S. charge-offs – commercial and industrial	—	—	—	—	(212)
Total charge-offs	—	—	—	—	(212)
Total recoveries	—	—	—	—	—
Net charge-offs	—	—	—	—	(212)
Other	7	—	(1)	—	1
Balance at year-end	\$ 524	\$ 400	\$ 492	\$ 324	\$ 363

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 and 2002 reflect the results of heritage JPMorgan Chase only.

Loan loss analysis

Year ended December 31, (in millions, except ratios)	2006	2005	2004(c)	2003(c)	2002(c)
Balances					
Loans – average	\$ 454,535	\$ 409,988	\$ 308,249	\$ 220,585	\$ 211,432
Loans – year-end	483,127	419,148	402,114	214,766	216,364
Net charge-offs(a)	3,042	3,819	3,099	2,272	3,676
Allowance for loan losses:					
U.S.	6,654	6,642	6,617	3,677	4,122
Non-U.S.	625	448	703	846	1,228
Total allowance for loan losses	7,279	7,090	7,320	4,523	5,350
Nonperforming loans	2,077	2,343	2,743	2,584	4,234
Ratios					
Net charge-offs to:					
Loans – average(b)	0.73%	1.00%	1.08%	1.19%	1.90%
Allowance for loan losses	41.79	53.86	42.34	50.23	68.71
Allowance for loan losses to:					
Loans – year-end(b)	1.70	1.84	1.94	2.33	2.80
Nonperforming loans(b)	372	321	268	180	128

(a) Excludes net charge-offs (recoveries) on lending-related commitments of \$212 million in 2002. There were no net charge-offs (recoveries) on lending-related commitments in 2006, 2005, 2004 or 2003.

(b) Excludes loans held for sale.

(c) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 and 2002 reflect the results of heritage JPMorgan Chase only.

Deposits

The following table provides a summary of the average balances and average interest rates of JPMorgan Chase's various deposits for the years indicated:

(in millions, except interest rates)	Average balances			Average interest rates		
	2006	2005	2004(a)	2006	2005	2004(a)
U.S.:						
Noninterest-bearing demand	\$ 36,099	\$ 39,714	\$ 27,876	—%	—%	—%
Interest-bearing demand	8,036	13,612	11,040	2.73	2.69	1.31
Savings	260,645	239,375	176,607	2.52	1.57	0.80
Time	126,927	92,739	69,245	3.75	2.57	1.55
Total U.S. deposits	431,707	385,440	284,768	2.68	1.69	0.93
Non-U.S.:						
Noninterest-bearing demand	6,645	5,874	6,268	—	—	—
Interest-bearing demand	77,624	63,748	50,326	4.35	3.08	1.73
Savings	513	549	746	0.53	0.36	0.11
Time	60,384	52,650	53,539	3.50	2.89	1.88
Total non-U.S. deposits	145,166	122,821	110,879	3.78	2.84	1.69
Total deposits	\$ 576,873	\$ 508,261	\$ 395,647	2.95%	1.96%	1.14%

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

At December 31, 2006, other U.S. time deposits in denominations of \$100,000 or more totaled \$80.9 billion, substantially all of which mature in three months or less. In addition, the table below presents the maturities for U.S. time certificates of deposit in denominations of \$100,000 or more:

By remaining maturity at December 31, 2006 (in millions)	3 months or less	Over 3 months but within 6 months	Over 6 months but within 12 months	Over 12 months	Total
U.S. time certificates of deposit (\$100,000 or more)	\$ 19,171	\$ 5,127	\$ 3,842	\$ 1,748	\$ 29,888

Short-term and other borrowed funds

The following table provides a summary of JPMorgan Chase's short-term and other borrowed funds for the years indicated:

(in millions, except rates)	2006	2005	2004(c)
Federal funds purchased and securities sold under repurchase agreements:			
Balance at year-end	\$ 162,173	\$ 125,925	\$ 127,787
Average daily balance during the year	183,783	154,818	155,665
Maximum month-end balance	204,879	177,144	168,257
Weighted-average rate at December 31	5.05%	3.63%	2.39%
Weighted-average rate during the year	4.45	3.05	1.62
Commercial paper:			
Balance at year-end	\$ 18,849	\$ 13,863	\$ 12,605
Average daily balance during the year	17,710	14,450	12,699
Maximum month-end balance	20,980	18,077	15,300
Weighted-average rate at December 31	4.80%	3.62%	1.98%
Weighted-average rate during the year	4.49	2.81	1.03
Other borrowed funds:(a)			
Balance at year-end	\$ 108,541	\$ 104,636	\$ 96,981
Average daily balance during the year	102,147	93,765	78,355
Maximum month-end balance	132,367	120,051	99,689
Weighted-average rate at December 31	5.56%	5.21%	4.18%
Weighted-average rate during the year	5.00	5.19	4.87
FIN 46 short-term beneficial interests: (b)			
Commercial paper:			
Balance at year-end	\$ 3,351	\$ 35,161	\$ 38,519
Average daily balance during the year	17,851	34,439	19,472
Maximum month-end balance	35,757	35,676	38,519
Weighted-average rate at December 31	4.67%	2.69%	2.23%
Weighted-average rate during the year	4.53	3.07	1.80
Other borrowed funds:			
Balance at year-end	\$ 4,497	\$ 4,682	\$ 3,149
Average daily balance during the year	5,267	3,569	3,219
Maximum month-end balance	9,078	5,568	3,447
Weighted-average rate at December 31	1.99%	1.92%	1.93%
Weighted-average rate during the year	1.61	2.13	1.10

(a) Includes securities sold but not yet purchased.

(b) Included on the Consolidated balance sheets in Beneficial interests issued by consolidated variable interest entities. VIEs had unfunded commitments to borrow an additional \$4.2 billion, \$4.1 billion and \$4.2 billion at December 31, 2006, 2005 and 2004, respectively, from other third parties, for general liquidity purposes.

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

Federal funds purchased represents overnight funds. Securities sold under repurchase agreements generally mature between one day and three months. Commercial paper generally is issued in amounts not less than \$100,000 and with maturities of 270 days or less. Other borrowed funds consist of demand

notes, term federal funds purchased and various other borrowings that generally have maturities of one year or less. At December 31, 2006, JPMorgan Chase had no lines of credit for general corporate purposes.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on behalf of the undersigned, thereunto duly authorized.

JPMorgan Chase & Co.
(Registrant)

By: /s/ JAMES DIMON
(James Dimon
Chairman and Chief Executive Officer)

Date: March 1, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacity and on the date indicated. JPMorgan Chase does not exercise the power of attorney to sign on behalf of any Director.

Capacity		Date
<u>/s/ JAMES DIMON</u> (James Dimon)	Director, Chairman and Chief Executive Officer (Principal Executive Officer)	March 1, 2007
<u>/s/ JOHN H. BIGGS</u> (John H. Biggs)	Director	
<u>/s/ CRANDALL C. BOWLES</u> (Crandall C. Bowles)	Director	
<u>/s/ STEPHEN B. BURKE</u> (Stephen B. Burke)	Director	
<u>/s/ JAMES S. CROWN</u> (James S. Crown)	Director	
<u>/s/ ELLEN V. FUTTER</u> (Ellen V. Futter)	Director	

Capacity		Date
<u>/s/ WILLIAM H. GRAY, III</u> (William H. Gray, III)	Director	March 1, 2007
<u>/s/ LABAN P. JACKSON, JR.</u> (Laban P. Jackson, Jr.)	Director	
<u>/s/ JOHN W. KESSLER</u> (John W. Kessler)	Director	
<u>/s/ ROBERT I. LIPP</u> (Robert I. Lipp)	Director	
<u>/s/ RICHARD A. MANOOGIAN</u> (Richard A. Manoogian)	Director	
<u>/s/ DAVID C. NOVAK</u> (David C. Novak)	Director	
<u>/s/ LEE R. RAYMOND</u> (Lee R. Raymond)	Director	
<u>/s/ WILLIAM C. WELDON</u> (William C. Weldon)	Director	
<u>/s/ MICHAEL J. CAVANAGH</u> (Michael J. Cavanagh)	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	
<u>/s/ LOUIS RAUCHENBERGER</u> (Louis Rauchenberger)	Managing Director and Controller (Principal Accounting Officer)	

**AMENDED AND RESTATED
TRUST AGREEMENT**
among
JPMORGAN CHASE & CO., as Depositor,
THE BANK OF NEW YORK,
as Property Trustee,
THE BANK OF NEW YORK (DELAWARE),
as Delaware Trustee,
THE ADMINISTRATIVE TRUSTEES NAMED HEREIN,
and
THE SEVERAL HOLDERS (AS DEFINED HEREIN)
Dated as of August 17, 2006
JPMORGAN CHASE CAPITAL XVIII

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AMENDED AND RESTATED TRUST AGREEMENT, dated as of August 17, 2006, among (i) JPMorgan Chase & Co., a Delaware corporation (including any successors or assigns, the “Depositor”), (ii) The Bank of New York, a New York banking corporation, as property trustee (in each such capacity, the “Property Trustee” and, in its separate corporate capacity and not in its capacity as Property Trustee, the “Bank”), (iii) The Bank of New York (Delaware), a banking corporation organized under the laws of the State of Delaware, as Delaware trustee (the “Delaware Trustee”), (iv) Michael J. Cavanagh, an individual, and Mark I. Kleinman, an individual, each of whose address is c/o JPMorgan Chase & Co., 270 Park Avenue, New York, NY 10017 (each an “Administrative Trustee” and collectively the “Administrative Trustees”) (the Property Trustee, the Delaware Trustee and the Administrative Trustees referred to collectively as the “Trustees”) and (v) the several Holders, as hereinafter defined.

W I T N E S S E T H

WHEREAS, the Depositor and certain of the trustees have heretofore duly declared and established a statutory trust pursuant to the Delaware Statutory Trust Act by entering into that certain Trust Agreement, dated as of April 27, 2005 (the “Original Trust Agreement”), and by the execution and filing with the Secretary of State of the State of Delaware of the Certificate of Trust, filed on April 27, 2005 (the “Certificate of Trust”), each attached as Exhibit A;

WHEREAS, the parties hereto desire to amend and restate the Original Trust Agreement in its entirety as set forth herein to provide for, among other things, (i) the issuance of the Common Securities by the Trust to the Depositor, (ii) the issuance and sale of the Capital Securities by the Trust pursuant to the Underwriting Agreement and (iii) the acquisition by the Trust from the Depositor of all of the right, title and interest in the Debentures; and

NOW THEREFORE, in consideration of the agreements and obligations set forth herein and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, each party, for the benefit of the other parties and for the benefit of the Securityholders, hereby amends and restates the Original Trust Agreement in its entirety and agrees as follows:

ARTICLE I
DEFINED TERMS

Section 1.1 *Definitions.*

For all purposes of this Trust Agreement, except as otherwise expressly provided or unless the context otherwise requires:

(a) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;

(b) all other terms used herein that are defined in the Trust Indenture Act, either directly or by reference thereto, have the meanings assigned to them therein;

(c) unless the context otherwise requires, any reference to an “Article” or a “Section” refers to an Article or a Section, as the case may be, of this Trust Agreement; and

(d) the words “herein”, “hereof” and “hereunder” and other words of similar import refer to this Trust Agreement as a whole and not to any particular Article, Section or other subdivision.

“Act” has the meaning specified in Section 6.8.

“*Additional Amount*” means, with respect to Trust Securities of a given Liquidation Amount and/or a given period, the amount of Additional Interest (as defined in the Indenture) paid by the Depositor on a Like Amount of Debentures for such period.

“*Administrative Trustee*” means each of the individuals identified as an “Administrative Trustee” in the preamble to this Trust Agreement solely in such individual’s capacity as Administrative Trustee of the Trust and not in such individual’s individual capacity, or such Administrative Trustee’s successor in interest in such capacity, or any successor or additional administrative trustee appointed as herein provided.

“*Affiliate*” of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, “control” when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“*Bank*” has the meaning specified in the preamble to this Trust Agreement.

“*Bankruptcy Event*” means, with respect to any Person:

(a) the entry of a decree or order for relief in respect to such Person by a court having jurisdiction in the premises in an involuntary case under any applicable bankruptcy, insolvency or reorganization law now or hereafter in effect of the United States of America or any political subdivision thereof, and such decree or order shall have continued unstayed and in effect for a period of 60 consecutive days; or

(b) the commencement by such Person of a voluntary case under any applicable bankruptcy, insolvency or reorganization law now or hereafter in effect of the United States of America or a political subdivision thereof, or consent to the entry of an order for relief in an involuntary case under any such law.

“*Bankruptcy Laws*” has the meaning specified in Section 10.10.

“*Board Resolution*” means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Depositor to have been duly adopted by the Depositor’s Board of Directors, or such committee of the Board of Directors or officers of the Depositor to which authority to act on behalf of the Board of Directors has been delegated, and to be in full force and effect on the date of such certification, and delivered to the Trustees.

“*Book-Entry Capital Securities Certificates*” means a beneficial interest in the Capital Securities Certificates, ownership and transfers of which shall be made through book entries by a Clearing Agency as described in Section 5.11.

“*Business Day*” means a day other than (a) a Saturday or Sunday or other day on which banking institutions in The City of New York are authorized or required by law or executive order to remain closed, or a day on which the Corporate Trust Office of the Property Trustee or the Debenture Trustee is closed for business or (b) on or after August 17, 2036, a day on which dealings in deposits in U.S. dollars are not transacted in the London interbank market.

“*Capital Securities Certificate*” means a certificate evidencing ownership of Capital Securities, substantially in the form attached as Exhibit B.

“*Capital Security*” means an undivided beneficial interest in the assets of the Trust, having a Liquidation Amount of \$1,000 and having the rights provided therefor in this Trust Agreement, including the right to receive Distributions and a Liquidation Distribution as provided herein.

“*Capital Securityholder*” means a Holder of Capital Securities.

“*Certificate Depository Agreement*” means the agreement among the Trust, the Depositor and The Depository Trust Company, as the initial Clearing Agency, dated as of the Closing Date, relating to the Trust Securities Certificates, as the same may be amended and supplemented from time to time.

“*Certificate of Trust*” has the meaning specified in the recitals hereof, as amended from time to time.

“*Clearing Agency*” means an organization registered as a “clearing agency” pursuant to Section 17A of the Securities Exchange Act of 1934, as amended. The Depository Trust Company will be the initial Clearing Agency.

“*Clearing Agency Participant*” means a broker, dealer, bank, other financial institution or other Person for whom from time to time a Clearing Agency effects book-entry transfers and pledges of securities deposited with the Clearing Agency.

“*Closing Date*” means the date of execution and delivery of this Trust Agreement.

“*Code*” means the Internal Revenue Code of 1986, as amended.

“*Commission*” means the Securities and Exchange Commission, as from time to time constituted, created under the Securities Exchange Act of 1934, as amended, or, if at any time after the execution of this instrument such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

“*Common Securities Certificate*” means a certificate evidencing ownership of Common Securities, substantially in the form attached as Exhibit C.

“*Common Security*” means an undivided beneficial interest in the assets of the Trust, having a Liquidation Amount of \$1,000 and having the rights provided therefor in this Trust Agreement, including the right to receive Distributions and a Liquidation Distribution as provided herein.

“*Common Securityholder*” means a Holder of Common Securities.

“*Corporate Trust Office*” means (i) when used with respect to the Property Trustee, the principal office of the Property Trustee located in New York, New York, and (ii) when used with respect to the Debenture Trustee, the principal office of the Debenture Trustee located in New York, New York.

“*Debenture Event of Default*” means an “Event of Default” as defined in the Indenture.

“*Debenture Maturity Date*” means the “Final Maturity Date” as defined in the Indenture.

“*Debenture Redemption Date*” means, with respect to any Debentures to be redeemed under the Indenture, any date fixed for redemption under the Indenture.

“*Debenture Repayment Date*” means, with respect to any Debentures to be repaid under the Indenture, any date fixed for repayment under the Indenture.

“*Debenture Trustee*” means The Bank of New York, a New York banking corporation, as trustee under the Indenture, and any successor trustee appointed as provided therein.

“*Debentures*” means the \$751,000,000 aggregate principal amount of the Depositor’s 6.950% Junior Subordinated Deferrable Interest Debentures, Series R, issued pursuant to the Indenture, a form of which is attached as Exhibit D.

“*Definitive Capital Securities Certificates*” means either or both (as the context requires) of (a) Capital Securities Certificates issued as Book-Entry Capital Securities

Certificates as provided in Section 5.11(a) and (b) Capital Securities Certificates issued in certificated, fully registered form as provided in Section 5.13.

“*Delaware Statutory Trust Act*” means Chapter 38 of Title 12 of the Delaware Code, 12 Del. C. 3801, *et seq.*, as it may be amended from time to time.

“*Delaware Trustee*” means the Person identified as the “Delaware Trustee” in the preamble to this Trust Agreement solely in its capacity as Delaware Trustee of the Trust and not in its individual capacity, or its successor in interest in such capacity, or any successor Delaware Trustee appointed as herein provided.

“*Depositor*” has the meaning specified in the preamble to this Trust Agreement.

“*Distribution Date*” has the meaning specified in Section 4.1(a).

“*Distributions*” means amounts payable in respect of the Trust Securities as provided in Section 4.1.

“*Early Termination Event*” has the meaning specified in Section 9.2.

“*Event of Default*” means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) the occurrence of a Debenture Event of Default; or

(b) default by the Property Trustee in the payment of any Distribution when it becomes due and payable, and continuation of such default for a period of 30 days; or

(c) default by the Property Trustee in the payment of any Redemption Price of any Trust Security when it becomes due and payable; or

(d) default in the performance, or breach, in any material respect, of any covenant or warranty of the Trustees in this Trust Agreement (other than a covenant or warranty a default in the performance or breach of which is dealt with in clause (b) or (c) above) and continuation of such default or breach for a period of 90 days after there has been given, by registered or certified mail, to the defaulting Trustee or Trustees by the Holders of at least 25% in aggregate Liquidation Amount of the Outstanding Capital Securities, a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a “Notice of Default” hereunder; or

(e) the occurrence of a Bankruptcy Event with respect to the Property Trustee and the failure by the Depositor to appoint a successor Property Trustee within 90 days thereof.

“*Expiration Date*” has the meaning specified in Section 9.1.

“*Federal Reserve*” means the Board of Governors of the Federal Reserve System, as from time to time constituted, or if at any time after the execution of this Trust Agreement the Federal Reserve is not existing and performing the duties now assigned to it, then the body performing such duties at such time.

“*Guarantee*” means the Guarantee Agreement executed and delivered by the Depositor and The Bank of New York, as trustee, contemporaneously with the execution and delivery of this Trust Agreement, for the benefit of the Holders of the Trust Securities, as amended from time to time.

“*Indenture*” means the Junior Subordinated Indenture, dated as of December 1, 1996, between the Depositor and the Debenture Trustee, as trustee, as amended or supplemented from time to time.

“*Lien*” means any lien, pledge, charge, encumbrance, mortgage, deed of trust, adverse ownership interest, hypothecation, assignment, security interest or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever.

“*Like Amount*” means (a) with respect to a redemption of Trust Securities, Trust Securities having a Liquidation Amount equal to the principal amount of Debentures to be contemporaneously redeemed in accordance with the Indenture the proceeds of which will be used to pay the Redemption Price of such Trust Securities, and (b) with respect to a distribution of Debentures to Holders of Trust Securities in connection with a dissolution or liquidation of the Trust, Debentures having a principal amount equal to the Liquidation Amount of the Trust Securities of the Holder to whom such Debentures are distributed.

“*Liquidation Amount*” means the stated amount of \$1,000 per Trust Security.

“*Liquidation Date*” means the date on which Debentures are to be distributed to Holders of Trust Securities in connection with a dissolution and liquidation of the Trust pursuant to Section 9.4(a).

“*Liquidation Distribution*” has the meaning specified in Section 9.4(d).

“*1940 Act*” means the Investment Company Act of 1940, as amended.

“*Officers’ Certificate*” means a certificate signed by the Chairman and Chief Executive Officer, President, Managing Director or a Vice President, and by the Treasurer, an Associate Treasurer, an Assistant Treasurer, the Controller, the Secretary or an Assistant Secretary, of the Depositor, and delivered to the appropriate Trustee. One of the officers signing an Officers’ Certificate given pursuant to Section 8.16 shall be the principal executive, financial or accounting officer of the Depositor. Any Officers’

Certificate delivered with respect to compliance with a condition or covenant provided for in this Trust Agreement shall include:

- (a) a statement that each officer signing the Officers' Certificate has read the covenant or condition and the definitions relating thereto;
- (b) a brief statement of the nature and scope of the examination or investigation undertaken by each officer in rendering the Officers' Certificate;
- (c) a statement that each such officer has made such examination or investigation as, in such officer's opinion, is necessary to enable such officer to express an informed opinion as to whether or not such covenant or condition has been complied with; and
- (d) a statement as to whether, in the opinion of each such officer, such condition or covenant has been complied with.

"Opinion of Counsel" means a written opinion of counsel, who may be counsel for the Trust, the Property Trustee or the Depositor, and who shall be reasonably acceptable to the Property Trustee.

"Original Trust Agreement" has the meaning specified in the recitals to this Trust Agreement.

"Outstanding", when used with respect to Trust Securities, means, as of the date of determination, all Trust Securities represented by Trust Securities Certificates theretofore executed and delivered under this Trust Agreement, *except*:

- (a) Trust Securities represented by Trust Securities Certificates theretofore cancelled by the Securities Registrar or delivered to the Securities Registrar for cancellation;
- (b) Trust Securities for whose payment or redemption money in the necessary amount has been theretofore deposited with the Property Trustee or any Paying Agent for the Holders of such Trust Securities; *provided* that, if such Trust Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Trust Agreement; and
- (c) Trust Securities which have been paid or that are represented by Trust Securities Certificates in exchange for or in lieu of which other Trust Securities Certificates have been executed and delivered pursuant to this Trust Agreement, including pursuant to Sections 5.4, 5.5, 5.11 and 5.13; *provided, however*, that in determining whether the Holders of the requisite Liquidation Amount of the Outstanding Capital Securities have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Capital Securities owned by the Depositor, any Trustee or any Affiliate of the Depositor or any Trustee shall be disregarded and deemed not to be

Outstanding, except that (a) in determining whether any Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Capital Securities that such Trustee actually knows to be so owned shall be so disregarded and (b) the foregoing shall not apply at any time when all of the Outstanding Capital Securities are owned by the Depositor, one or more of the Trustees and/or any such Affiliate. Capital Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Administrative Trustees the pledgee's right so to act with respect to such Capital Securities and that the pledgee is not the Depositor or any Affiliate of the Depositor.

“*Owner*” means each Person who is the beneficial owner of a Book-Entry Capital Securities Certificate as reflected in the records of the Clearing Agency or, if a Clearing Agency Participant is not the beneficial owner, then as reflected in the records of a Person maintaining an account with such Clearing Agency (directly or indirectly, in accordance with the rules of such Clearing Agency).

“*Paying Agent*” means any paying agent or co-paying agent appointed pursuant to Section 5.9 and shall initially be the Bank.

“*Payment Account*” means a segregated non-interest-bearing corporate trust account maintained by the Property Trustee with the Bank in its corporate trust department for the benefit of the Securityholders in which all amounts paid in respect of the Debentures will be held and from which the Property Trustee, through the Paying Agent, shall make payments to the Securityholders in accordance with Sections 4.1 and 4.2.

“*Person*” means any individual, corporation, partnership, joint venture, trust, limited liability company or corporation, unincorporated organization or government or any agency or political subdivision thereof.

“*Property Trustee*” means the Person identified as the “Property Trustee” in the preamble to this Trust Agreement solely in its capacity as Property Trustee of the Trust heretofore created and continued hereunder and not in its individual capacity, or its successor in interest in such capacity, or any successor property trustee appointed as herein provided.

“*Redemption Date*” means, with respect to any Trust Security to be redeemed, the date fixed for such redemption by or pursuant to this Trust Agreement; *provided* that each Debenture Redemption Date, each Debenture Repayment Date and the Debenture Maturity Date shall be a Redemption Date for a Like Amount of Trust Securities.

“*Redemption Price*” means, with respect to any Trust Security, the amount paid by the Depositor upon the concurrent redemption of a Like Amount of Debentures, plus accumulated and unpaid Distributions to the Redemption Date, allocated on a pro rata basis (based on Liquidation Amounts) among the Trust Securities.

“*Relevant Trustee*” shall have the meaning specified in Section 8.10.

“*Securities Register*” and “*Securities Registrar*” have the respective meanings specified in Section 5.4.

“*Securityholder*” or “*Holder*” means a Person in whose name a Trust Security or Trust Securities is registered in the Securities Register; any such Person shall be a beneficial owner within the meaning of the Delaware Statutory Trust Act; *provided, however*, that in determining whether the Holders of the requisite amount of Capital Securities have voted on any matter provided for in this Trust Agreement, then for the purpose of any such determination, so long as Definitive Capital Securities Certificates have not been issued, the term Securityholders or Holders as used herein shall refer to the Owners.

“*Supplemental Indenture*” means the Supplemental Indenture, dated as of August 17, 2006, between the Depositor and the Debenture Trustee, as trustee, to the Indenture, .

“*Trust*” means the Delaware statutory trust continued hereby and identified on the cover page to this Trust Agreement.

“*Trust Agreement*” means this Amended and Restated Trust Agreement, as the same may be modified, amended or supplemented in accordance with the applicable provisions hereof, including (i) all exhibits hereto and (ii) for all purposes of this Trust Agreement and any such modification, amendment or supplement, the provisions of the Trust Indenture Act that are deemed to be a part of and govern this Trust Agreement and any such modification, amendment or supplement, respectively.

“*Trust Indenture Act*” means the Trust Indenture Act of 1939 as in force at the date as of which this instrument was executed; *provided, however*, that in the event the Trust Indenture Act of 1939 is amended after such date, “*Trust Indenture Act*” means, to the extent required by any such amendment, the Trust Indenture Act of 1939 as so amended.

“*Trust Property*” means (a) the Debentures, (b) any cash on deposit in, or owing to, the Payment Account and (c) all proceeds and rights in respect of the foregoing.

“*Trust Securities Certificate*” means any one of the Common Securities Certificates or the Capital Securities Certificates.

“*Trust Security*” means any one of the Common Securities or the Capital Securities.

“*Trustees*” means, collectively, the Property Trustee, the Delaware Trustee and the Administrative Trustees.

“*Underwriting Agreement*” means the Pricing Agreement, dated as of August 10, 2006, among the Trust, the Depositor and J.P. Morgan Securities Inc., as representative of the underwriters named therein, incorporating the Standard Provisions dated August 10, 2006.

“*U.S. Person*” means a United States person as defined in Section 7701(a)(30) of the Code.

ARTICLE II

CONTINUATION OF THE TRUST

Section 2.1 *Name.*

The Trust continued hereby shall be known as “JPMorgan Chase Capital XVIII,” as such name may be modified from time to time by the Administrative Trustees following written notice to the Holders of Trust Securities and the other Trustees, in which name the Trustees engage in the transactions contemplated hereby, make and execute contracts and other instruments on behalf of the Trust and sue and can be sued.

Section 2.2 *Office of the Delaware Trustee; Principal Place of Business.*

The address of the Delaware Trustee in the State of Delaware is c/o The Bank of New York (Delaware), White Clay Center, Route 273, Newark, Delaware 19711, Attention: Corporate Trust Department, or such other address in the State of Delaware as the Delaware Trustee may designate by written notice to the Securityholders and the Depositor. The principal executive office of the Trust is c/o JPMorgan Chase & Co., 270 Park Avenue, New York, NY 10017.

Section 2.3 *Initial Contribution of Trust Property; Organizational Expenses.*

The Property Trustee acknowledges receipt in trust from the Depositor in connection with the Original Trust Agreement of the sum of \$10, which constituted the initial Trust Property. The Depositor shall pay organizational expenses of the Trust as they arise or shall, upon request of any Trustee, promptly reimburse such Trustee for any such expenses paid by such Trustee. The Depositor shall make no claim upon the Trust Property for the payment of such expenses.

Section 2.4 *Issuance of the Capital Securities.*

The Depositor, on behalf of the Trust and pursuant to the Original Trust Agreement, executed and delivered the Underwriting Agreement. Contemporaneously with the execution and delivery of this Trust Agreement, an Administrative Trustee, on behalf of the Trust, shall execute in accordance with Section 5.2 and deliver to the Underwriters named in the Underwriting Agreement Capital Securities Certificates, registered in the name of the nominee of the initial Clearing Agency, in an aggregate

amount of 750,000 Capital Securities having an aggregate Liquidation Amount of \$750,000,000, against receipt of an aggregate purchase price plus accrued distributions from August 17, 2006, if any, on such Capital Securities of \$748,117,500 which amount such Administrative Trustee shall promptly deliver to the Property Trustee.

Section 2.5 Issuance of the Common Securities; Subscription and Purchase of Debentures.

Contemporaneously with the execution and delivery of this Trust Agreement, an Administrative Trustee, on behalf of the Trust, shall execute in accordance with Section 5.2 and deliver to the Depositor Common Securities Certificates, registered in the name of the Depositor, in an aggregate amount of 1,000 Common Securities having an aggregate Liquidation Amount of \$1,000,000 against payment by the Depositor of an aggregate purchase price of \$997,490, plus accrued distributions from August 17, 2006, if any, on such Common Securities, which amount such Administrative Trustee shall promptly deliver to the Property Trustee. Contemporaneously therewith, an Administrative Trustee, on behalf of the Trust, shall subscribe to and purchase from the Depositor Debentures, registered in the name of the Trust and having an aggregate principal amount equal to \$751,000,000, and, in satisfaction of the purchase price plus accrued interest from August 17, 2006, if any, for such Debentures, the Property Trustee, on behalf of the Trust, shall deliver to the Depositor the sum of \$749,114,990 (being the sum of the amounts delivered to the Property Trustee pursuant to (i) the second sentence of Section 2.4 and (ii) the first sentence of this Section 2.5).

Section 2.6 Declaration of Trust.

The exclusive purposes and functions of the Trust are (a) to issue and sell Trust Securities, (b) to use the proceeds from such sale to acquire the Debentures and (c) to engage in those activities necessary or incidental thereto. The Depositor hereby appoints the Trustees as trustees of the Trust, to have all the rights, powers and duties to the extent set forth herein, and the Trustees hereby accept such appointment. The Property Trustee hereby declares that it will hold the Trust Property in trust upon and subject to the conditions set forth herein for the benefit of the Trust and the Securityholders. The Administrative Trustees shall have all rights, powers and duties set forth herein and in accordance with applicable law with respect to accomplishing the purposes of the Trust. The Delaware Trustee shall not be entitled to exercise any powers, nor shall the Delaware Trustee have any of the duties and responsibilities, of the Property Trustee or the Administrative Trustees set forth herein. The Delaware Trustee shall be one of the Trustees of the Trust for the sole and limited purpose of fulfilling the requirements of Section 3807 of the Delaware Statutory Trust Act.

Section 2.7 Authorization to Enter into Certain Transactions.

(a) The Trustees shall conduct the affairs of the Trust in accordance with the terms of this Trust Agreement. Subject to the limitations set forth in paragraph (b) of this Section and Article VIII and in accordance with the following provisions (i) and (ii), the

Trustees shall have the authority to enter into all transactions and agreements determined by the Trustees to be appropriate in exercising the authority, express or implied, otherwise granted to the Trustees under this Trust Agreement, and to perform all acts in furtherance thereof, including without limitation, the following:

(i) As among the Trustees, each Administrative Trustee, acting singly or collectively, shall have the power and authority to act on behalf of the Trust with respect to the following matters:

(A) the issuance and sale of the Trust Securities;

(B) causing the Trust to enter into, and to execute, deliver and perform on behalf of the Trust, the Certificate Depository Agreement and such other agreements as may be necessary or desirable in connection with the purposes and function of the Trust;

(C) assisting in the registration of the Capital Securities under the Securities Act of 1933, as amended, and under state securities or blue sky laws, and the qualification of this Trust Agreement as a trust indenture under the Trust Indenture Act;

(D) assisting in the listing, if any, of the Capital Securities upon such national securities exchange or exchanges or automated quotation system or systems as shall be determined by the Depositor and the registration of the Capital Securities under the Securities Exchange Act of 1934, as amended, and the preparation and filing of all periodic and other reports and other documents pursuant to the foregoing;

(E) the sending of notices (other than notices of default) and other information regarding the Trust Securities and the Debentures to the Securityholders in accordance with this Trust Agreement;

(F) the appointment of a Paying Agent and Securities Registrar in accordance with this Trust Agreement;

(G) registering transfer of the Trust Securities in accordance with this Trust Agreement;

(H) to the extent provided in this Trust Agreement, the winding up of the affairs of and liquidation of the Trust and the execution and filing of the certificate of cancellation with the Secretary of State of the State of Delaware;

(I) unless otherwise required by the Delaware Statutory Trust Act or the Trust Indenture Act, executing on behalf of the Trust (either acting alone or together with any or all of the Administrative Trustees) any

documents that the Administrative Trustees have the power to execute pursuant to this Trust Agreement; and

(J) taking any action incidental to the foregoing as the Trustees may from time to time determine is necessary or advisable to give effect to the terms of this Trust Agreement for the benefit of the Securityholders (without consideration of the effect of any such action on any particular Securityholder).

(ii) As among the Trustees, the Property Trustee shall have the power, duty and authority to act on behalf of the Trust with respect to the following matters:

(A) the establishment of the Payment Account;

(B) the receipt of the Debentures;

(C) the collection of interest, principal and any other payments made in respect of the Debentures in the Payment Account;

(D) the distribution through the Paying Agent of amounts owed to the Securityholders in respect of the Trust Securities;

(E) the exercise of all of the rights, powers and privileges of a holder of the Debentures;

(F) the sending of notices of default and other information regarding the Trust Securities and the Debentures to the Securityholders in accordance with this Trust Agreement;

(G) the distribution of the Trust Property in accordance with the terms of this Trust Agreement; and

(H) to the extent provided in this Trust Agreement, the winding up of the affairs of and liquidation of the Trust and the execution and filing of the certificate of cancellation with the Secretary of State of the State of Delaware.

Except as otherwise provided in this Section 2.7(a)(ii), the Property Trustee shall have none of the duties, liabilities, powers or the authority of the Administrative Trustees set forth in Section 2.7(a)(i).

(b) So long as this Trust Agreement remains in effect, the Trust (or the Trustees acting on behalf of the Trust) shall not undertake any business, activities or transaction except as expressly provided herein or contemplated hereby. In particular, the Trustees shall not (i) acquire any investments or engage in any activities not authorized

by this Trust Agreement, (ii) sell, assign, transfer, exchange, mortgage, pledge, set-off or otherwise dispose of any of the Trust Property or interests therein, including to Securityholders, except as expressly provided herein, (iii) take any action that would cause the Trust to fail or cease to qualify as a “grantor trust” for United States federal income tax purposes, (iv) incur any indebtedness for borrowed money or issue any other debt, (v) take or consent to any action that would result in the placement of a Lien on any of the Trust Property, (vi) invest any proceeds received by the Trust from holding the Debentures (it being understood that the Trust and Trustees shall distribute all such proceeds to Holders of Trust Securities pursuant to the terms of this Trust Agreement and of the Trust Securities), (vii) acquire any assets other than the Trust Property, (viii) possess any power or otherwise act in such a way as to vary the Trust Property, (ix) possess any power or otherwise act in such a way as to vary the terms of the Trust Securities in any way whatsoever (except to the extent expressly authorized in this Trust Agreement or by the terms of the Trust Securities) or (x) issue any securities or other evidences of beneficial ownership of, or beneficial interest in, the Trust other than the Trust Securities. The Administrative Trustees shall defend all claims and demands of all Persons at any time claiming any Lien on any of the Trust Property adverse to the interest of the Trust or the Securityholders in their capacity as Securityholders.

(c) In connection with the issue and sale of the Capital Securities, the Depositor shall have the right and responsibility to assist the Trust with respect to, or effect on behalf of the Trust, the following (and any actions taken by the Depositor in furtherance of the following prior to the date of this Trust Agreement are hereby ratified and confirmed in all respects):

(i) the preparation and filing by the Trust with the Commission and the execution on behalf of the Trust of one or more registration statements on the appropriate form in relation to the Capital Securities, including any amendments thereto;

(ii) the determination of the states in which to take appropriate action to qualify or register for sale all or part of the Capital Securities and the determination of any and all such acts, other than actions which must be taken by or on behalf of the Trust, and the advice to the Trustees of actions they must take on behalf of the Trust, and the preparation for execution and filing of any documents to be executed and filed by the Trust or on behalf of the Trust, as the Depositor deems necessary or advisable in order to comply with the applicable laws of any such states;

(iii) the preparation for filing by the Trust and execution on behalf of the Trust of an application to the New York Stock Exchange or any other national stock exchange or the Nasdaq National Market or any other automated quotation system for listing upon notice of issuance of any Capital Securities and filing with such exchange or self-regulatory organization such notifications and documents as may be necessary from time to time to maintain such listing;

- (iv) the negotiation of the terms of, and the execution and delivery of, the Underwriting Agreement providing for the sale of the Capital Securities; and
- (v) the taking of any other actions necessary or desirable to carry out any of the foregoing activities.

(d) Notwithstanding anything herein to the contrary, the Administrative Trustees are authorized and directed to conduct the affairs of the Trust and to operate the Trust so that the Trust will not be deemed to be an “investment company” required to be registered under the 1940 Act, or fail to be classified as a grantor trust for United States federal income tax purposes and so that the Debentures will be treated as indebtedness of the Depositor for United States federal income tax purposes. In this connection, the Depositor and the Administrative Trustees are authorized to take any action, not inconsistent with applicable law, the Certificate of Trust or this Trust Agreement, that each of the Depositor and any Administrative Trustee determines in its discretion to be necessary or desirable for such purposes, as long as such action does not adversely affect in any material respect the interests of the Holders of the Capital Securities.

Section 2.8 Assets of Trust.

The assets of the Trust shall consist solely of the Trust Property.

Section 2.9 Title to Trust Property.

Legal title to all Trust Property shall be vested at all times in the Property Trustee (in its capacity as such) and shall be held and administered by the Property Trustee for the benefit of the Trust and the Securityholders in accordance with this Trust Agreement.

ARTICLE III

PAYMENT ACCOUNT

Section 3.1 Payment Account.

(a) On or prior to the Closing Date, the Property Trustee shall establish the Payment Account. The Property Trustee and any agent of the Property Trustee shall have exclusive control and sole right of withdrawal with respect to the Payment Account for the purpose of making deposits in and withdrawals from the Payment Account in accordance with this Trust Agreement. All monies and other property deposited or held from time to time in the Payment Account shall be held by the Property Trustee in the Payment Account for the exclusive benefit of the Securityholders and for distribution as herein provided, including (and subject to) any priority of payments provided for herein.

(b) The Property Trustee shall deposit in the Payment Account, promptly upon receipt, all payments of principal of or interest or premium on, and any other

payments or proceeds with respect to, the Debentures. Amounts held in the Payment Account shall not be invested by the Property Trustee.

ARTICLE IV

DISTRIBUTIONS; REDEMPTION

Section 4.1 *Distributions.*

(a) The Trust Securities represent undivided beneficial ownership interests in the Trust Property, and Distributions (including of Additional Amounts) will be made on the Trust Securities at the rate and on the dates that payments of interest (including of Additional Interest, as defined in the Indenture) are made on the Debentures. Accordingly:

(i) Distributions on the Trust Securities shall be cumulative, and will accumulate whether or not there are funds of the Trust available for the payment of Distributions. Distributions shall accrue from August 17, 2006, and, except in the event (and to the extent) that the Depositor exercises its right to defer the payment of interest on the Debentures pursuant to the Indenture, shall be payable semi-annually in arrears on February 17 and August 17 of each year, commencing on February 17, 2007. If any date on which a Distribution is otherwise payable on the Trust Securities before August 17, 2036 is not a Business Day, then the payment of such Distribution shall be made on the next succeeding day that is a Business Day (without any additional Distributions or other payment in respect of such delay) with the same force and effect as if made on such date (each date on which Distributions are payable in accordance with this Section 4.1(a), a "Distribution Date"). In the event that any date on which a Distribution is payable on the Trust Securities on or after August 17, 2036 would otherwise fall on a day that is not a Business Day, that payment of such Distribution, will be postponed to the next day that is a Business Day. However, that if the postponement would cause the day to fall in the next calendar month, the payment of such Distribution will instead be brought forward to the immediately preceding Business Day.

(ii) Assuming payments of interest on the Debentures are made when due (and before giving effect to Additional Amounts, if applicable), Distributions on the Trust Securities shall be payable at the rate per annum provided for in the Debentures. The amount of Distributions payable for any period shall be computed on the basis of a 360-day year of twelve 30 day months. The amount of Distributions payable for any period shall include the Additional Amounts, if any.

(iii) Distributions on the Trust Securities shall be made by the Property Trustee from the Payment Account and shall be payable on each Distribution Date only to the extent that the Trust has funds then on hand and available in the Payment Account for the payment of such Distributions.

(iv) Distributions on the Trust Securities shall be permanently cancelled in the corresponding amount that payments of deferred and unpaid interest on the Debentures are cancelled pursuant to Section 2.1(i) of the Supplemental Indenture.

(b) Distributions on the Trust Securities with respect to a Distribution Date shall be payable to the Holders thereof as they appear on the Securities Register for the Trust Securities on the relevant record date, which shall be one Business Day prior to such Distribution Date; *provided, however*, that in the event that the Capital Securities do not remain in book-entry-only form, the relevant record date shall be the first day of the month in which the relevant Distribution Date occurs without giving effect to the third sentence of Section 4.1(a)(i) (whether or not such record date is a Business Day).

Section 4.2 *Redemption*.

(a) On each Debenture Redemption Date, each Debenture Repayment Date and the Debenture Maturity Date, the Trust will be required to redeem a Like Amount of Trust Securities at the Redemption Price.

(b) Notice of redemption shall be given by the Property Trustee by first-class mail, postage prepaid, mailed not less than 30 nor more than 60 days prior to the Redemption Date (or in the case of a Debenture Repayment Date, not less than 10 nor more than 15 Business Days prior to the Redemption Date) to each Holder of Trust Securities to be redeemed, at such Holder's address appearing in the Security Register. All notices of redemption shall state:

(i) the Redemption Date;

(ii) the Redemption Price;

(iii) the CUSIP number;

(iv) if less than all the Outstanding Trust Securities are to be redeemed, the identification and the total Liquidation Amount of the particular Trust Securities to be redeemed;

(v) that on the Redemption Date the Redemption Price will become due and payable upon each such Trust Security to be redeemed and that Distributions thereon will cease to accrue on and after said date; and

(vi) if the Capital Securities are no longer in book-entry-only form, the place and address where the Holders shall surrender their Capital Securities Certificates.

(c) The Trust Securities redeemed on each Redemption Date shall be redeemed at the Redemption Price with the proceeds from the contemporaneous

redemption of the Debentures or payment on a Debenture Repayment Date or the Debenture Maturity Date. Redemptions of the Trust Securities shall be made and the Redemption Price shall be payable on each Redemption Date only to the extent that the Trust has funds then on hand and available in the Payment Account for the payment of such Redemption Price.

(d) If the Property Trustee gives a notice of redemption in respect of any Capital Securities, then, by 12:00 noon, New York City time, on the Redemption Date, subject to Section 4.2(c), the Property Trustee will, so long as the Capital Securities are in book-entry-only form, irrevocably deposit with the Clearing Agency for the Capital Securities funds sufficient to pay the applicable Redemption Price and will give such Clearing Agency irrevocable instructions and authority to pay the Redemption Price to the Holders thereof. If the Capital Securities are no longer in book-entry-only form, the Property Trustee, subject to Section 4.2(c), will irrevocably deposit with the Paying Agent funds sufficient to pay the applicable Redemption Price and will give the Paying Agent irrevocable instructions and authority to pay the Redemption Price to the Holders thereof upon surrender of their Capital Securities Certificates. Notwithstanding the foregoing, Distributions payable on or prior to the Redemption Date for any Trust Securities called for redemption shall be payable to the Holders of such Trust Securities as they appear on the Securities Register for the Trust Securities on the relevant record dates for the related Distribution Dates. If notice of redemption shall have been given and funds deposited as required, then upon the date of such deposit, all rights of Securityholders holding Trust Securities so called for redemption will cease, except the right of such Securityholders to receive the Redemption Price and any Distribution payable on or prior to the Redemption Date, but without interest thereon, and such Trust Securities will cease to be Outstanding. In the event that any date on which any Redemption Price is payable is not a Business Day, then payment of the Redemption Price payable on such date will be made on the next succeeding day that is a Business Day (and without any interest or other payment in respect of any such delay), except that, if such Business Day falls in the next calendar year, such payment will be made on the immediately preceding Business Day, in each case, with the same force and effect as if made on such date. In the event that payment of the Redemption Price in respect of any Trust Securities called for redemption is improperly withheld or refused and not paid either by the Trust or by the Depositor pursuant to the Guarantee, Distributions on such Trust Securities will continue to accrue, at the then applicable rate, from the Redemption Date originally established by the Trust for such Trust Securities to the date such Redemption Price is actually paid, in which case the actual payment date will be the date fixed for redemption for purposes of calculating the Redemption Price.

(e) Payment of the Redemption Price on the Trust Securities shall be made to the recordholders thereof as they appear on the Securities Register for the Trust Securities on the relevant record date, which shall be one Business Day prior to the relevant Redemption Date; *provided, however*, that in the event that the Capital Securities do not remain in book-entry-only form, the relevant record date shall be the date 15 days prior to the relevant Redemption Date.

(f) Subject to Section 4.3(a), if less than all the Outstanding Trust Securities are to be redeemed on a Redemption Date, then the aggregate Liquidation Amount of Trust Securities to be redeemed shall be allocated on a pro rata basis (based on Liquidation Amounts) among the Common Securities and the Capital Securities. The particular Capital Securities to be redeemed shall be selected on a pro rata basis (based upon Liquidation Amounts) not more than 60 days prior to the Redemption Date by the Property Trustee from the Outstanding Capital Securities not previously called for redemption, by such method (including, without limitation, by lot) as the Property Trustee shall deem fair and appropriate and which may provide for the selection for redemption of portions (equal to \$1,000 or an integral multiple of \$1,000 in excess thereof) of the Liquidation Amount of Capital Securities of a denomination larger than \$1,000. The Property Trustee shall promptly notify the Security Registrar in writing of the Capital Securities selected for redemption and, in the case of any Capital Securities selected for partial redemption, the Liquidation Amount thereof to be redeemed. For all purposes of this Trust Agreement, unless the context otherwise requires, all provisions relating to the redemption of Capital Securities shall relate, in the case of any Capital Securities redeemed or to be redeemed only in part, to the portion of the Liquidation Amount of Capital Securities that has been or is to be redeemed.

Section 4.3 Subordination of Common Securities.

(a) Payment of Distributions (including Additional Amounts, if applicable) on, and the Redemption Price of, the Trust Securities, as applicable, shall be made, subject to Section 4.2(f), pro rata among the Common Securities and the Capital Securities based on the Liquidation Amount of the Trust Securities; *provided, however*, that if on any Distribution Date or Redemption Date any Event of Default resulting from a Debenture Event of Default shall have occurred and be continuing, no payment of any Distribution (including Additional Amounts, if applicable) on, or Redemption Price of, any Common Security, and no other payment on account of the redemption, liquidation or other acquisition of Common Securities, shall be made unless payment in full in cash of all accumulated and unpaid Distributions (including Additional Amounts, if applicable) on all Outstanding Capital Securities for all Distribution periods terminating on or prior thereto, or in the case of payment of the Redemption Price the full amount of such Redemption Price on all Outstanding Capital Securities then called for redemption, shall have been made or provided for, and all funds immediately available to the Property Trustee shall first be applied to the payment in full in cash of all Distributions (including Additional Amounts, if applicable) on, or the Redemption Price of, Capital Securities then due and payable.

(b) In the case of the occurrence of any Event of Default resulting from any Debenture Event of Default, the Holder of Common Securities will be deemed to have waived any right to act with respect to any such Event of Default under this Trust Agreement until the effect of all such Events of Default with respect to the Capital Securities have been cured, waived or otherwise eliminated. Until any such Event of Default under this Trust Agreement with respect to the Capital Securities has been so

cured, waived or otherwise eliminated, the Property Trustee shall act solely on behalf of the Holders of the Capital Securities and not the Holder of the Common Securities, and only the Holders of the Capital Securities will have the right to direct the Property Trustee to act on their behalf.

Section 4.4 Payment Procedures.

Payments of Distributions (including Additional Amounts, if applicable) in respect of the Capital Securities shall be made by check mailed to the address of the Person entitled thereto as such address shall appear on the Securities Register or, if the Capital Securities are held by a Clearing Agency, such Distributions shall be made to the Clearing Agency in immediately available funds, which shall credit the relevant Persons' accounts at such Clearing Agency on the applicable Distribution Dates. Payments in respect of the Common Securities shall be made in such manner as shall be mutually agreed in writing between the Property Trustee and the Common Securityholder.

Section 4.5 Tax Returns and Reports.

The Administrative Trustees shall prepare (or cause to be prepared), at the Depositor's expense, and file all United States federal, state and local tax and information returns and reports required to be filed by or in respect of the Trust. In this regard, the Administrative Trustees shall (a) prepare and file (or cause to be prepared and filed) the appropriate Internal Revenue Service Form required to be filed in respect of the Trust in each taxable year of the Trust and (b) prepare and furnish (or cause to be prepared and furnished) to each Securityholder the appropriate Internal Revenue Service form and the information required to be provided on such form. The Administrative Trustees shall provide the Depositor and the Property Trustee with a copy of all such returns and reports promptly after such filing or furnishing. The Trustees shall comply with United States federal withholding and backup withholding tax laws and information reporting requirements with respect to any payments to Securityholders under the Trust Securities.

Section 4.6 Payment of Expenses of the Trust.

Pursuant to Section 10.6 of the Indenture, the Depositor, as borrower, has agreed to pay to the Trust, and reimburse the Trust for, the full amount of any costs, expenses or liabilities of the Trust (other than obligations of the Trust to pay the Holders of any Capital Securities or other similar interests in the Trust the amounts due such Holders pursuant to the terms of the Capital Securities or such other similar interests, as the case may be), including, without limitation, any taxes, duties or other governmental charges of whatever nature (other than withholding taxes) imposed on the Trust by the United States or any other taxing authority. Such payment obligation includes any such costs, expenses or liabilities of the Trust that are required by applicable law to be satisfied in connection with a termination of the Trust.

Section 4.7 *Payments under Indenture or Pursuant to Direct Actions.*

Any amount payable hereunder to any Holder of Capital Securities shall be reduced by the amount of any corresponding payment such Holder (or an Owner with respect to the Holder's Capital Securities) has directly received pursuant to Section 5.8 of the Indenture or Section 5.14 of this Trust Agreement.

ARTICLE V

TRUST SECURITIES CERTIFICATES

Section 5.1 *Initial Ownership.*

Upon the creation of the Trust and the contribution by the Depositor pursuant to Section 2.3 and until the issuance of the Trust Securities, and at any time during which no Trust Securities are Outstanding, the Depositor shall be the sole beneficial owner of the Trust.

Section 5.2 *The Trust Securities Certificates.*

The Capital Securities Certificates shall be issued in minimum denominations of \$1,000 Liquidation Amount and integral multiples of \$1,000 in excess thereof, and the Common Securities Certificates shall be issued in denominations of \$1,000 Liquidation Amount and integral multiples thereof. The Trust Securities Certificates shall be executed on behalf of the Trust by manual or facsimile signature of at least one Administrative Trustee and, if executed on behalf of the Trust by facsimile, countersigned by a transfer agent or its agent. The Capital Securities Certificates shall be authenticated by the Property Trustee by manual or facsimile signature of an authorized signatory thereof and, if executed by such authorized signatory of the Property Trustee by facsimile, countersigned by a transfer agent or its agent. Trust Securities Certificates bearing the manual signatures of individuals who were, at the time when such signatures shall have been affixed, authorized to sign on behalf of the Trust or, if executed on behalf of the Trust by facsimile, countersigned by a transfer agent or its agent, shall be validly issued and entitled to the benefits of this Trust Agreement, notwithstanding that such individuals or any of them shall have ceased to be so authorized prior to the delivery of such Trust Securities Certificates or did not hold such offices at the date of delivery of such Trust Securities Certificates. A transferee of a Trust Securities Certificate shall become a Securityholder, and shall be entitled to the rights and subject to the obligations of a Securityholder hereunder, upon due registration of such Trust Securities Certificate in such transferee's name pursuant to Sections 5.4, 5.11 and 5.13.

Section 5.3 *Execution and Delivery of Trust Securities Certificates.*

On the Closing Date, the Administrative Trustees shall cause Trust Securities Certificates, in an aggregate Liquidation Amount as provided in Sections 2.4 and 2.5, to be executed on behalf of the Trust and delivered to or upon the written order of the

Depositor, signed by its chairman of the board, its president, any executive vice president, any managing director or any vice president, treasurer or assistant treasurer or controller without further corporate action by the Depositor, in authorized denominations.

Section 5.4 Registration of Transfer and Exchange of Capital Securities Certificate.

The Depositor shall keep or cause to be kept, at the office or agency maintained pursuant to Section 5.8, a register or registers for the purpose of registering Trust Securities Certificates and transfers and exchanges of Capital Securities Certificates (the “Securities Register”) in which the transfer agent and registrar designated by the Depositor (the “Securities Registrar”), subject to such reasonable regulations as it may prescribe, shall provide for the registration of Capital Securities Certificates and Common Securities Certificates (subject to Section 5.10 in the case of the Common Securities Certificates) and registration of transfers and exchanges of Capital Securities Certificates as herein provided. The Bank shall be the initial Securities Registrar.

Upon surrender for registration of transfer of any Capital Securities Certificate at the office or agency maintained pursuant to Section 5.8, the Administrative Trustees or any one of them shall execute on behalf of the Trust (and if executed on behalf of the Trust by a facsimile signature, such certificate shall be countersigned by a transfer agent or its agent) and deliver, in the name of the designated transferee or transferees, one or more new Capital Securities Certificates in authorized denominations of a like aggregate Liquidation Amount dated the date of execution by such Administrative Trustee or Trustees. The Securities Registrar shall not be required to register the transfer of any Capital Securities that have been called for redemption during a period beginning at the opening of business 15 days before the day of selection for such redemption.

At the option of a Holder, Capital Securities Certificates may be exchanged for other Capital Securities Certificates in authorized denominations of the same class and of a like aggregate Liquidation Amount upon surrender of the Capital Securities Certificates to be exchanged at the office or agency maintained pursuant to Section 5.8.

Every Capital Securities Certificate presented or surrendered for registration of transfer or exchange shall be accompanied by a written instrument of transfer in form satisfactory to an Administrative Trustee and the Securities Registrar duly executed by the Holder or his attorney duly authorized in writing. Each Capital Securities Certificate surrendered for registration of transfer or exchange shall be cancelled and subsequently disposed of by an Administrative Trustee or the Securities Registrar in accordance with such Person’s customary practice.

No service charge shall be made for any registration of transfer or exchange of Capital Securities Certificates, but the Securities Registrar may require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer or exchange of Capital Securities Certificates.

Section 5.5 Mutilated, Destroyed, Lost or Stolen Trust Securities Certificates.

If (a) any mutilated Trust Securities Certificate shall be surrendered to the Securities Registrar, or if the Securities Registrar shall receive evidence to its satisfaction of the destruction, loss or theft of any Trust Securities Certificate and (b) there shall be delivered to the Securities Registrar and the Administrative Trustees such security or indemnity as may be required by them to save each of them harmless, then in the absence of notice that such Trust Securities Certificate shall have been acquired by a bona fide or protected purchaser, the Administrative Trustees, or any one of them, on behalf of the Trust shall execute by manual or facsimile signature and, if executed on behalf of the Trust by facsimile signature, such certificate shall be countersigned by a transfer agent, and make available for delivery, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Trust Securities Certificate, a new Trust Securities Certificate of like class, tenor and denomination. In connection with the issuance of any new Trust Securities Certificate under this Section, the Administrative Trustees or the Securities Registrar may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith. Any duplicate Trust Securities Certificate issued pursuant to this Section shall constitute conclusive evidence of an undivided beneficial interest in the Trust Property, as if originally issued, whether or not the lost, stolen or destroyed Trust Securities Certificate shall be found at any time.

Section 5.6 Persons Deemed Securityholders.

The Trustees or the Securities Registrar shall treat the Person in whose name any Trust Securities Certificate shall be registered in the Securities Register as the owner of such Trust Securities Certificate for the purpose of receiving Distributions and for all other purposes whatsoever, and neither the Trustees nor the Securities Registrar shall be bound by any notice to the contrary.

Section 5.7 Access to List of Securityholders' Names and Addresses.

Each Holder and each Owner shall be deemed to have agreed not to hold the Depositor, the Property Trustee or the Administrative Trustees accountable by reason of the disclosure of its name and address, regardless of the source from which such information was derived.

Section 5.8 Maintenance of Office or Agency.

The Administrative Trustees shall maintain an office or offices or agency or agencies where Capital Securities Certificates may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Trustees in respect of the Trust Securities Certificates may be served. The Administrative Trustees initially designate The Bank of New York, 101 Barclay Street, Floor 8 West, New York, New York 10286, Attn: Corporate Trust Department, as its principal corporate trust office for such purposes. The Administrative Trustees shall give prompt written notice to the

Depositor, the Property Trustee and to the Securityholders of any change in the location of the Securities Register or any such office or agency.

Section 5.9 Appointment of Paying Agent.

The Paying Agent shall make Distributions to Securityholders from the Payment Account and shall report the amounts of such Distributions to the Property Trustee and the Administrative Trustees. Any Paying Agent shall have the revocable power to withdraw funds from the Payment Account for the purpose of making the Distributions referred to above. The Administrative Trustees may revoke such power and remove the Paying Agent if such Trustees determine in their sole discretion that the Paying Agent shall have failed to perform its obligations under this Trust Agreement in any material respect. The Paying Agent shall initially be the Bank, and any co-paying agent chosen by the Bank, and acceptable to the Administrative Trustees and the Depositor. Any Person acting as Paying Agent shall be permitted to resign as Paying Agent upon 30 days' written notice to the Administrative Trustees, the Property Trustee and the Depositor. In the event that the Bank shall no longer be the Paying Agent or a successor Paying Agent shall resign or its authority to act be revoked, the Administrative Trustees shall appoint a successor that is acceptable to the Property Trustee and the Depositor to act as Paying Agent (which shall be a bank or trust company). The Administrative Trustees shall cause such successor Paying Agent or any additional Paying Agent appointed by the Administrative Trustees to execute and deliver to the Trustees an instrument in which such successor Paying Agent or additional Paying Agent shall agree with the Trustees that as Paying Agent, such successor Paying Agent or additional Paying Agent will hold all sums, if any, held by it for payment to the Securityholders in trust for the benefit of the Securityholders entitled thereto until such sums shall be paid to such Securityholders. The Paying Agent shall return all unclaimed funds to the Property Trustee and upon resignation or removal of a Paying Agent such Paying Agent shall also return all funds in its possession to the Property Trustee. The provisions of Sections 8.1, 8.3 and 8.6 herein shall apply to the Bank also in its role as Paying Agent, for so long as the Bank shall act as Paying Agent and, to the extent applicable, to any other paying agent appointed hereunder, and any Paying Agent shall be bound by the requirements with respect to paying agents of securities issued pursuant to the Trust Indenture Act. Any reference in this Agreement to the Paying Agent shall include any co-paying agent unless the context requires otherwise.

Section 5.10 Ownership of Common Securities by Depositor.

On the Closing Date, the Depositor shall acquire and retain beneficial and record ownership of the Common Securities. To the fullest extent permitted by law, other than a transfer in connection with a consolidation or merger of the Depositor into another Person, or any conveyance, transfer or lease by the Depositor of its properties and assets substantially as an entirety to any Person, pursuant to Section 8.1 of the Indenture, any attempted transfer of the Common Securities shall be void. The Administrative Trustees shall cause each Common Securities Certificate issued to the Depositor to contain a

legend stating “THIS CERTIFICATE IS NOT TRANSFERABLE TO ANY PERSON OTHER THAN AS SET FORTH IN THE TRUST AGREEMENT (AS DEFINED BELOW)”.

Section 5.11 *Book-Entry Capital Securities Certificates; Common Securities Certificate.*

(a) The Capital Securities Certificates, upon original issuance, will be issued in the form of a typewritten Capital Securities Certificate or Certificates representing Book-Entry Capital Securities Certificates, to be delivered to The Depository Trust Company, the initial Clearing Agency, by, or on behalf of, the Trust. Such Capital Securities Certificate or Certificates shall initially be registered on the Securities Register in the name of Cede & Co., the nominee of the initial Clearing Agency, and no Owner will receive a Definitive Capital Securities Certificate representing such Owner’s interest in such Capital Securities, except as provided in Section 5.13. Unless and until Definitive Capital Securities Certificates have been issued to Owners pursuant to Section 5.13:

(i) the provisions of this Section 5.11(a) shall be in full force and effect;

(ii) the Securities Registrar and the Trustees shall be entitled to deal with the Clearing Agency for all purposes of this Trust Agreement relating to the Book-Entry Capital Securities Certificates (including the payment of the Liquidation Amount of and Distributions on the Capital Securities evidenced by Book-Entry Capital Securities Certificates and the giving of instructions or directions to Owners of Capital Securities evidenced by Book-Entry Capital Securities Certificates) as the sole Holder of Capital Securities evidenced by Book-Entry Capital Securities Certificates and shall have no obligations to the Owners thereof;

(iii) to the extent that the provisions of this Section 5.11 conflict with any other provisions of this Trust Agreement, the provisions of this Section 5.11 shall control; and

(iv) the rights of the Owners of the Book-Entry Capital Securities Certificates shall be exercised only through the Clearing Agency and shall be limited to those established by law and agreements between such Owners and the Clearing Agency and/or the Clearing Agency Participants. Pursuant to the Certificate Depository Agreement, unless and until Definitive Capital Securities Certificates are issued pursuant to Section 5.13, the initial Clearing Agency will make book-entry transfers among the Clearing Agency Participants and receive and transmit payments on the Capital Securities to such Clearing Agency Participants.

(b) A single Common Securities Certificate representing the Common Securities shall be issued to the Depositor in the form of a definitive Common Securities Certificate.

Section 5.12 Notices to Clearing Agency.

To the extent that a notice or other communication to the Owners is required under this Trust Agreement, unless and until Definitive Capital Securities Certificates shall have been issued to Owners pursuant to Section 5.13, the Trustees shall give all such notices and communications specified herein to be given to Owners to the Clearing Agency, and shall have no obligations to the Owners.

Section 5.13 Definitive Capital Securities Certificates.

If (a) the Depositor advises the Trustees in writing that the Clearing Agency is no longer willing or able to properly discharge its responsibilities with respect to the Capital Securities Certificates, and the Depositor is unable to locate a qualified successor, (b) the Depositor at its option on behalf of the Trust advises the Trustees in writing that it elects to terminate the book-entry system through the Clearing Agency or (c) after the occurrence of a Debenture Event of Default, Owners of Capital Securities Certificates representing beneficial interests aggregating at least a majority of the Liquidation Amount advise the Administrative Trustees in writing that the continuation of a book-entry system through the Clearing Agency is no longer in the best interest of the Owners of Capital Securities Certificates, then the Administrative Trustees shall notify other Trustees and the Clearing Agency, and the Clearing Agency, in accordance with its customary rules and procedures, shall notify all Clearing Agency Participants for whom it holds Capital Securities of the occurrence of any such event and of the availability of the Definitive Capital Securities Certificates to Owners of such class or classes, as applicable, requesting the same. Upon surrender to the Administrative Trustees of the typewritten Capital Securities Certificate or Certificates representing the Book-Entry Capital Securities Certificates by the Clearing Agency, accompanied by registration instructions, the Administrative Trustees, or any one of them, shall execute the Definitive Capital Securities Certificates in accordance with the instructions of the Clearing Agency or, if executed on behalf of the Trust by facsimile, countersigned by a transfer agent or its agent. Neither the Securities Registrar nor the Trustees shall be liable for any delay in delivery of such instructions and may conclusively rely on, and shall be protected in relying on, such instructions. Upon the issuance of Definitive Capital Securities Certificates, the Trustees shall recognize the Holders of the Definitive Capital Securities Certificates as Securityholders. The Definitive Capital Securities Certificates shall be typewritten, printed, lithographed or engraved or may be produced in any other manner as is reasonably acceptable to the Administrative Trustees that meets the requirements of any stock exchange or automated quotation system on which the Capital Securities are then listed or approved for trading, as evidenced by the execution thereof by the Administrative Trustees or any one of them.

Section 5.14 *Rights of Securityholders.*

(a) The legal title to the Trust Property is vested exclusively in the Property Trustee (in its capacity as such) in accordance with Section 2.9, and the Securityholders shall not have any right or title therein other than the undivided beneficial ownership interest in the assets of the Trust conferred by their Trust Securities and they shall have no right to call for any partition or division of property, profits or rights of the Trust except as described below. The Trust Securities shall be personal property giving only the rights specifically set forth therein and in this Trust Agreement. The Trust Securities shall have no preemptive or similar rights and when issued and delivered to Securityholders against payment of the purchase price therefor will be fully paid and nonassessable by the Trust. The Holders of the Capital Securities, in their capacities as such, shall be entitled to the same limitation of personal liability extended to stockholders of private corporations for profit organized under the General Corporation Law of the State of Delaware.

(b) For so long as any Capital Securities remain Outstanding, if, upon a Debenture Event of Default described in Section 2.1(k)(2) of the Supplemental Indenture, the Debenture Trustee fails or the holders of not less than 25% in principal amount of the outstanding Debentures fail to declare the principal of all of the Debentures to be immediately due and payable, the Holders of at least 25% in Liquidation Amount of the Capital Securities then Outstanding shall have such right by a notice in writing to the Depositor and the Debenture Trustee; and upon any such declaration such principal amount of and the accrued interest on all of the Debentures shall become immediately due and payable as set forth in the Indenture, *provided* that the payment of principal and interest on such Debentures shall remain subordinated to the extent provided in the Indenture.

At any time after such a declaration of acceleration with respect to the Debentures has been made and before a judgment or decree for payment of the money due has been obtained by the Debenture Trustee as described in the Indenture, the Holders of a majority in Liquidation Amount of the Capital Securities, by written notice to the Property Trustee, the Depositor and the Debenture Trustee, may rescind and annul such declaration and its consequences if:

(i) the Depositor has paid or deposited with the Debenture Trustee a sum sufficient to pay:

(A) all overdue installments of interest (including any Additional Interest (as defined in the Indenture)) on all of the Debentures,

(B) the principal of any Debentures which have become due otherwise than by such declaration of acceleration and interest thereon at the rate borne by the Debentures, and

(C) all sums paid or advanced by the Debenture Trustee under the Indenture and the reasonable compensation, expenses, disbursements and advances of the Debenture Trustee and the Property Trustee, their agents and counsel; and

(ii) all Events of Default with respect to the Debentures, other than the non-payment of the principal of the Debentures which has become due solely by such acceleration, have been cured or waived as provided in Section 5.13 of the Indenture.

The Holders of a majority in aggregate Liquidation Amount of the Capital Securities may, on behalf of the Holders of all the Capital Securities, waive any past default under the Indenture, except a default in the payment of principal or interest (unless all Events of Default with respect to the Debentures, other than the non-payment of the principal of the Debentures which has become due solely by such acceleration, have been cured or annulled as provided in Section 5.3 of the Indenture and the Depositor has paid or deposited with the Debenture Trustee a sum sufficient to pay all overdue installments of interest (including any Additional Interest (as defined in the Indenture)) on the Debentures, the principal of any Debentures which have become due otherwise than by such declaration of acceleration and interest thereon at the rate borne by the Debentures, and all sums paid or advanced by the Debenture Trustee under the Indenture and the reasonable compensation, expenses, disbursements and advances of the Debenture Trustee and the Property Trustee, their agents and counsel) or a default in respect of a covenant or provision which under the Indenture cannot be modified or amended without the consent of the holder of each outstanding Debenture. No such rescission shall affect any subsequent default or impair any right consequent thereon.

Upon receipt by the Property Trustee of written notice declaring such an acceleration, or rescission and annulment thereof, by Holders of the Capital Securities all or part of which are represented by Book-Entry Capital Securities Certificates, a record date shall be established for determining Holders of Outstanding Capital Securities entitled to join in such notice, which record date shall be at the close of business on the day the Property Trustee receives such notice. The Holders of Outstanding Capital Securities on such record date, or their duly designated proxies, and only such Persons, shall be entitled to join in such notice, whether or not such Holders remain Holders after such record date; *provided* that, unless such declaration of acceleration, or rescission and annulment, as the case may be, shall have become effective by virtue of the requisite percentage having joined in such notice prior to the day which is 90 days after such record date, such notice of declaration of acceleration, or rescission and annulment, as the case may be, shall automatically and without further action by any Holder be canceled and of no further effect. Nothing in this paragraph shall prevent a Holder, or a proxy of a Holder, from giving, after expiration of such 90-day period, a new written notice of declaration of acceleration, or rescission and annulment thereof, as the case may be, that is identical to a written notice which has been canceled pursuant to the proviso to the

preceding sentence, in which event a new record date shall be established pursuant to the provisions of this Section 5.14(b).

(c) For so long as any Capital Securities remain Outstanding, to the fullest extent permitted by law and subject to the terms of this Trust Agreement and the Indenture, upon a Debenture Event of Default specified in Section 5.1(1), 5.1(2) or 5.1(3) of the Indenture, any Holder of Capital Securities shall have the right to institute a proceeding directly against the Depositor, pursuant to Section 5.8 of the Indenture, for enforcement of payment to such Holder of the principal amount of or interest on Debentures having a principal amount equal to the Liquidation Amount of the Capital Securities of such Holder (a "Direct Action"). Except as set forth in Section 5.14(b) and this Section 5.14(c), the Holders of Capital Securities shall have no right to exercise directly any right or remedy available to the holders of, or in respect of, the Debentures.

Section 5.15 *CUSIP Numbers*.

The Administrative Trustees in issuing the Capital Securities may use "CUSIP" numbers (if then generally in use), and, if so, the Property Trustee shall use "CUSIP" numbers in notices of redemption as a convenience to Holders; *provided* that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Capital Securities or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Capital Securities, and any such redemption shall not be affected by any defect in or omission of such numbers. The Administrative Trustees will promptly notify the Property Trustee of any change in the CUSIP numbers.

ARTICLE VI

ACTS OF SECURITYHOLDERS; MEETINGS; VOTING

Section 6.1 *Limitations on Voting Rights*.

(a) Except as provided in this Section, in Sections 5.14, 8.10 and 10.3 and in the Indenture and as otherwise required by law, no Holder of Capital Securities shall have any right to vote or in any manner otherwise control the administration, operation and management of the Trust or the obligations of the parties hereto, nor shall anything herein set forth, or contained in the terms of the Trust Securities Certificates, be construed so as to constitute the Securityholders from time to time as partners or members of an association.

(b) So long as any Debentures are held by the Property Trustee, the Trustees shall not (i) direct the time, method and place of conducting any proceeding for any remedy available to the Debenture Trustee, or executing any trust or power conferred on the Debenture Trustee with respect to such Debentures, (ii) waive any past default which is waivable under Section 5.13 of the Indenture, (iii) exercise any right to rescind or annul a declaration that the principal of all the Debentures shall be due and payable or

(iv) consent to any amendment, modification or termination of the Indenture or the Debentures, where such consent shall be required, without, in each case, obtaining the prior approval of the Holders of at least a majority in Liquidation Amount of all Outstanding Capital Securities; *provided, however*, that where a consent under the Indenture would require the consent of each holder of Debentures affected thereby, no such consent shall be given by the Property Trustee without the prior written consent of each Holder of Capital Securities. The Trustees shall not revoke any action previously authorized or approved by a vote of the Holders of Capital Securities, except by a subsequent vote of the Holders of Capital Securities. The Property Trustee shall notify all Holders of the Capital Securities of any notice of default received from the Debenture Trustee with respect to the Debentures. In addition to obtaining the foregoing approvals of the Holders of the Capital Securities, prior to taking any of the foregoing actions, the Administrative Trustees shall, at the expense of the Depositor, obtain an Opinion of Counsel experienced in such matters to the effect that such action shall not cause the Trust to fail to be classified as a grantor trust for United States federal income tax purposes.

(c) If any proposed amendment to the Trust Agreement provides for, or the Trustees otherwise propose to effect, (i) any action that would adversely affect in any material respect the powers, preferences or special rights of the Capital Securities, whether by way of amendment to the Trust Agreement or otherwise, or (ii) the dissolution, winding-up or termination of the Trust, other than pursuant to the terms of this Trust Agreement, then the Holders of Outstanding Capital Securities as a class will be entitled to vote on such amendment or proposal and such amendment or proposal shall not be effective except with the approval of the Holders of at least a majority in Liquidation Amount of the Outstanding Capital Securities. Notwithstanding any other provision of this Trust Agreement, no amendment to this Trust Agreement may be made if, as a result of such amendment, it would cause the Trust to fail to be classified as a grantor trust for United States federal income tax purposes.

Section 6.2 *Notice of Meetings.*

Notice of all meetings of the Capital Securityholders, stating the time, place and purpose of the meeting, shall be given by the Property Trustee pursuant to Section 10.9 to each Capital Securityholder of record, at his registered address, at least 15 days and not more than 90 days before the meeting. At any such meeting, any business properly before the meeting may be so considered whether or not stated in the notice of the meeting. Any adjourned meeting may be held as adjourned without further notice.

Section 6.3 *Meetings of Capital Securityholders.*

No annual meeting of Securityholders is required to be held. The Administrative Trustees, however, shall call a meeting of Capital Securityholders to vote on any matter upon the written request of the Capital Securityholders of record of 25% of the Outstanding Capital Securities (based upon their Liquidation Amount) and the

Administrative Trustees or the Property Trustee may, at any time in their discretion, call a meeting of Capital Securityholders to vote on any matters as to which Capital Securityholders are entitled to vote.

Capital Securityholders of record of 50% of the Outstanding Capital Securities (based upon their Liquidation Amount), present in person or by proxy, shall constitute a quorum at any meeting of Capital Securityholders.

If a quorum is present at a meeting, an affirmative vote by the Capital Securityholders of record present, in person or by proxy, holding a majority of the Outstanding Capital Securities (based upon their Liquidation Amount) held by holders of record of Outstanding Capital Securities present, either in person or by proxy, at such meeting shall constitute the action of the Capital Securityholders, unless this Trust Agreement requires a greater number of affirmative votes.

Section 6.4 *Voting Rights.*

Securityholders shall be entitled to one vote for each \$1,000 of Liquidation Amount represented by their Trust Securities in respect of any matter as to which such Securityholders are entitled to vote.

Section 6.5 *Proxies, etc.*

At any meeting of Securityholders, any Securityholder entitled to vote thereat may vote by proxy, *provided* that no proxy shall be voted at any meeting unless it shall have been placed on file with the Administrative Trustees, or with such other officer or agent of the Trust as the Administrative Trustees may direct, for verification prior to the time at which such vote shall be taken. Pursuant to a resolution of the Property Trustee, proxies may be solicited in the name of the Property Trustee or one or more officers of the Property Trustee. Only Securityholders of record shall be entitled to vote. When Trust Securities are held jointly by several Persons, any one of them may vote at any meeting in person or by proxy in respect of such Trust Securities, but if more than one of them shall be present at such meeting in person or by proxy, and such joint owners or their proxies so present disagree as to any vote to be cast, such vote shall not be received in respect of such Trust Securities. A proxy purporting to be executed by or on behalf of a Securityholder shall be deemed valid unless challenged at or prior to its exercise, and the burden of proving invalidity shall rest on the challenger. No proxy shall be valid more than three years after its date of execution.

Section 6.6 *Securityholder Action by Written Consent.*

Any action which may be taken by Securityholders at a meeting may be taken without a meeting and without prior notice if Securityholders holding a majority of all Outstanding Trust Securities (based upon their Liquidation Amount) entitled to vote in respect of such action (or such larger proportion thereof as shall be required by any express provision of this Trust Agreement) shall consent to the action in writing.

Section 6.7 Record Date for Voting and Other Purposes.

For the purposes of determining the Securityholders who are entitled to notice of and to vote at any meeting or by written consent, or to participate in any Distribution on the Trust Securities in respect of which a record date is not otherwise provided for in this Trust Agreement, or for the purpose of any other action, the Administrative Trustees may from time to time fix a date, not more than 90 days prior to the date of any meeting of Securityholders or the payment of a Distribution or other action, as the case may be, as a record date for the determination of the identity of the Securityholders of record for such purposes.

Section 6.8 Acts of Securityholders.

Any request, demand, authorization, direction, notice, consent, waiver or other action provided or permitted by this Trust Agreement to be given, made or taken by Securityholders or Owners may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Securityholders or Owners in person or by an agent duly appointed in writing; and, except as otherwise expressly provided herein, such action shall become effective when such instrument or instruments are delivered to an Administrative Trustee. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the “Act” of the Securityholders or Owners signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Trust Agreement and (subject to Section 8.1) conclusive in favor of the Trustees, if made in the manner provided in this Section.

The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which any Trustee receiving the same deems sufficient.

The ownership of Capital Securities shall be proved by the Securities Register.

Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Securityholder of any Trust Security shall bind every future Securityholder of the same Trust Security and the Securityholder of every Trust Security issued upon the registration of transfer thereof or in exchange therefore or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustees or the Trust in reliance thereon, whether or not notation of such action is made upon such Trust Security.

Without limiting the foregoing, a Securityholder entitled hereunder to take any action hereunder with regard to any particular Trust Security may do so with regard to all or any part of the Liquidation Amount of such Trust Security or by one or more duly appointed agents each of which may do so pursuant to such appointment with regard to all or any part of such Liquidation Amount.

If any dispute shall arise between the Securityholders and the Administrative Trustees or among such Securityholders or Trustees with respect to the authenticity, validity or binding nature of any request, demand, authorization, direction, consent, waiver or other Act of such Securityholder or Trustee under this Article VI, then the determination of such matter by the Property Trustee shall be conclusive with respect to such matter.

Section 6.9 Inspection of Records

Upon reasonable notice to the Administrative Trustees and the Property Trustee, the records of the Trust shall be open to inspection by Securityholders during normal business hours for any purpose reasonably related to such Securityholder's interest as a Securityholder.

ARTICLE VII

REPRESENTATIONS AND WARRANTIES

Section 7.1 Representations and Warranties of the Property Trustee and the Delaware Trustee.

The Property Trustee and the Delaware Trustee, each severally on behalf of and as to itself, hereby represents and warrants for the benefit of the Depositor and the Securityholders that:

- (a) the Property Trustee is a New York banking corporation duly organized, validly existing and in good standing under the laws of the State of New York;
- (b) the Property Trustee has full corporate power, authority and legal right to execute, deliver and perform its obligations under this Trust Agreement and has taken all necessary action to authorize the execution, delivery and performance by it of this Trust Agreement;
- (c) the Delaware Trustee is a Delaware banking corporation duly organized, validly existing and in good standing under the laws of the State of Delaware;
- (d) the Delaware Trustee has full corporate power, authority and legal right to execute, deliver and perform its obligations under this Trust Agreement and has taken all necessary action to authorize the execution, delivery and performance by it of this Trust Agreement;

(e) this Trust Agreement has been duly authorized, executed and delivered by the Property Trustee and the Delaware Trustee and constitutes the valid and legally binding agreement of each of the Property Trustee and the Delaware Trustee enforceable against each of them in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles;

(f) the execution, delivery and performance of this Trust Agreement has been duly authorized by all necessary corporate or other action on the part of the Property Trustee and the Delaware Trustee and does not require any approval of stockholders of the Property Trustee and the Delaware Trustee and such execution, delivery and performance will not (i) violate the charter or by-laws of the Property Trustee or the Delaware Trustee, (ii) violate any provision of, or constitute, with or without notice or lapse of time, a default under, or result in the creation or imposition of, any Lien on any properties included in the Trust Property pursuant to the provisions of, any indenture, mortgage, credit agreement, license or other agreement or instrument to which the Property Trustee or the Delaware Trustee is a party or by which it is bound, or (iii) violate any law, governmental rule or regulation of the State of New York or the State of Delaware, as the case may be, governing the banking, trust or general powers of the Property Trustee or the Delaware Trustee (as appropriate in context) or any order, judgment or decree applicable to the Property Trustee or the Delaware Trustee;

(g) neither the authorization, execution or delivery by the Property Trustee or the Delaware Trustee of this Trust Agreement nor the consummation of any of the transactions by the Property Trustee or the Delaware Trustee (as appropriate in context) contemplated herein or therein requires the consent or approval of, the giving of notice to, the registration with or the taking of any other action with respect to any governmental authority or agency under any existing New York or Delaware law governing the banking, trust or general powers of the Property Trustee or the Delaware Trustee, as the case may be; and

(h) there are no proceedings pending or, to the best of each of the Property Trustee's and the Delaware Trustee's knowledge, threatened against or affecting the Property Trustee or the Delaware Trustee in any court or before any governmental authority, agency or arbitration board or tribunal which, individually or in the aggregate, would materially and adversely affect the Trust or would question the right, power and authority of the Property Trustee or the Delaware Trustee, as the case may be, to enter into or perform its obligations as one of the Trustees under this Trust Agreement.

Section 7.2 Representations and Warranties of Depositor:

The Depositor hereby represents and warrants for the benefit of the Securityholders that:

(a) the Trust Securities Certificates issued at the Closing Date on behalf of the Trust have been duly authorized and will have been, duly and validly executed, issued

and delivered by the Trustees pursuant to the terms and provisions of, and in accordance with the requirements of, this Trust Agreement and the Securityholders will be, as of such date, entitled to the benefits of this Trust Agreement; and

(b) there are no taxes, fees or other governmental charges payable by the Trust (or the Trustees on behalf of the Trust) under the laws of the State of Delaware or any political subdivision thereof in connection with the execution, delivery and performance by the Property Trustee or the Delaware Trustee, as the case may be, of this Trust Agreement.

ARTICLE VIII

THE TRUSTEES

Section 8.1 Certain Duties and Responsibilities.

(a) The duties and responsibilities of the Trustees shall be as provided by this Trust Agreement and, in the case of the Property Trustee, by the Trust Indenture Act. Notwithstanding the foregoing, no provision of this Trust Agreement shall require the Trustees to expend or risk their own funds or otherwise incur any financial liability in the performance of any of their duties hereunder, or in the exercise of any of their rights or powers, if they shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to them. Whether or not therein expressly so provided, every provision of this Trust Agreement relating to the conduct or affecting the liability of or affording protection to the Trustees shall be subject to the provisions of this Section. Nothing in this Trust Agreement shall be construed to release an Administrative Trustee from liability for its own gross negligent action, its own gross negligent failure to act, or its own willful misconduct. To the extent that, at law or in equity, an Administrative Trustee has duties (including fiduciary duties) and liabilities relating thereto to the Trust or to the Securityholders, such Administrative Trustee shall not be liable to the Trust or to any Securityholder for such Trustee's good faith reliance on the provisions of this Trust Agreement. The provisions of this Trust Agreement, to the extent that they restrict the duties and liabilities of the Administrative Trustees otherwise existing at law or in equity, are agreed by the Depositor and the Securityholders to replace such other duties and liabilities of the Administrative Trustees.

(b) All payments made by the Property Trustee or a Paying Agent in respect of the Trust Securities shall be made only from the revenue and proceeds from the Trust Property and only to the extent that there shall be sufficient revenue or proceeds from the Trust Property to enable the Property Trustee or a Paying Agent to make payments in accordance with the terms hereof. Each Securityholder, by its acceptance of a Trust Security, agrees that it will look solely to the revenue and proceeds from the Trust Property to the extent legally available for distribution to it as herein provided and that the Trustees are not personally liable to it for any amount distributable in respect of any

Trust Security or for any other liability in respect of any Trust Security. This Section 8.1(b) does not limit the liability of the Trustees expressly set forth elsewhere in this Trust Agreement or, in the case of the Property Trustee, in the Trust Indenture Act.

(c) No provision of this Trust Agreement shall be construed to relieve the Property Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(i) the Property Trustee shall not be liable for any error of judgment made in good faith by an authorized officer of the Property Trustee, unless it shall be proved that the Property Trustee was negligent in ascertaining the pertinent facts;

(ii) the Property Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a majority in Liquidation Amount of the Trust Securities relating to the time, method and place of conducting any proceeding for any remedy available to the Property Trustee, or exercising any trust or power conferred upon the Property Trustee under this Trust Agreement;

(iii) the Property Trustee's sole duty with respect to the custody, safekeeping and physical preservation of the Debentures and the Payment Account shall be to deal with such property in a similar manner as the Property Trustee deals with similar property for its own account, subject to the protections and limitations on liability afforded to the Property Trustee under this Trust Agreement and the Trust Indenture Act;

(iv) the Property Trustee shall not be liable for any interest on any money received by it except as it may otherwise agree in writing with the Depositor; and money held by the Property Trustee need not be segregated from other funds held by it except in relation to the Payment Account maintained by the Property Trustee pursuant to Section 3.1 and except to the extent otherwise required by law; and

(v) the Property Trustee shall not be responsible for monitoring the compliance by the Administrative Trustees or the Depositor with their respective duties under this Trust Agreement, nor shall the Property Trustee be liable for the default or misconduct of the Administrative Trustees or the Depositor.

Section 8.2 *Certain Notices.*

Within ten Business Days after the occurrence of any Event of Default actually known to the Property Trustee, the Property Trustee shall transmit, in the manner and to the extent provided in Section 10.9, notice of such Event of Default to the Securityholders, the Administrative Trustees and the Depositor, unless such Event of Default shall have been cured or waived.

Within five Business Days after the receipt of notice of the Depositor's exercise of its right to defer the payment of interest on the Debentures pursuant to the Indenture, the Administrative Trustee shall transmit, in the manner and to the extent provided in Section 10.9, notice of such exercise to the Securityholders and the Property Trustee, unless such exercise shall have been revoked.

Section 8.3 Certain Rights of Property Trustee.

Subject to the provisions of Section 8.1:

(a) the Property Trustee may rely and shall be protected in acting or refraining from acting in good faith upon any resolution, Opinion of Counsel, certificate, written representation of a Holder or transferee, certificate of auditors or any other certificate, statement, instrument, opinion, report, notice, request, consent, order, appraisal, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) if (i) in performing its duties under this Trust Agreement the Property Trustee is required to decide between alternative courses of action or (ii) in construing any of the provisions of this Trust Agreement the Property Trustee finds the same ambiguous or inconsistent with any other provisions contained herein or (iii) the Property Trustee is unsure of the application of any provision of this Trust Agreement, then, except as to any matter as to which the Capital Securityholders are entitled to vote under the terms of this Trust Agreement, the Property Trustee shall deliver a notice to the Depositor requesting written instructions of the Depositor as to the course of action to be taken and the Property Trustee shall take such action, or refrain from taking such action, as the Property Trustee shall be instructed in writing to take, or to refrain from taking, by the Depositor; *provided, however*, that if the Property Trustee does not receive such instructions of the Depositor within ten Business Days after it has delivered such notice, or such reasonably shorter period of time set forth in such notice (which to the extent practicable shall not be less than two Business Days), it may, but shall be under no duty to, take or refrain from taking such action not inconsistent with this Trust Agreement as it shall deem advisable and in the best interests of the Securityholders, in which event the Property Trustee shall have no liability except for its own bad faith, negligence or willful misconduct;

(c) any direction or act of the Depositor or the Administrative Trustees contemplated by this Trust Agreement shall be sufficiently evidenced by an Officers' Certificate;

(d) whenever in the administration of this Trust Agreement, the Property Trustee shall deem it desirable that a matter be established before undertaking, suffering or omitting any action hereunder, the Property Trustee (unless other evidence is herein specifically prescribed) may, in the absence of bad faith on its part, request and rely upon an Officers' Certificate which, upon receipt of such request, shall be promptly delivered by the Depositor or the Administrative Trustees;

(e) the Property Trustee shall have no duty to see to any recording, filing or registration of any instrument (including any financing or continuation statement or any filing under tax or securities laws) or any rerecording, refiling or reregistration thereof;

(f) the Property Trustee may consult with counsel of its selection (which counsel may be counsel to the Depositor or any of its Affiliates, and may include any of its employees) and the advice of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon and in accordance with such advice; the Property Trustee shall have the right at any time to seek instructions concerning the administration of this Trust Agreement from any court of competent jurisdiction;

(g) the Property Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Trust Agreement at the request or direction of any of the Securityholders pursuant to this Trust Agreement, unless such Securityholders shall have offered to the Property Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(h) the Property Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond, debenture, note or other evidence of indebtedness or other paper or document, unless requested in writing to do so by one or more Securityholders, but the Property Trustee may make such further inquiry or investigation into such facts or matters as it may see fit;

(i) the Property Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through its agents or attorneys; *provided* that the Property Trustee shall be responsible for its own negligence or recklessness with respect to selection of any agent or attorney appointed by it hereunder;

(j) whenever in the administration of this Trust Agreement the Property Trustee shall deem it desirable to receive written instructions with respect to enforcing any remedy or right or taking any other action hereunder the Property Trustee (i) may request written instructions from the Holders of the Trust Securities which written instructions may only be given by the Holders of the same proportion in Liquidation Amount of the Trust Securities as would be entitled to direct the Property Trustee under the terms of the Trust Securities in respect of such remedy, right or action, (ii) may refrain from enforcing such remedy or right or taking such other action until such written instructions are received, and (iii) shall be protected in acting in accordance with such written instructions; and

(k) except as otherwise expressly provided by this Trust Agreement, the Property Trustee shall not be under any obligation to take any action that is discretionary under the provisions of this Trust Agreement.

No provision of this Trust Agreement shall be deemed to impose any duty or obligation on the Property Trustee to perform any act or acts or exercise any right, power, duty or obligation conferred or imposed on it, in any jurisdiction in which it shall be illegal, or in which the Property Trustee shall be unqualified or incompetent in accordance with applicable law, to perform any such act or acts, or to exercise any such right, power, duty or obligation. No permissive power or authority available to the Property Trustee shall be construed to be a duty.

Section 8.4 Not Responsible for Recitals or Issuance of Securities.

The recitals contained herein and in the Trust Securities Certificates shall be taken as the statements of the Trust, and the Trustees do not assume any responsibility for their correctness. The Trustees shall not be accountable for the use or application by the Depositor of the proceeds of the Debentures.

Section 8.5 May Hold Securities.

Any Trustee or any other agent of any Trustee or the Trust, in its individual or any other capacity, may become the owner or pledgee of Trust Securities and, subject to Sections 8.8 and 8.13, except as provided in the definition of the term "Outstanding" in Article I, may otherwise deal with the Trust with the same rights it would have if it were not a Trustee or such other agent.

Section 8.6 Compensation; Indemnity; Fees.

Pursuant to Section 10.6 of the Indenture, the Depositor, as borrower, agrees:

- (a) to pay to the Trustees from time to time such compensation as shall be agreed in writing with the Depositor for all services rendered by them hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);
- (b) except as otherwise expressly provided herein, to reimburse the Trustees upon request for all reasonable expenses, disbursements and advances incurred or made by the Trustees in accordance with any provision of this Trust Agreement (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith; and
- (c) to the fullest extent permitted by applicable law, to indemnify and hold harmless (i) each Trustee, (ii) any Affiliate of any Trustee, (iii) any officer, director, shareholder, employee, representative or agent of any Trustee, and (iv) any employee or agent of the Trust or its Affiliates, (referred to herein as an "Indemnified Person") from and against any and all loss, damage, liability, tax, penalty, expense or claim of any kind or nature whatsoever incurred by such Indemnified Person by reason of the creation, operation or termination of the Trust or any act or omission performed or omitted by such

Indemnified Person in good faith on behalf of the Trust and in a manner such Indemnified Person reasonably believed to be within the scope of authority conferred on such Indemnified Person by this Trust Agreement, except that no Indemnified Person shall be entitled to be indemnified in respect of any loss, damage or claim incurred by such Indemnified Person by reason of negligence or willful misconduct with respect to such acts or omissions. When the Property Trustee incurs expenses or renders services in connection with an Event of Default specified in Section 5.1(4) or Section 5.1(5) of the Indenture, the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable federal or state bankruptcy, insolvency or other similar law.

The provisions of this Section 8.6 shall survive the termination of this Trust Agreement.

No Trustee may claim any lien or charge on any Trust Property as a result of any amount due pursuant to this Section 8.6.

The Depositor and any Trustee (in the case of the Property Trustee, subject to Section 8.8 hereof) may engage in or possess an interest in other business ventures of any nature or description, independently or with others, similar or dissimilar to the business of the Trust, and the Trust and the Holders of Trust Securities shall have no rights by virtue of this Trust Agreement in and to such independent ventures or the income or profits derived therefrom, and the pursuit of any such venture, even if competitive with the business of the Trust, shall not be deemed wrongful or improper. Neither the Depositor, nor any Trustee, shall be obligated to present any particular investment or other opportunity to the Trust even if such opportunity is of a character that, if presented to the Trust, could be taken by the Trust, and the Depositor or any Trustee shall have the right to take for its own account (individually or as a partner or fiduciary) or to recommend to others any such particular investment or other opportunity. Any Trustee may engage or be interested in any financial or other transaction with the Depositor or any Affiliate of the Depositor, or may act as depository for, trustee or agent for, or act on any committee or body of holders of, securities or other obligations of the Depositor or its Affiliates.

Section 8.7 Corporate Property Trustee Required; Eligibility of Trustees.

(a) There shall at all times be a Property Trustee hereunder with respect to the Trust Securities. The Property Trustee shall be a Person that is eligible pursuant to the Trust Indenture Act to act as such, has a combined capital and surplus of at least \$50,000,000, and is a U.S. Person. At all times, the Property Trustee shall be (i) a bank, as defined in Section 581 of the Code or (ii) a U.S. government-owned agency or U.S. government-sponsored enterprise. If any such Person publishes reports of condition at least annually, pursuant to law or to the requirements of its supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such

Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Property Trustee with respect to the Trust Securities shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

(b) There shall at all times be one or more Administrative Trustees hereunder with respect to the Trust Securities. Each Administrative Trustee shall be either a natural person who is at least 21 years of age or a legal entity that shall act through one or more persons authorized to bind that entity, and, in either case, shall be a U.S. Person.

(c) There shall at all times be a Delaware Trustee with respect to the Trust Securities. The Delaware Trustee shall either be (i) a natural person who is at least 21 years of age and a resident of the State of Delaware or (ii) a legal entity with its principal place of business in the State of Delaware and that otherwise meets the requirements of applicable Delaware law that shall act through one or more persons authorized to bind such entity, and, in either case, shall be a U.S. Person.

Section 8.8 Conflicting Interests.

If the Property Trustee has or shall acquire a conflicting interest within the meaning of the Trust Indenture Act, the Property Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and this Trust Agreement.

Section 8.9 Co-Trustees and Separate Trustee.

Unless an Event of Default shall have occurred and be continuing, at any time or times, for the purpose of meeting the legal requirements of the Trust Indenture Act or of any jurisdiction in which any part of the Trust Property may at the time be located, the Depositor and the Administrative Trustees, by agreed action of the majority of such Trustees, shall have power to appoint, and upon the written request of the Administrative Trustees, the Depositor shall for such purpose join with the Administrative Trustees in the execution, delivery, and performance of all instruments and agreements necessary or proper to appoint, one or more Persons approved by the Property Trustee either to act as co-trustee, jointly with the Property Trustee, of all or any part of such Trust Property, or to the extent required by law to act as separate trustee of any such property, in either case with such powers as may be provided in the instrument of appointment, and to vest in such Person or Persons in the capacity aforesaid, any property, title, right or power deemed necessary or desirable, subject to the other provisions of this Section. If the Depositor does not join in such appointment within 15 days after the receipt by it of a request so to do, or in case a Debenture Event of Default has occurred and is continuing, the Property Trustee alone shall have power to make such appointment. Any co-trustee or separate trustee appointed pursuant to this Section shall either be (i) a natural person who is at least 21 years of age and a resident of the United States or (ii) a legal entity with

its principal place of business in the United States that shall act through one or more persons authorized to bind such entity, and, in either case, shall be a U.S. Person.

Should any written instrument from the Depositor be required by any co-trustee or separate trustee so appointed for more fully confirming to such co-trustee or separate trustee such property, title, right, or power, any and all such instruments shall, on request, be executed, acknowledged and delivered by the Depositor.

Every co-trustee or separate trustee shall, to the extent permitted by law, but to such extent only, be appointed subject to the following terms, namely:

(a) The Trust Securities shall be executed and delivered and all rights, powers, duties, and obligations hereunder in respect of the custody of securities, cash and other personal property held by, or required to be deposited or pledged with, the Trustees specified hereunder shall be exercised solely by such Trustees and not by such co-trustee or separate trustee.

(b) The rights, powers, duties, and obligations hereby conferred or imposed upon the Property Trustee in respect of any property covered by such appointment shall be conferred or imposed upon and exercised or performed by the Property Trustee or by the Property Trustee and such co-trustee or separate trustee jointly, as shall be provided in the instrument appointing such co-trustee or separate trustee, except to the extent that under any law of any jurisdiction in which any particular act is to be performed, the Property Trustee shall be incompetent or unqualified to perform such act, in which event such rights, powers, duties and obligations shall be exercised and performed by such co-trustee or separate trustee.

(c) The Property Trustee at any time, by an instrument in writing executed by it, with the written concurrence of the Depositor, may accept the resignation of or remove any co-trustee or separate trustee appointed under this Section, and, in case a Debenture Event of Default has occurred and is continuing, the Property Trustee shall have power to accept the resignation of, or remove, any such co-trustee or separate trustee without the concurrence of the Depositor. Upon the written request of the Property Trustee, the Depositor shall join with the Property Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to effectuate such resignation or removal. A successor to any co-trustee or separate trustee so resigned or removed may be appointed in the manner provided in this Section.

(d) No co-trustee or separate trustee hereunder shall be personally liable by reason of any act or omission of the Property Trustee or any other trustee hereunder.

(e) The Property Trustee shall not be liable by reason of any act of a co-trustee or separate trustee.

(f) Any Act of Holders delivered to the Property Trustee shall be deemed to have been delivered to each such co-trustee and separate trustee.

Section 8.10 Resignation and Removal; Appointment of Successor.

No resignation or removal of any Trustee (the “Relevant Trustee”) and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 8.11.

Subject to the immediately preceding paragraph, the Relevant Trustee may resign at any time by giving written notice thereof to the Securityholders. If the instrument of acceptance by the successor Trustee required by Section 8.11 shall not have been delivered to the Relevant Trustee within 30 days after the giving of such notice of resignation, the Relevant Trustee may petition, at the expense of the Trust, any court of competent jurisdiction for the appointment of a successor Relevant Trustee.

Unless a Debenture Event of Default shall have occurred and be continuing, any Trustee may be removed at any time by Act of the Common Securityholder. If a Debenture Event of Default shall have occurred and be continuing, the Property Trustee or the Delaware Trustee, or both of them, may be removed at such time by Act of the Holders of a majority in Liquidation Amount of the Capital Securities, delivered to the Relevant Trustee (in its individual capacity and on behalf of the Trust). An Administrative Trustee may be removed by the Common Securityholder at any time. If the instrument of acceptance by the successor Trustee required by Section 8.11 shall not have been delivered to the Relevant Trustee within 30 days after such removal, the Relevant Trustee may petition, at the expense of the Trust, any court of competent jurisdiction for the appointment of a successor Relevant Trustee.

If any Trustee shall resign, be removed or become incapable of acting as Trustee, or if a vacancy shall occur in the office of any Trustee for any cause, at a time when no Debenture Event of Default shall have occurred and be continuing, the Common Securityholder, by Act of the Common Securityholder delivered to the retiring Trustee, shall promptly appoint a successor Trustee or Trustees, and the retiring Trustee shall comply with the applicable requirements of Section 8.11. If the Property Trustee or the Delaware Trustee shall resign, be removed or become incapable of continuing to act as the Property Trustee or the Delaware Trustee, as the case may be, at a time when a Debenture Event of Default shall have occurred and be continuing, the Capital Securityholders, by Act of the Securityholders of a majority in Liquidation Amount of the Capital Securities then Outstanding delivered to the retiring Relevant Trustee, shall promptly appoint a successor Relevant Trustee or Trustees, and such successor Trustee shall comply with the applicable requirements of Section 8.11. If an Administrative Trustee shall resign, be removed or become incapable of acting as Administrative Trustee, at a time when a Debenture Event of Default shall have occurred and be continuing, the Common Securityholder by Act of the Common Securityholder delivered to the Administrative Trustee shall promptly appoint a successor Administrative Trustee or Administrative Trustees and such successor Administrative Trustee or Trustees shall comply with the applicable requirements of Section 8.11. If no successor Relevant

Trustee shall have been so appointed by the Common Securityholder or the Capital Securityholders and accepted appointment in the manner required by Section 8.11, any Securityholder who has been a Securityholder of Trust Securities for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Relevant Trustee.

The Property Trustee shall give notice of each resignation and each removal of the Property Trustee or the Delaware Trustee and each appointment of a successor Property Trustee or Delaware Trustee to all Securityholders in the manner provided in Section 10.9 and shall give notice to the Depositor. Each notice shall include the name of the successor Property Trustee or Delaware Trustee, as the case may be, and the address of its Corporate Trust Office if it is the Property Trustee.

Notwithstanding the foregoing or any other provision of this Trust Agreement, in the event any Administrative Trustee or a Delaware Trustee who is a natural person dies or becomes, in the opinion of the Depositor, incompetent or incapacitated, the vacancy created by such death, incompetence or incapacity may be filled by (a) the unanimous act of the remaining Administrative Trustees if there are at least two of them or (b) otherwise by the Depositor (with the successor in each case being a Person who satisfies the eligibility requirement for Administrative Trustees or Delaware Trustee, as the case may be, set forth in Section 8.7).

A successor Trustee must be a U.S. Person to be appointed as such.

Section 8.11 Acceptance of Appointment by Successor.

In case of the appointment hereunder of a successor Relevant Trustee, the retiring Relevant Trustee (if requested by the Depositor) and each successor Relevant Trustee with respect to the Trust Securities shall execute and deliver an amendment hereto wherein each successor Relevant Trustee shall accept such appointment and which (a) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor Relevant Trustee all the rights, powers, trusts and duties of the retiring Relevant Trustee with respect to the Trust Securities and the Trust and (b) shall add to or change any of the provisions of this Trust Agreement as shall be necessary to provide for or facilitate the administration of the Trust by more than one Relevant Trustee, it being understood that nothing herein or in such amendment shall constitute such Relevant Trustees co-trustees and upon the execution and delivery of such amendment the resignation or removal of the retiring Relevant Trustee shall become effective to the extent provided therein and each such successor Relevant Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Relevant Trustee; but, on written request of the Trust or any successor Relevant Trustee such retiring Relevant Trustee shall duly assign, transfer and deliver to such successor Relevant Trustee all Trust Property, all proceeds thereof and money held by such retiring Relevant Trustee hereunder with respect to the Trust Securities and the Trust.

Upon written request of any such successor Relevant Trustee, the Trust shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Relevant Trustee all such rights, powers and trusts referred to in the preceding paragraph.

No successor Relevant Trustee shall accept its appointment unless at the time of such acceptance such successor Relevant Trustee shall be qualified and eligible under this Article.

Section 8.12 Merger, Conversion, Consolidation or Succession to Business.

Any Person into which the Property Trustee or the Delaware Trustee may be merged or converted or with which it may be consolidated, or any Person resulting from any merger, conversion or consolidation to which such Relevant Trustee shall be a party, or any Person succeeding to all or substantially all the corporate trust business of such Relevant Trustee, shall be the successor of such Relevant Trustee hereunder, provided such Person shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto.

Section 8.13 Preferential Collection of Claims Against Depositor or Trust.

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other similar judicial proceeding relative to the Trust or any other obligor upon the Trust Securities or the property of the Trust or of such other obligor or their creditors, the Property Trustee (irrespective of whether any Distributions on the Trust Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Property Trustee shall have made any demand on the Trust for the payment of any past due Distributions) shall be entitled and empowered, to the fullest extent permitted by law, by intervention in such proceeding or otherwise:

(a) to file and prove a claim for the whole amount of any Distributions owing and unpaid in respect of the Trust Securities and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Property Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Property Trustee, its agents and counsel) and of the Holders allowed in such judicial proceeding, and

(b) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same; and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Property Trustee and, in the event the Property Trustee shall consent to the making of such payments directly to the Holders, to pay to the Property Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Property Trustee, its agents and counsel, and any other amounts due the Property Trustee.

Nothing herein contained shall be deemed to authorize the Property Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement adjustment or compensation affecting the Trust Securities or the rights of any Holder thereof or to authorize the Property Trustee to vote in respect of the claim of any Holder in any such proceeding.

Section 8.14 Reports by Property Trustee.

(a) The Property Trustee shall transmit to Securityholders such reports concerning the Property Trustee and its actions under this Trust Agreement as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant thereto. If required by Section 313(a) of the Trust Indenture Act, the Property Trustee shall, within sixty days after each May 15 following the date of this Trust Agreement deliver to Securityholders a brief report, dated as of such May 15, which complies with the provisions of such Section 313(a).

(b) A copy of each such report shall, at the time of such transmission to Holders, be filed by the Property Trustee with each national stock exchange, the Nasdaq National Market or such other interdealer quotation system or self-regulatory organization upon which the Capital Securities are listed or traded, if any, with the Commission and with the Depositor. The Depositor will promptly notify the Property Trustee of any such listing or trading.

Section 8.15 Reports to the Property Trustee.

The Depositor and the Administrative Trustees on behalf of the Trust shall provide to the Property Trustee such documents, reports and information as required by Section 314 of the Trust Indenture Act (if any) and the compliance certificate required by Section 314(a) of the Trust Indenture Act in the form, in the manner and at the times required by Section 314 of the Trust Indenture Act. Delivery of such reports, information and documents to the Property Trustee is for informational purposes only and the Property Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Trust's compliance with any of its covenants hereunder (as to which the Property Trustee is entitled to rely exclusively on Officers' Certificates).

Section 8.16 Evidence of Compliance with Conditions Precedent.

Each of the Depositor and the Administrative Trustees on behalf of the Trust shall provide to the Property Trustee such evidence of compliance with any conditions precedent, if any, provided for in this Trust Agreement that relate to any of the matters set forth in Section 314(c) of the Trust Indenture Act. Any certificate or opinion required to be given by an officer pursuant to Section 314(c)(1) of the Trust Indenture Act shall be given in the form of an Officers' Certificate.

Section 8.17 *Number of Trustees.*

(a) The number of Trustees shall be four, *provided* that the Holder of all of the Common Securities by written instrument may increase or decrease the number of Administrative Trustees. The Property Trustee and the Delaware Trustee may be the same Person.

(b) If a Trustee ceases to hold office for any reason and the number of Administrative Trustees is not reduced pursuant to Section 8.17(a), or if the number of Trustees is increased pursuant to Section 8.17(a), a vacancy shall occur. The vacancy shall be filled with a Trustee appointed in accordance with Section 8.10.

(c) The death, resignation, retirement, removal, bankruptcy, incompetence or incapacity to perform the duties of a Trustee shall not operate to dissolve, terminate or annul the Trust. Whenever a vacancy in the number of Administrative Trustees shall occur, until such vacancy is filled by the appointment of an Administrative Trustee in accordance with Section 8.10, the Administrative Trustees in office, regardless of their number (and notwithstanding any other provision of this Trust Agreement), shall have all the powers granted to the Administrative Trustees and shall discharge all the duties imposed upon the Administrative Trustees by this Trust Agreement.

Section 8.18 *Delegation of Power.*

(a) Any Administrative Trustee may, by power of attorney consistent with applicable law, delegate to any other natural person over the age of 21 (provided such person is a U.S. Person) his or her power for the purpose of executing any documents contemplated in Section 2.7(a), including any registration statement or amendment thereto filed with the Commission, or making any other governmental filing; and

(b) The Administrative Trustees shall have power to delegate from time to time to such of their number or to the Depositor the doing of such things and the execution of such instruments either in the name of the Trust or the names of the Administrative Trustees or otherwise as the Administrative Trustees may deem expedient, to the extent such delegation is not prohibited by applicable law or contrary to the provisions of this Trust Agreement, as set forth herein.

ARTICLE IX

TERMINATION, LIQUIDATION AND MERGER

Section 9.1 *Termination Upon Expiration Date.*

Unless earlier dissolved, the Trust shall automatically dissolve on August 1, 2066 (the “Expiration Date”). Upon such a dissolution, after satisfaction of the liabilities of the Trust, as provided by applicable law, the Trust Property shall be distributed in accordance with Section 9.4.

Section 9.2 Early Termination.

The first to occur of any of the following events is an “Early Termination Event”, the occurrence of which shall cause a dissolution of the Trust:

(a) the occurrence of a Bankruptcy Event in respect of, or the dissolution or liquidation of, the Holder of the Common Securities;

(b) the written direction to the Property Trustee from the Depositor at any time to dissolve the Trust and, after satisfaction of liabilities to creditors of the Trust as provided by applicable law, distribute Debentures to Securityholders in exchange for the Capital Securities (which direction is optional and wholly within the discretion of the Depositor);

(c) the redemption of all of the Capital Securities in connection with the redemption or repayment of all of the Debentures; and

(d) the entry of an order for dissolution of the Trust by a court of competent jurisdiction.

Section 9.3 Termination.

The respective obligations and responsibilities of the Trustees and the Trust created and continued hereby shall terminate upon the latest to occur of the following: (a) the distribution by the Property Trustee to Securityholders upon the liquidation of the Trust pursuant to Section 9.4, or upon the redemption of all of the Trust Securities pursuant to Section 4.2, of all amounts required to be distributed hereunder upon the final payment of the Trust Securities; (b) the payment of any expenses owed by the Trust; and (c) the discharge of all administrative duties of the Administrative Trustees, including the performance of any tax reporting obligations with respect to the Trust or the Securityholders.

Section 9.4 Liquidation.

(a) If an Early Termination Event specified in clause (a), (b) or (d) of Section 9.2 occurs or upon the Expiration Date, the Trust shall be liquidated by the Trustees as expeditiously as the Trustees determine to be possible by distributing, after satisfaction or the making of reasonable provisions for the payment of liabilities to creditors of the Trust as provided by applicable law, to each Securityholder a Like Amount of Debentures, subject to Section 9.4(d). Notice of liquidation shall be given by the Property Trustee by first-class mail, postage prepaid mailed not later than 30 nor more than 60 days prior to the Liquidation Date to each Holder of Trust Securities at such Holder’s address appearing in the Securities Register. All notices of liquidation shall:

(i) state the CUSIP Number of the Trust Securities;

(ii) state the Liquidation Date;

(iii) state that from and after the Liquidation Date, the Trust Securities will no longer be deemed to be Outstanding and any Trust Securities Certificates not surrendered for exchange will be deemed to represent a Like Amount of Debentures; and

(iv) provide such information with respect to the mechanics by which Holders may exchange Trust Securities Certificates for Debentures, or if Section 9.4(d) applies receive a Liquidation Distribution, as the Administrative Trustees or the Property Trustee shall deem appropriate.

(b) Except where Section 9.2(c) or 9.4(d) applies, in order to effect the liquidation of the Trust and distribution of the Debentures to Securityholders, the Property Trustee shall establish a record date for such distribution (which shall be not more than 45 days prior to the Liquidation Date) and, either itself acting as exchange agent or through the appointment of a separate exchange agent, shall establish such procedures as it shall deem appropriate to effect the distribution of Debentures in exchange for the Outstanding Trust Securities Certificates.

(c) Except where Section 9.2(c) or 9.4(d) applies, after the Liquidation Date, (i) the Trust Securities will no longer be deemed to be Outstanding, (ii) certificates representing a Like Amount of Debentures will be issued to Holders of Trust Securities Certificates, upon surrender of such certificates to the Administrative Trustees or their agent for exchange, (iii) if the Capital Securities are then listed or traded on the New York Stock Exchange or other exchange, interdealer quotation system or self-regulatory organization, the Depositor shall use its best efforts to have the Debentures listed on such other exchange, interdealer quotation system or self-regulatory organization as the Capital Securities are then listed or traded, (iv) any Trust Securities Certificates not so surrendered for exchange will be deemed to represent a Like Amount of Debentures, accruing interest at the rate provided for in the Debentures from the last Distribution Date on which a Distribution was made on such Trust Securities Certificates until such certificates are so surrendered (and until such certificates are so surrendered, no payments of interest or principal will be made to Holders of Trust Securities Certificates with respect to such Debentures) and (v) all rights of Securityholders holding Trust Securities will cease, except the right of such Securityholders to receive Debentures upon surrender of Trust Securities Certificates.

(d) In the event that, notwithstanding the other provisions of this Section 9.4, whether because of an order for dissolution entered by a court of competent jurisdiction or otherwise, distribution of the Debentures in the manner provided herein is determined by the Property Trustee not to be practical, the Trust Property shall be liquidated, and the Trust shall be wound-up, by the Property Trustee. In such event, Securityholders will be entitled to receive out of the assets of the Trust available for distribution to Securityholders, after satisfaction of liabilities to creditors of the Trust as provided by

applicable law, an amount equal to the Liquidation Amount per Trust Security plus accumulated and unpaid Distributions thereon to the date of payment (such amount being the "Liquidation Distribution"). If the Liquidation Distribution can be paid only in part because the Trust has insufficient assets available to pay in full the aggregate Liquidation Distribution, then, subject to the next succeeding sentence, the amounts payable by the Trust on the Trust Securities shall be paid on a pro rata basis (based upon Liquidation Amounts). The Holder of the Common Securities will be entitled to receive Liquidation Distributions upon any such winding-up or termination pro rata (determined as aforesaid) with Holders of Capital Securities, except that, if a Debenture Event of Default has occurred and is continuing, the Capital Securities shall have a priority over the Common Securities.

Section 9.5 Mergers, Consolidations, Amalgamations or Replacements of the Trust.

The Trust may not merge with or into, consolidate, amalgamate, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to any corporation or other Person, except pursuant to this Article IX. At the request of the Depositor, with the consent of the Administrative Trustees and without the consent of the Holders of the Capital Securities, the Property Trustee or the Delaware Trustee, the Trust may merge with or into, consolidate, amalgamate, or be replaced by or convey, transfer or lease its properties and assets substantially as an entirety to a trust organized as such under the laws of any State; *provided*, that (i) such successor entity either (a) expressly assumes all of the obligations of the Trust with respect to the Capital Securities or (b) substitutes for the Capital Securities other securities having substantially the same terms as the Capital Securities (the "Successor Securities") so long as the Successor Securities rank the same as the Capital Securities rank in priority with respect to distributions and payments upon liquidation, redemption and otherwise, (ii) the Depositor expressly appoints a trustee of such successor entity possessing the same powers and duties as the Property Trustee as the holder of the Debentures, (iii) the Successor Securities are listed or traded, or any Successor Securities will be listed upon notification of issuance, on any national securities exchange or other organization on which the Capital Securities are then listed or traded, if any, (iv) such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not cause the Capital Securities (including any Successor Securities) to be downgraded by any nationally recognized statistical rating organization, (v) such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not adversely affect the rights, preferences and privileges of the Holders of the Capital Securities (including any Successor Securities) in any material respect, (vi) such successor entity has a purpose substantially identical to that of the Trust, (vii) prior to such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease, the Depositor has received an Opinion of Counsel to the effect that (a) such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not adversely affect the rights, preferences and privileges of the Holders of the Capital Securities (including any Successor Securities) in any material respect, and (b) following such merger,

consolidation, amalgamation, replacement, conveyance, transfer or lease, neither the Trust nor such successor entity will be required to register as an investment company under the 1940 Act and (viii) the Depositor owns all of the common securities of such successor entity and guarantees the obligations of such successor entity under the Successor Securities at least to the extent provided by the Guarantee. Notwithstanding the foregoing, the Trust shall not, except with the consent of Holders of 100% in Liquidation Amount of the Capital Securities, consolidate, amalgamate, merge with or into, or be replaced by or convey, transfer or lease its properties and assets substantially as an entirety to any other Person or permit any other Person to consolidate, amalgamate, merge with or into, or replace it if such consolidation, amalgamation, merger, replacement, conveyance, transfer or lease would cause the Trust or the successor entity to be classified as other than a grantor trust for United States federal income tax purposes.

ARTICLE X

MISCELLANEOUS PROVISIONS

Section 10.1 Limitation of Rights of Securityholders.

The death, incapacity, liquidation, dissolution, termination or bankruptcy of any Person having an interest, beneficial or otherwise, in Trust Securities shall not operate to terminate this Trust Agreement, nor dissolve, terminate or annul the Trust, nor entitle the legal representatives or heirs of such Person or any Securityholder for such Person, to claim an accounting, take any action or bring any proceeding in any court for a partition or winding up of the arrangements contemplated hereby, nor otherwise affect the rights, obligations and liabilities of the parties hereto or any of them.

Section 10.2 Liability of the Common Securityholder.

The Holder of the Common Securities shall be liable for all of the debts and obligations of the Trust (other than with respect to the Trust Securities) to the extent not satisfied out of the Trust's assets.

Section 10.3 Amendment.

(a) This Trust Agreement may be amended from time to time by the Property Trustee, the Administrative Trustees and the Depositor, without the consent of any Securityholders, (i) to cure any ambiguity, correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Trust Agreement, which shall not be inconsistent with the other provisions of this Trust Agreement, (ii) to effect any amendment required in order to make this Trust Agreement consistent with the description of the Trust Agreement contained in the Prospectus, dated September 1, 2005, as supplemented by the Prospectus Supplement, dated August 10, 2006, relating to the Capital Securities or (iii) to modify, eliminate or add to any provisions of this Trust Agreement to such extent as shall be necessary to ensure that the Trust will be classified

for United States federal income tax purposes as a grantor trust at all times that any Trust Securities are Outstanding or to ensure that the Trust will not be required to register as an investment company under the 1940 Act; *provided, however*, that in the case of clause (i), clause (ii) or clause (iii), such action shall not adversely affect in any material respect the interests of any Securityholder, and any such amendments of this Trust Agreement shall become effective when notice thereof is given to the Securityholders.

(b) Except as provided in Section 10.3(c) hereof, any provision of this Trust Agreement may be amended by the Trustees and the Depositor (i) with the consent of Trust Securityholders representing not less than a majority (based upon Liquidation Amounts) of the Trust Securities then Outstanding and (ii) upon receipt by the Trustees of an Opinion of Counsel to the effect that such amendment or the exercise of any power granted to the Trustees in accordance with such amendment will not affect the Trust's status as a grantor trust for United States federal income tax purposes or the Trust's exemption from status of an investment company under the 1940 Act.

(c) In addition to and notwithstanding any other provision in this Trust Agreement, without the consent of each affected Securityholder, this Trust Agreement may not be amended to (i) change the amount or timing of any Distribution on the Trust Securities or otherwise adversely affect the amount of any Distribution required to be made in respect of the Trust Securities as of a specified date or (ii) restrict the right of a Securityholder to institute suit for the enforcement of any such payment on or after such date. Notwithstanding any other provision herein, without the unanimous consent of the Securityholders, this paragraph (c) of this Section 10.3 may not be amended.

(d) Notwithstanding any other provisions of this Trust Agreement, no Trustee shall enter into or consent to any amendment to this Trust Agreement which would cause the Trust to fail or cease to qualify for the exemption from status of an investment company under the 1940 Act or fail or cease to be classified as a grantor trust for United States federal income tax purposes.

(e) Notwithstanding anything in this Trust Agreement to the contrary, without the consent of the Depositor, this Trust Agreement may not be amended in a manner which imposes any additional obligation on the Depositor.

(f) In the event that any amendment to this Trust Agreement is made, the Administrative Trustees shall promptly provide to the Depositor a copy of such amendment.

(g) Neither the Property Trustee nor the Delaware Trustee shall be required to enter into any amendment to this Trust Agreement which affects its own rights, duties or immunities under this Trust Agreement. The Property Trustee shall be entitled to receive an Opinion of Counsel and an Officers' Certificate stating that any amendment to this Trust Agreement is in compliance with this Trust Agreement.

Section 10.4 Separability.

In case any provision in this Trust Agreement or in the Trust Securities Certificates shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 10.5 Governing Law.

THIS TRUST AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF EACH OF THE SECURITYHOLDERS, THE TRUST AND THE TRUSTEES WITH RESPECT TO THIS TRUST AGREEMENT AND THE TRUST SECURITIES SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF DELAWARE (WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES).

Section 10.6 Payments Due on Non-Business Day.

If the date fixed for any payment on any Trust Security shall be a day that is not a Business Day, then such payment need not be made on such date but may be made on the next succeeding day that is a Business Day (except as otherwise provided in Sections 4.1(a) and 4.2(d)), with the same force and effect as though made on the date fixed for such payment, and no interest shall accrue thereon for the period after such date.

Section 10.7 Successors.

This Trust Agreement shall be binding upon and shall inure to the benefit of any successor to the Depositor, the Trust or the Relevant Trustee, including any successor by operation of law. Except in connection with a consolidation, merger or sale involving the Depositor that is permitted under Article Eight of the Indenture and pursuant to which the assignee agrees in writing to perform the Depositor's obligations hereunder, the Depositor shall not assign its obligations hereunder.

Section 10.8 Headings.

The Article and Section headings are for convenience only and shall not affect the construction of this Trust Agreement.

Section 10.9 Reports, Notices and Demands.

Any report, notice, demand or other communication which by any provision of this Trust Agreement is required or permitted to be given or served to or upon any Securityholder or the Depositor may be given or served in writing by deposit thereof, first-class postage prepaid, in the United States mail, hand delivery or facsimile transmission, in each case, addressed, (a) in the case of a Capital Securityholder, to such Capital Securityholder as such Securityholder's name and address may appear on the

Securities Register; and (b) in the case of the Common Securityholder or the Depositor, to JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017, Attention: Treasurer, facsimile no.: (212) 270-1604. Such notice, demand or other communication to or upon a Securityholder shall be deemed to have been sufficiently given or made, for all purposes, upon hand delivery, mailing or transmission.

Any notice, demand or other communication which by any provision of this Trust Agreement is required or permitted to be given or served to or upon the Trust, the Property Trustee, the Delaware Trustee or the Administrative Trustees shall be given in writing addressed (until another address is published by the Trust) as follows: (a) with respect to the Property Trustee to The Bank of New York, 101 Barclay Street, New York, New York 10286, Attention: Corporate Trust Administration; (b) with respect to the Delaware Trustee, to The Bank of New York (Delaware), White Clay Center, Route 273, Newark, Delaware, with a copy to the Property Trustee at the address set forth in Clause (a); and (c) with respect to the Administrative Trustees, to them at the address above for notices to the Depositor, marked "Attention Administrative Trustees of JPMorgan Chase Capital XVIII." Such notice, demand or other communication to or upon the Trust or the Property Trustee shall be deemed to have been sufficiently given or made only upon actual receipt of the writing by the Trust or the Property Trustee.

Section 10.10 Agreement Not to Petition.

Each of the Trustees and the Depositor agree for the benefit of the Securityholders that, until at least one year and one day after the Trust has been terminated in accordance with Article X, they shall not file, or join in the filing of, a petition against the Trust under any bankruptcy, insolvency, reorganization or other similar law (including, without limitation, the United States Bankruptcy Code) (collectively, "Bankruptcy Laws") or otherwise join in the commencement of any proceeding against the Trust under any Bankruptcy Law. In the event the Depositor takes action in violation of this Section 10.10, the Property Trustee agrees, for the benefit of Securityholders, that at the expense of the Depositor, it shall file an answer with the bankruptcy court or otherwise properly contest the filing of such petition by the Depositor against the Trust or the commencement of such action and raise the defense that the Depositor has agreed in writing not to take such action and should be stopped and precluded therefrom and such other defenses, if any, as counsel for the Property Trustee or the Trust may assert. The provisions of this Section 10.10 shall survive the termination of this Trust Agreement.

Section 10.11 Trust Indenture Act; Conflict with Trust Indenture Act.

(a) This Trust Agreement is subject to the provisions of the Trust Indenture Act that are required or deemed to be part of this Trust Agreement and shall, to the extent applicable, be governed by such provisions.

(b) The Property Trustee shall be the only Trustee which is a trustee for the purposes of the Trust Indenture Act.

(c) If any provision hereof limits, qualifies or conflicts with another provision hereof which is required or deemed to be included in this Trust Agreement by any of the provisions of the Trust Indenture Act, such required or deemed provision shall control. If any provision of this Trust Agreement modifies or excludes any provision of the Trust Indenture Act which may be so modified or excluded, the latter provision shall be deemed to apply to this Trust Agreement as so modified or excluded, as the case may be.

(d) The application of the Trust Indenture Act to this Trust Agreement shall not affect the nature of the Trust Securities as equity securities representing undivided beneficial interests in the assets of the Trust.

Section 10.12 Acceptance of Terms of Trust Agreement, Guarantee and Indenture.

THE RECEIPT AND ACCEPTANCE OF A TRUST SECURITY OR ANY INTEREST THEREIN BY OR ON BEHALF OF A SECURITYHOLDER OR ANY BENEFICIAL OWNER, WITHOUT ANY SIGNATURE OR FURTHER MANIFESTATION OF ASSENT, SHALL CONSTITUTE THE UNCONDITIONAL ACCEPTANCE BY THE SECURITYHOLDER AND ALL OTHERS HAVING A BENEFICIAL INTEREST IN SUCH TRUST SECURITY OF ALL THE TERMS AND PROVISIONS OF THIS TRUST AGREEMENT AND AGREEMENT TO THE SUBORDINATION PROVISIONS AND OTHER TERMS OF THE GUARANTEE AND THE INDENTURE, AND SHALL CONSTITUTE THE AGREEMENT OF THE TRUST, SUCH SECURITYHOLDER AND SUCH OTHERS THAT THE TERMS AND PROVISIONS OF THIS TRUST AGREEMENT SHALL BE BINDING, OPERATIVE AND EFFECTIVE AS BETWEEN THE TRUST AND SUCH SECURITYHOLDER AND SUCH OTHERS.

Section 10.13 Holders are Parties.

Notwithstanding that Holders have not executed and delivered this Trust Agreement or any counterpart thereof, Holders shall be deemed to be parties to this Trust Agreement and shall be bound by all of the terms and conditions hereof and of the Trust Securities by acceptance and delivery of the Trust Securities.

Section 10.14 Treatment of Trust as Grantor Trust and Debentures as Debt for Federal Income Tax Purposes.

(a) Holders of Trust Securities by virtue of accepting delivery thereof, agree that the arrangement created by this Trust Agreement shall be treated as a grantor trust under Subpart E of the Code for United States federal income tax purposes and that the Depositor and the Trustees shall be authorized to take any action consistent with such treatment. Neither the Trustees nor the Depositor shall make any check-the-box election for the Trust to be treated as an association under Treas. Reg. § 301.7701-3 or take any other action inconsistent with the treatment of the Trust as a grantor trust for all tax purposes.

(b) Holders of Capital Securities, by virtue of accepting delivery thereof, agree to treat the Debentures as debt for United States federal income tax purposes.

Section 10.15 *Counterparts*.

This Trust Agreement may contain more than one counterpart of the signature page and this Trust Agreement may be executed by the affixing of the signature of each of the Trustees of one of such counterpart signature pages. All of such counterpart signature pages shall be read as though one, and they shall have the same force and effect as though all of the signers had signed a single signature page.

JPMORGAN CHASE & CO.

By: /s/ Authorized Signatory
Name: _____
Title: _____

THE BANK OF NEW YORK,
as Property Trustee

By: /s/ Authorized Signatory
Name: _____
Title: _____

THE BANK OF NEW YORK (DELAWARE),
as Delaware Trustee

By: /s/ Authorized Signatory
Name: _____
Title: _____

_____, as Administrative Trustee

/s/ Authorized Signatory

_____, as Administrative Trustee

/s/ Authorized Signatory

JPMORGAN CHASE CAPITAL XVIII

Certain Sections of this Trust Agreement relating to
Sections 310 through 318 of the
Trust Indenture Act of 1939:

Trust Indenture Act Section	Trust Agreement Section
(§) 310 (a) (1)	8.7
(a) (2)	8.7
(a) (3)	8.9
(a) (4)	2.7(a)(ii)
(b)	8.8
(§) 311 (a)	8.13
(b)	8.13
(§) 312 (a)	5.7
(b)	5.7
(c)	5.7
(§) 313 (a)	8.14(a)
(a) (4)	8.14(b)
(b)	8.14(b)
(c)	10.9
(d)	8.14(c)
(§) 314 (a)	8.15
(b)	Not Applicable
(c) (1)	8.16
(c) (2)	8.16
(c) (3)	Not Applicable
(d)	Not Applicable
(e)	1.1,8.16
(§) 315 (a)	8.1(a), 8.3(a)
(b)	8.2,10.9
(c)	8.1(a)
(d)	8.1,8.3
(e)	Not Applicable
(§) 316 (a)	Not Applicable
(a) (1)(A)	Not Applicable
(a) (1)(B)	Not Applicable
(a) (2)	Not Applicable
(b)	5.14
(c)	6.7
(§) 317 (a) (1)	Not Applicable
(a) (2)	Not Applicable
(b)	5.9
(§) 318 (a)	10.11

Note: This reconciliation and tie sheet shall not, for any purpose, be deemed to be a part of the Trust.

AMENDED AND RESTATED

TRUST AGREEMENT

among

JPMORGAN CHASE & CO., as Depositor,

THE BANK OF NEW YORK,

as Property Trustee,

THE BANK OF NEW YORK (DELAWARE),

as Delaware Trustee,

THE ADMINISTRATIVE TRUSTEES NAMED HEREIN,

and

THE SEVERAL HOLDERS (AS DEFINED HEREIN)

Dated as of February 2, 2007

JPMORGAN CHASE CAPITAL XXI

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AMENDED AND RESTATED TRUST AGREEMENT, dated as of February 2, 2007, among (i) JPMorgan Chase & Co., a Delaware corporation (including any successors or assigns, the “Depositor”), (ii) The Bank of New York, a New York banking corporation, as property trustee (in each such capacity, the “Property Trustee” and, in its separate corporate capacity and not in its capacity as Property Trustee, the “Bank”), (iii) The Bank of New York (Delaware), a banking corporation organized under the laws of the State of Delaware, as Delaware trustee (the “Delaware Trustee”), (iv) Michael J. Cavanagh, an individual, and Mark I. Kleinman, an individual, each of whose address is c/o JPMorgan Chase & Co., 270 Park Avenue, New York, NY 10017 (each an “Administrative Trustee” and collectively the “Administrative Trustees”) (the Property Trustee, the Delaware Trustee and the Administrative Trustees referred to collectively as the “Trustees”) and (v) the several Holders, as hereinafter defined.

W I T N E S S E T H

WHEREAS, the Depositor and certain of the trustees have heretofore duly declared and established a statutory trust pursuant to the Delaware Statutory Trust Act by entering into that certain Trust Agreement, dated as of April 27, 2005 (the “Original Trust Agreement”), and by the execution and filing with the Secretary of State of the State of Delaware of the Certificate of Trust, filed on April 27, 2005 (the “Certificate of Trust”), each attached as Exhibit A;

WHEREAS, the parties hereto desire to amend and restate the Original Trust Agreement in its entirety as set forth herein to provide for, among other things, (i) the issuance of the Common Securities by the Trust to the Depositor, (ii) the issuance and sale of the Capital Securities by the Trust pursuant to the Underwriting Agreement and (iii) the acquisition by the Trust from the Depositor of all of the right, title and interest in the Debentures; and

NOW THEREFORE, in consideration of the agreements and obligations set forth herein and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, each party, for the benefit of the other parties and for the benefit of the Securityholders, hereby amends and restates the Original Trust Agreement in its entirety and agrees as follows:

ARTICLE I

DEFINED TERMS

Section 1.1 *Definitions.*

For all purposes of this Trust Agreement, except as otherwise expressly provided or unless the context otherwise requires:

(a) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;

(b) all other terms used herein that are defined in the Trust Indenture Act, either directly or by reference thereto, have the meanings assigned to them therein;

(c) unless the context otherwise requires, any reference to an “Article” or a “Section” refers to an Article or a Section, as the case may be, of this Trust Agreement; and

(d) the words “herein”, “hereof” and “hereunder” and other words of similar import refer to this Trust Agreement as a whole and not to any particular Article, Section or other subdivision.

“Act” has the meaning specified in Section 6.8.

“*Additional Amount*” means, with respect to Trust Securities of a given Liquidation Amount and/or a given period, the amount of Additional Interest (as defined in the Indenture) paid by the Depositor on a Like Amount of Debentures for such period.

“*Administrative Trustee*” means each of the individuals identified as an “Administrative Trustee” in the preamble to this Trust Agreement solely in such individual’s capacity as Administrative Trustee of the Trust and not in such individual’s individual capacity, or such Administrative Trustee’s successor in interest in such capacity, or any successor or additional administrative trustee appointed as herein provided.

“*Affiliate*” of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, “control” when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“*Bank*” has the meaning specified in the preamble to this Trust Agreement.

“*Bankruptcy Event*” means, with respect to any Person:

(a) the entry of a decree or order for relief in respect to such Person by a court having jurisdiction in the premises in an involuntary case under any applicable bankruptcy, insolvency or reorganization law now or hereafter in effect of the United States of America or any political subdivision thereof, and such decree or order shall have continued unstayed and in effect for a period of 60 consecutive days; or

(b) the commencement by such Person of a voluntary case under any applicable bankruptcy, insolvency or reorganization law now or hereafter in effect of the United States of America or a political subdivision thereof, or consent to the entry of an order for relief in an involuntary case under any such law.

“*Bankruptcy Laws*” has the meaning specified in Section 10.10.

“*Board Resolution*” means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Depositor to have been duly adopted by the Depositor’s Board of Directors, or such committee of the Board of Directors or officers of the Depositor to which authority to act on behalf of the Board of Directors has been delegated, and to be in full force and effect on the date of such certification, and delivered to the Trustees.

“*Book-Entry Capital Securities Certificates*” means a beneficial interest in the Capital Securities Certificates, ownership and transfers of which shall be made through book entries by a Clearing Agency as described in Section 5.11.

“*Business Day*” means a day other than a Saturday or Sunday or other day on which banking institutions in The City of New York are authorized or required by law or executive order to remain closed, or a day on which the Corporate Trust Office of the Property Trustee or the Debenture Trustee is closed for business or a day on which dealings in deposits in U.S. dollars are not transacted in the London interbank market.

“*Capital Securities Certificate*” means a certificate evidencing ownership of Capital Securities, substantially in the form attached as Exhibit B.

“*Capital Security*” means an undivided beneficial interest in the assets of the Trust, having a Liquidation Amount of \$1,000 and having the rights provided therefor in this Trust Agreement, including the right to receive Distributions and a Liquidation Distribution as provided herein.

“*Capital Securityholder*” means a Holder of Capital Securities.

“*Certificate Depository Agreement*” means the agreement among the Trust, the Depositor and The Depository Trust Company, as the initial Clearing Agency, dated as of the Closing Date, relating to the Trust Securities Certificates, as the same may be amended and supplemented from time to time.

“*Certificate of Trust*” has the meaning specified in the recitals hereof, as amended from time to time.

“*Clearing Agency*” means an organization registered as a “clearing agency” pursuant to Section 17A of the Securities Exchange Act of 1934, as amended. The Depository Trust Company will be the initial Clearing Agency.

“*Clearing Agency Participant*” means a broker, dealer, bank, other financial institution or other Person for whom from time to time a Clearing Agency effects book-entry transfers and pledges of securities deposited with the Clearing Agency.

“*Closing Date*” means the date of execution and delivery of this Trust Agreement.

“*Code*” means the Internal Revenue Code of 1986, as amended.

“*Commission*” means the Securities and Exchange Commission, as from time to time constituted, created under the Securities Exchange Act of 1934, as amended, or, if at any time after the execution of this instrument such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

“*Common Securities Certificate*” means a certificate evidencing ownership of Common Securities, substantially in the form attached as Exhibit C.

“*Common Security*” means an undivided beneficial interest in the assets of the Trust, having a Liquidation Amount of \$1,000 and having the rights provided therefor in this Trust Agreement, including the right to receive Distributions and a Liquidation Distribution as provided herein.

“*Common Securityholder*” means a Holder of Common Securities.

“*Corporate Trust Office*” means (i) when used with respect to the Property Trustee, the principal office of the Property Trustee located in New York, New York, and (ii) when used with respect to the Debenture Trustee, the principal office of the Debenture Trustee located in New York, New York.

“*Debenture Event of Default*” means an “Event of Default” as defined in the Indenture (as such definition is amended by the provisions of the Supplemental Indenture).

“*Debenture Maturity Date*” means the “Final Maturity Date” as defined in the Indenture.

“*Debenture Redemption Date*” means, with respect to any Debentures to be redeemed under the Indenture, any date fixed for redemption under the Indenture.

“*Debenture Repayment Date*” means, with respect to any Debentures to be repaid under the Indenture, any date fixed for repayment under the Indenture.

“*Debenture Trustee*” means The Bank of New York, a New York banking corporation, as trustee under the Indenture, and any successor trustee appointed as provided therein.

“*Debentures*” means the initial \$851,000,000 aggregate principal amount, and any additional authorized aggregate principal amount, of the Depositor’s Floating Rate Junior Subordinated Deferrable Interest Debentures, Series U, issued pursuant to the Indenture, a form of which is attached as Exhibit D.

“*Definitive Capital Securities Certificates*” means either or both (as the context requires) of (a) Capital Securities Certificates issued as Book-Entry Capital Securities Certificates as provided in Section 5.11(a) and (b) Capital Securities Certificates issued in certificated, fully registered form as provided in Section 5.13.

“*Delaware Statutory Trust Act*” means Chapter 38 of Title 12 of the Delaware Code, 12 Del. C. 3801, *et seq.*, as it may be amended from time to time.

“*Delaware Trustee*” means the Person identified as the “Delaware Trustee” in the preamble to this Trust Agreement solely in its capacity as Delaware Trustee of the Trust and not in its individual capacity, or its successor in interest in such capacity, or any successor Delaware Trustee appointed as herein provided.

“*Depositor*” has the meaning specified in the preamble to this Trust Agreement.

“*Distribution Date*” has the meaning specified in Section 4.1(a).

“*Distributions*” means amounts payable in respect of the Trust Securities as provided in Section 4.1.

“*Early Termination Event*” has the meaning specified in Section 9.2.

“*Event of Default*” means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) the occurrence of a Debenture Event of Default; or

(b) default by the Property Trustee in the payment of any Distribution when it becomes due and payable, and continuation of such default for a period of 30 days; or

(c) default by the Property Trustee in the payment of any Redemption Price of any Trust Security when it becomes due and payable; or

(d) default in the performance, or breach, in any material respect, of any covenant or warranty of the Trustees in this Trust Agreement (other than a covenant or warranty a default in the performance or breach of which is dealt with in clause (b) or (c) above) and continuation of such default or breach for a period of 90 days after there has been given, by registered or certified mail, to the defaulting Trustee or Trustees by the Holders of at least 25% in aggregate Liquidation Amount of the Outstanding Capital

Securities, a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a “Notice of Default” hereunder; or

(e) the occurrence of a Bankruptcy Event with respect to the Property Trustee and the failure by the Depositor to appoint a successor Property Trustee within 90 days thereof.

“*Expiration Date*” has the meaning specified in Section 9.1.

“*Federal Reserve*” means the Board of Governors of the Federal Reserve System, as from time to time constituted, or if at any time after the execution of this Trust Agreement the Federal Reserve is not existing and performing the duties now assigned to it, then the body performing such duties at such time.

“*Guarantee*” means the Guarantee Agreement executed and delivered by the Depositor and The Bank of New York, as trustee, contemporaneously with the execution and delivery of this Trust Agreement, for the benefit of the Holders of the Trust Securities, as amended from time to time.

“*Indenture*” means the Junior Subordinated Indenture, dated as of December 1, 1996, between the Depositor and the Debenture Trustee, as trustee, as amended or supplemented from time to time.

“*Lien*” means any lien, pledge, charge, encumbrance, mortgage, deed of trust, adverse ownership interest, hypothecation, assignment, security interest or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever.

“*Like Amount*” means (a) with respect to a redemption of Trust Securities, Trust Securities having a Liquidation Amount equal to the principal amount of Debentures to be contemporaneously redeemed in accordance with the Indenture the proceeds of which will be used to pay the Redemption Price of such Trust Securities, and (b) with respect to a distribution of Debentures to Holders of Trust Securities in connection with a dissolution or liquidation of the Trust, Debentures having a principal amount equal to the Liquidation Amount of the Trust Securities of the Holder to whom such Debentures are distributed.

“*Liquidation Amount*” means the stated amount of \$1,000 per Trust Security.

“*Liquidation Date*” means the date on which Debentures are to be distributed to Holders of Trust Securities in connection with a dissolution and liquidation of the Trust pursuant to Section 9.4(a).

“*Liquidation Distribution*” has the meaning specified in Section 9.4(d).

“*1940 Act*” means the Investment Company Act of 1940, as amended.

“*Officers’ Certificate*” means a certificate signed by the Chairman and Chief Executive Officer, President, Managing Director or a Vice President, and by the Treasurer, an Associate Treasurer, an Assistant Treasurer, the Controller, the Secretary or an Assistant Secretary, of the Depositor, and delivered to the appropriate Trustee. One of the officers signing an Officers’ Certificate given pursuant to Section 8.16 shall be the principal executive, financial or accounting officer of the Depositor. Any Officers’ Certificate delivered with respect to compliance with a condition or covenant provided for in this Trust Agreement shall include:

- (a) a statement that each officer signing the Officers’ Certificate has read the covenant or condition and the definitions relating thereto;
- (b) a brief statement of the nature and scope of the examination or investigation undertaken by each officer in rendering the Officers’ Certificate;
- (c) a statement that each such officer has made such examination or investigation as, in such officer’s opinion, is necessary to enable such officer to express an informed opinion as to whether or not such covenant or condition has been complied with; and
- (d) a statement as to whether, in the opinion of each such officer, such condition or covenant has been complied with.

“*Opinion of Counsel*” means a written opinion of counsel, who may be counsel for the Trust, the Property Trustee or the Depositor, and who shall be reasonably acceptable to the Property Trustee.

“*Original Trust Agreement*” has the meaning specified in the recitals to this Trust Agreement.

“*Outstanding*”, when used with respect to Trust Securities, means, as of the date of determination, all Trust Securities represented by Trust Securities Certificates theretofore executed and delivered under this Trust Agreement, *except*:

- (a) Trust Securities represented by Trust Securities Certificates theretofore cancelled by the Securities Registrar or delivered to the Securities Registrar for cancellation;
- (b) Trust Securities for whose payment or redemption money in the necessary amount has been theretofore deposited with the Property Trustee or any Paying Agent for the Holders of such Trust Securities; *provided* that, if such Trust Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Trust Agreement; and
- (c) Trust Securities which have been paid or that are represented by Trust Securities Certificates in exchange for or in lieu of which other Trust Securities

Certificates have been executed and delivered pursuant to this Trust Agreement, including pursuant to Sections 5.4, 5.5, 5.11 and 5.13; *provided, however*, that in determining whether the Holders of the requisite Liquidation Amount of the Outstanding Capital Securities have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Capital Securities owned by the Depositor, any Trustee or any Affiliate of the Depositor or any Trustee shall be disregarded and deemed not to be Outstanding, except that (a) in determining whether any Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Capital Securities that such Trustee actually knows to be so owned shall be so disregarded and (b) the foregoing shall not apply at any time when all of the Outstanding Capital Securities are owned by the Depositor, one or more of the Trustees and/or any such Affiliate. Capital Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Administrative Trustees the pledgee's right so to act with respect to such Capital Securities and that the pledgee is not the Depositor or any Affiliate of the Depositor.

“*Owner*” means each Person who is the beneficial owner of a Book-Entry Capital Securities Certificate as reflected in the records of the Clearing Agency or, if a Clearing Agency Participant is not the beneficial owner, then as reflected in the records of a Person maintaining an account with such Clearing Agency (directly or indirectly, in accordance with the rules of such Clearing Agency).

“*Paying Agent*” means any paying agent or co-paying agent appointed pursuant to Section 5.9 and shall initially be the Bank.

“*Payment Account*” means a segregated non-interest-bearing corporate trust account maintained by the Property Trustee with the Bank in its corporate trust department for the benefit of the Securityholders in which all amounts paid in respect of the Debentures will be held and from which the Property Trustee, through the Paying Agent, shall make payments to the Securityholders in accordance with Sections 4.1 and 4.2.

“*Person*” means any individual, corporation, partnership, joint venture, trust, limited liability company or corporation, unincorporated organization or government or any agency or political subdivision thereof.

“*Property Trustee*” means the Person identified as the “Property Trustee” in the preamble to this Trust Agreement solely in its capacity as Property Trustee of the Trust heretofore created and continued hereunder and not in its individual capacity, or its successor in interest in such capacity, or any successor property trustee appointed as herein provided.

“*Redemption Date*” means, with respect to any Trust Security to be redeemed, the date fixed for such redemption by or pursuant to this Trust Agreement; *provided* that each

Debenture Redemption Date, each Debenture Repayment Date and the Debenture Maturity Date shall be a Redemption Date for a Like Amount of Trust Securities.

“*Redemption Price*” means, with respect to any Trust Security, the amount paid by the Depositor upon the concurrent redemption of a Like Amount of Debentures, plus accumulated and unpaid Distributions to the Redemption Date, allocated on a *pro rata* basis (based on Liquidation Amounts) among the Trust Securities.

“*Relevant Trustee*” shall have the meaning specified in Section 8.10.

“*Securities Register*” and “*Securities Registrar*” have the respective meanings specified in Section 5.4.

“*Securityholder*” or “*Holder*” means a Person in whose name a Trust Security or Trust Securities Certificate is registered in the Securities Register; any such Person shall be a beneficial owner within the meaning of the Delaware Statutory Trust Act; *provided, however*, that in determining whether the Holders of the requisite amount of Capital Securities have voted on any matter provided for in this Trust Agreement, then for the purpose of any such determination, so long as Definitive Capital Securities Certificates have not been issued, the term Securityholders or Holders as used herein shall refer to the Owners.

“*Supplemental Indenture*” means the Supplemental Indenture, dated as of February 2, 2007, between the Depositor and the Debenture Trustee, as trustee, to the Indenture.

“*Trust*” means the Delaware statutory trust continued hereby and identified on the cover page to this Trust Agreement.

“*Trust Agreement*” means this Amended and Restated Trust Agreement, as the same may be modified, amended or supplemented in accordance with the applicable provisions hereof, including (i) all exhibits hereto and (ii) for all purposes of this Trust Agreement and any such modification, amendment or supplement, the provisions of the Trust Indenture Act that are deemed to be a part of and govern this Trust Agreement and any such modification, amendment or supplement, respectively.

“*Trust Indenture Act*” means the Trust Indenture Act of 1939 as in force at the date as of which this instrument was executed; *provided, however*, that in the event the Trust Indenture Act of 1939 is amended after such date, “*Trust Indenture Act*” means, to the extent required by any such amendment, the Trust Indenture Act of 1939 as so amended.

“*Trust Property*” means (a) the Debentures, (b) any cash on deposit in, or owing to, the Payment Account and (c) all proceeds and rights in respect of the foregoing.

“*Trust Securities Certificate*” means any one of the Common Securities Certificates or the Capital Securities Certificates.

“*Trust Security*” means any one of the Common Securities or the Capital Securities.

“*Trustees*” means, collectively, the Property Trustee, the Delaware Trustee and the Administrative Trustees.

“*Underwriting Agreement*” means the Pricing Agreement, dated as of January 26, 2007, among the Trust, the Depositor and J.P. Morgan Securities Inc., as representative of the underwriters named therein, incorporating the Standard Provisions dated August 10, 2006.

“*U.S. Person*” means a United States person as defined in Section 7701(a)(30) of the Code.

ARTICLE II

CONTINUATION OF THE TRUST

Section 2.1 *Name.*

The Trust continued hereby shall be known as “JPMorgan Chase Capital XXI,” as such name may be modified from time to time by the Administrative Trustees following written notice to the Holders of Trust Securities and the other Trustees, in which name the Trustees engage in the transactions contemplated hereby, make and execute contracts and other instruments on behalf of the Trust and sue and can be sued.

Section 2.2 *Office of the Delaware Trustee; Principal Place of Business.*

The address of the Delaware Trustee in the State of Delaware is c/o The Bank of New York (Delaware), White Clay Center, Route 273, Newark, Delaware 19711, Attention: Corporate Trust Department, or such other address in the State of Delaware as the Delaware Trustee may designate by written notice to the Securityholders and the Depositor. The principal executive office of the Trust is c/o JPMorgan Chase & Co., 270 Park Avenue, New York, NY 10017.

Section 2.3 *Initial Contribution of Trust Property; Organizational Expenses.*

The Property Trustee acknowledges receipt in trust from the Depositor in connection with the Original Trust Agreement of the sum of \$10, which constituted the initial Trust Property. The Depositor shall pay organizational expenses of the Trust as they arise or shall, upon request of any Trustee, promptly reimburse such Trustee for any such expenses paid by such Trustee. The Depositor shall make no claim upon the Trust Property for the payment of such expenses.

Section 2.4 Issuance of the Capital Securities.

The Depositor, on behalf of the Trust and pursuant to the Original Trust Agreement, executed and delivered the Underwriting Agreement. Contemporaneously with the execution and delivery of this Trust Agreement, an Administrative Trustee, on behalf of the Trust, shall execute in accordance with Section 5.2 and deliver to the Underwriters named in the Underwriting Agreement Capital Securities Certificates, registered in the name of the nominee of the initial Clearing Agency, in an aggregate amount of 850,000 Capital Securities having an aggregate Liquidation Amount of \$850,000,000, against receipt of an aggregate purchase price plus accrued distributions from February 2, 2007, if any, on such Capital Securities of \$844,296,500 which amount such Administrative Trustee shall promptly deliver to the Property Trustee. On any one or more dates after the execution and delivery of this Trust Agreement additional Capital Securities Certificates representing Capital Securities with an aggregate Liquidation Amount up to \$425,000,000 may be issued in accordance with Section 5.2, registered in the name of the nominee of the initial Clearing Agency, against receipt by the Property Trustee of the purchase price that is determined by the Depositor. Such additional Capital Securities may be issued at a different offering price and accrue distributions from a different date than the Capital Securities being issued hereby.

Section 2.5 Issuance of the Common Securities; Subscription and Purchase of Debentures.

Contemporaneously with the execution and delivery of this Trust Agreement, an Administrative Trustee, on behalf of the Trust, shall execute in accordance with Section 5.2 and deliver to the Depositor Common Securities Certificates, registered in the name of the Depositor, in an aggregate amount of 1,000 Common Securities having an aggregate Liquidation Amount of \$1,000,000 against payment by the Depositor of an aggregate purchase price of \$1,000,000, plus accrued distributions from February 2, 2007, if any, on such Common Securities, which amount such Administrative Trustee shall promptly deliver to the Property Trustee. Contemporaneously therewith, an Administrative Trustee, on behalf of the Trust, shall subscribe to and purchase from the Depositor Debentures, registered in the name of the Trust and having an aggregate principal amount equal to \$851,000,000, and, in satisfaction of the purchase price plus accrued interest from February 2, 2007, if any, for such Debentures, the Property Trustee, on behalf of the Trust, shall deliver to the Depositor the sum of \$845,296,500 (being the sum of the amounts delivered to the Property Trustee pursuant to (i) the second sentence of Section 2.4 and (ii) the first sentence of this Section 2.5). In connection with any subsequent issuance of Capital Securities as set forth in the third sentence of Section 2.4, an Administrative Trustee, on behalf of the Trust, contemporaneously with any such additional issuance, shall subscribe to and purchase from the Depositor Debentures, registered in the name of the Trust, having an aggregate principal amount equal to the aggregate Liquidation Amount of Capital Securities being issued by the Trust pursuant to the third sentence of Section 2.4 against payment of a purchase price equal to the aggregate purchase prices of the Capital Securities being so issued.

Section 2.6 Declaration of Trust.

The exclusive purposes and functions of the Trust are (a) to issue and sell Trust Securities, (b) to use the proceeds from such sale to acquire the Debentures and (c) to engage in those activities necessary or incidental thereto. The Depositor hereby appoints the Trustees as trustees of the Trust, to have all the rights, powers and duties to the extent set forth herein, and the Trustees hereby accept such appointment. The Property Trustee hereby declares that it will hold the Trust Property in trust upon and subject to the conditions set forth herein for the benefit of the Trust and the Securityholders. The Administrative Trustees shall have all rights, powers and duties set forth herein and in accordance with applicable law with respect to accomplishing the purposes of the Trust. The Delaware Trustee shall not be entitled to exercise any powers, nor shall the Delaware Trustee have any of the duties and responsibilities, of the Property Trustee or the Administrative Trustees set forth herein. The Delaware Trustee shall be one of the Trustees of the Trust for the sole and limited purpose of fulfilling the requirements of Section 3807 of the Delaware Statutory Trust Act.

Section 2.7 Authorization to Enter into Certain Transactions.

(a) The Trustees shall conduct the affairs of the Trust in accordance with the terms of this Trust Agreement. Subject to the limitations set forth in paragraph (b) of this Section and Article VIII and in accordance with the following provisions (i) and (ii), the Trustees shall have the authority to enter into all transactions and agreements determined by the Trustees to be appropriate in exercising the authority, express or implied, otherwise granted to the Trustees under this Trust Agreement, and to perform all acts in furtherance thereof, including without limitation, the following:

(i) As among the Trustees, each Administrative Trustee, acting singly or collectively, shall have the power and authority to act on behalf of the Trust with respect to the following matters:

(A) the issuance and sale of the Trust Securities;

(B) causing the Trust to enter into, and to execute, deliver and perform on behalf of the Trust, the Certificate Depository Agreement and such other agreements as may be necessary or desirable in connection with the purposes and function of the Trust;

(C) assisting in the registration of the Capital Securities under the Securities Act of 1933, as amended, and under state securities or blue sky laws, and the qualification of this Trust Agreement as a trust indenture under the Trust Indenture Act;

(D) assisting in the listing, if any, of the Capital Securities upon such national securities exchange or exchanges or automated quotation

system or systems as shall be determined by the Depositor and the registration of the Capital Securities under the Securities Exchange Act of 1934, as amended, and the preparation and filing of all periodic and other reports and other documents pursuant to the foregoing;

(E) the sending of notices (other than notices of default) and other information regarding the Trust Securities and the Debentures to the Securityholders in accordance with this Trust Agreement;

(F) the appointment of a Paying Agent and Securities Registrar in accordance with this Trust Agreement;

(G) registering transfer of the Trust Securities in accordance with this Trust Agreement;

(H) to the extent provided in this Trust Agreement, the winding up of the affairs of and liquidation of the Trust and the execution and filing of the certificate of cancellation with the Secretary of State of the State of Delaware;

(I) unless otherwise required by the Delaware Statutory Trust Act or the Trust Indenture Act, executing on behalf of the Trust (either acting alone or together with any or all of the Administrative Trustees) any documents that the Administrative Trustees have the power to execute pursuant to this Trust Agreement; and

(J) taking any action incidental to the foregoing as the Trustees may from time to time determine is necessary or advisable to give effect to the terms of this Trust Agreement for the benefit of the Securityholders (without consideration of the effect of any such action on any particular Securityholder).

(ii) As among the Trustees, the Property Trustee shall have the power, duty and authority to act on behalf of the Trust with respect to the following matters:

(A) the establishment of the Payment Account;

(B) the receipt of the Debentures;

(C) the collection of interest, principal and any other payments made in respect of the Debentures in the Payment Account;

(D) the distribution through the Paying Agent of amounts owed to the Securityholders in respect of the Trust Securities;

(E) the exercise of all of the rights, powers and privileges of a holder of the Debentures;

(F) the sending of notices of default and other information regarding the Trust Securities and the Debentures to the Securityholders in accordance with this Trust Agreement;

(G) the distribution of the Trust Property in accordance with the terms of this Trust Agreement; and

(H) to the extent provided in this Trust Agreement, the winding up of the affairs of and liquidation of the Trust and the execution and filing of the certificate of cancellation with the Secretary of State of the State of Delaware.

Except as otherwise provided in this Section 2.7(a)(ii), the Property Trustee shall have none of the duties, liabilities, powers or the authority of the Administrative Trustees set forth in Section 2.7(a)(i).

(b) So long as this Trust Agreement remains in effect, the Trust (or the Trustees acting on behalf of the Trust) shall not undertake any business, activities or transaction except as expressly provided herein or contemplated hereby. In particular, the Trustees shall not (i) acquire any investments or engage in any activities not authorized by this Trust Agreement, (ii) sell, assign, transfer, exchange, mortgage, pledge, set-off or otherwise dispose of any of the Trust Property or interests therein, including to Securityholders, except as expressly provided herein, (iii) take any action that would cause the Trust to fail or cease to qualify as a "grantor trust" for United States federal income tax purposes, (iv) incur any indebtedness for borrowed money or issue any other debt, (v) take or consent to any action that would result in the placement of a Lien on any of the Trust Property, (vi) invest any proceeds received by the Trust from holding the Debentures (it being understood that the Trust and Trustees shall distribute all such proceeds to Holders of Trust Securities pursuant to the terms of this Trust Agreement and of the Trust Securities), (vii) acquire any assets other than the Trust Property, (viii) possess any power or otherwise act in such a way as to vary the Trust Property, (ix) possess any power or otherwise act in such a way as to vary the terms of the Trust Securities in any way whatsoever (except to the extent expressly authorized in this Trust Agreement or by the terms of the Trust Securities) or (x) issue any securities or other evidences of beneficial ownership of, or beneficial interest in, the Trust other than the Trust Securities. The Administrative Trustees shall defend all claims and demands of all Persons at any time claiming any Lien on any of the Trust Property adverse to the interest of the Trust or the Securityholders in their capacity as Securityholders.

(c) In connection with the issue and sale of the Capital Securities, the Depositor shall have the right and responsibility to assist the Trust with respect to, or effect on behalf of the Trust, the following (and any actions taken by the Depositor in

furtherance of the following prior to the date of this Trust Agreement are hereby ratified and confirmed in all respects):

(i) the preparation and filing by the Trust with the Commission and the execution on behalf of the Trust of one or more registration statements on the appropriate form in relation to the Capital Securities, including any amendments thereto;

(ii) the determination of the states in which to take appropriate action to qualify or register for sale all or part of the Capital Securities and the determination of any and all such acts, other than actions which must be taken by or on behalf of the Trust, and the advice to the Trustees of actions they must take on behalf of the Trust, and the preparation for execution and filing of any documents to be executed and filed by the Trust or on behalf of the Trust, as the Depositor deems necessary or advisable in order to comply with the applicable laws of any such states;

(iii) the preparation for filing by the Trust and execution on behalf of the Trust of an application to the New York Stock Exchange or any other national stock exchange or the Nasdaq National Market or any other automated quotation system for listing upon notice of issuance of any Capital Securities and filing with such exchange or self-regulatory organization such notifications and documents as may be necessary from time to time to maintain such listing;

(iv) the negotiation of the terms of, and the execution and delivery of, the Underwriting Agreement providing for the sale of the Capital Securities; and

(v) the taking of any other actions necessary or desirable to carry out any of the foregoing activities.

(d) Notwithstanding anything herein to the contrary, the Administrative Trustees are authorized and directed to conduct the affairs of the Trust and to operate the Trust so that the Trust will not be deemed to be an “investment company” required to be registered under the 1940 Act, or fail to be classified as a grantor trust for United States federal income tax purposes and so that the Debentures will be treated as indebtedness of the Depositor for United States federal income tax purposes. In this connection, the Depositor and the Administrative Trustees are authorized to take any action, not inconsistent with applicable law, the Certificate of Trust or this Trust Agreement, that each of the Depositor and any Administrative Trustee determines in its discretion to be necessary or desirable for such purposes, as long as such action does not adversely affect in any material respect the interests of the Holders of the Capital Securities.

Section 2.8 *Assets of Trust.*

The assets of the Trust shall consist solely of the Trust Property.

Section 2.9 *Title to Trust Property.*

Legal title to all Trust Property shall be vested at all times in the Property Trustee (in its capacity as such) and shall be held and administered by the Property Trustee for the benefit of the Trust and the Securityholders in accordance with this Trust Agreement.

ARTICLE III
PAYMENT ACCOUNT

Section 3.1 *Payment Account.*

(a) On or prior to the Closing Date, the Property Trustee shall establish the Payment Account. The Property Trustee and any agent of the Property Trustee shall have exclusive control and sole right of withdrawal with respect to the Payment Account for the purpose of making deposits in and withdrawals from the Payment Account in accordance with this Trust Agreement. All monies and other property deposited or held from time to time in the Payment Account shall be held by the Property Trustee in the Payment Account for the exclusive benefit of the Securityholders and for distribution as herein provided, including (and subject to) any priority of payments provided for herein.

(b) The Property Trustee shall deposit in the Payment Account, promptly upon receipt, all payments of principal of or interest or premium on, and any other payments or proceeds with respect to, the Debentures. Amounts held in the Payment Account shall not be invested by the Property Trustee.

ARTICLE IV
DISTRIBUTIONS; REDEMPTION

Section 4.1 *Distributions.*

(a) The Trust Securities represent undivided beneficial ownership interests in the Trust Property, and Distributions (including of Additional Amounts) will be made on the Trust Securities at the rate and on the dates that payments of interest (including of Additional Interest, as defined in the Indenture) are made on the Debentures. Accordingly:

(i) Distributions on the Trust Securities shall be cumulative, and will accumulate whether or not there are funds of the Trust available for the payment of Distributions. Distributions shall accrue from February 2, 2007, and, except in the event (and to the extent) that the Depositor exercises its right to defer the payment of interest on the Debentures pursuant to the Indenture, shall be payable quarterly in arrears on February 2, May 2, August 2 and November 2 of each year, commencing on May 2, 2007. If any date on which a Distribution is otherwise payable on the Trust Securities would otherwise fall on a day that is not a

Business Day, that payment of such Distribution will be postponed to the next day that is a Business Day. However, if the postponement would cause the day to fall in the next calendar month, the payment of such Distribution will instead be brought forward to the immediately preceding Business Day.

(ii) Assuming payments of interest on the Debentures are made when due (and before giving effect to Additional Amounts, if applicable), Distributions on the Trust Securities shall be payable at the rate per annum provided for in the Debentures. The amount of Distributions payable for any period shall include the Additional Amounts, if any.

(iii) Distributions on the Trust Securities shall be made by the Property Trustee from the Payment Account and shall be payable on each Distribution Date only to the extent that the Trust has funds then on hand and available in the Payment Account for the payment of such Distributions.

(b) Distributions on the Trust Securities with respect to a Distribution Date shall be payable to the Holders thereof as they appear on the Securities Register for the Trust Securities on the relevant record date, which shall be one Business Day prior to such Distribution Date; *provided, however*, that in the event that the Capital Securities do not remain in book-entry-only form, the relevant record date shall be the first day of the month in which the relevant Distribution Date occurs without giving effect to the third sentence of Section 4.1(a)(i) (whether or not such record date is a Business Day).

Section 4.2 *Redemption.*

(a) On each Debenture Redemption Date, each Debenture Repayment Date and the Debenture Maturity Date, the Trust will be required to redeem a Like Amount of Trust Securities at the Redemption Price.

(b) Notice of redemption shall be given by the Property Trustee by first-class mail, postage prepaid, mailed not less than 30 nor more than 60 days prior to the Redemption Date (or in the case of a Debenture Repayment Date, not less than 10 nor more than 15 Business Days prior to the Redemption Date) to each Holder of Trust Securities to be redeemed, at such Holder's address appearing in the Security Register. All notices of redemption shall state:

(i) the Redemption Date;

(ii) the Redemption Price;

(iii) the CUSIP number;

(iv) if less than all the Outstanding Trust Securities are to be redeemed, the identification and the total Liquidation Amount of the particular Trust Securities to be redeemed;

(v) that on the Redemption Date the Redemption Price will become due and payable upon each such Trust Security to be redeemed and that Distributions thereon will cease to accrue on and after said date; and

(vi) if the Capital Securities are no longer in book-entry-only form, the place and address where the Holders shall surrender their Capital Securities Certificates.

(c) The Trust Securities redeemed on each Redemption Date shall be redeemed at the Redemption Price with the proceeds from the contemporaneous redemption of the Debentures or payment on a Debenture Repayment Date or the Debenture Maturity Date. Redemptions of the Trust Securities shall be made and the Redemption Price shall be payable on each Redemption Date only to the extent that the Trust has funds then on hand and available in the Payment Account for the payment of such Redemption Price.

(d) If the Property Trustee gives a notice of redemption in respect of any Capital Securities, then, by 12:00 noon, New York City time, on the Redemption Date, subject to Section 4.2(c), the Property Trustee will, so long as the Capital Securities are in book-entry-only form, irrevocably deposit with the Clearing Agency for the Capital Securities funds sufficient to pay the applicable Redemption Price and will give such Clearing Agency irrevocable instructions and authority to pay the Redemption Price to the Holders thereof. If the Capital Securities are no longer in book-entry-only form, the Property Trustee, subject to Section 4.2(c), will irrevocably deposit with the Paying Agent funds sufficient to pay the applicable Redemption Price and will give the Paying Agent irrevocable instructions and authority to pay the Redemption Price to the Holders thereof upon surrender of their Capital Securities Certificates. Notwithstanding the foregoing, Distributions payable on or prior to the Redemption Date for any Trust Securities called for redemption shall be payable to the Holders of such Trust Securities as they appear on the Securities Register for the Trust Securities on the relevant record dates for the related Distribution Dates. If notice of redemption shall have been given and funds deposited as required, then upon the date of such deposit, all rights of Securityholders holding Trust Securities so called for redemption will cease, except the right of such Securityholders to receive the Redemption Price and any Distribution payable on or prior to the Redemption Date, but without interest thereon, and such Trust Securities will cease to be Outstanding. In the event that any date on which any Redemption Price is payable is not a Business Day, then payment of the Redemption Price payable on such date will be made on the next succeeding day that is a Business Day (and without any interest or other payment in respect of any such delay), except that, if such Business Day falls in the next calendar year, such payment will be made on the immediately preceding Business Day, in each case, with the same force and effect as if made on such date. In the event that payment of the Redemption Price in respect of any Trust Securities called for redemption is improperly withheld or refused and not paid either by the Trust or by the Depositor pursuant to the Guarantee, Distributions on such Trust Securities will continue to accrue, at the then applicable rate, from the Redemption

Date originally established by the Trust for such Trust Securities to the date such Redemption Price is actually paid, in which case the actual payment date will be the date fixed for redemption for purposes of calculating the Redemption Price.

(e) Payment of the Redemption Price on the Trust Securities shall be made to the recordholders thereof as they appear on the Securities Register for the Trust Securities on the relevant record date, which shall be one Business Day prior to the relevant Redemption Date; *provided, however*, that in the event that the Capital Securities do not remain in book-entry-only form, the relevant record date shall be the date 15 days prior to the relevant Redemption Date.

(f) Subject to Section 4.3(a), if less than all the Outstanding Trust Securities are to be redeemed on a Redemption Date, then the aggregate Liquidation Amount of Trust Securities to be redeemed shall be allocated on a *pro rata* basis (based on Liquidation Amounts) among the Common Securities and the Capital Securities. The particular Capital Securities to be redeemed shall be selected on a *pro rata* basis (based upon Liquidation Amounts) not more than 60 days prior to the Redemption Date by the Property Trustee from the Outstanding Capital Securities not previously called for redemption, by such method (including, without limitation, by lot) as the Property Trustee shall deem fair and appropriate and which may provide for the selection for redemption of portions (equal to \$1,000 or an integral multiple of \$1,000 in excess thereof) of the Liquidation Amount of Capital Securities of a denomination larger than \$1,000. The Property Trustee shall promptly notify the Security Registrar in writing of the Capital Securities selected for redemption and, in the case of any Capital Securities selected for partial redemption, the Liquidation Amount thereof to be redeemed. For all purposes of this Trust Agreement, unless the context otherwise requires, all provisions relating to the redemption of Capital Securities shall relate, in the case of any Capital Securities redeemed or to be redeemed only in part, to the portion of the Liquidation Amount of Capital Securities that has been or is to be redeemed.

Section 4.3 Subordination of Common Securities.

(a) Payment of Distributions (including Additional Amounts, if applicable) on, and the Redemption Price of, the Trust Securities, as applicable, shall be made, subject to Section 4.2(f), *pro rata* among the Common Securities and the Capital Securities based on the Liquidation Amount of the Trust Securities; *provided, however*, that if on any Distribution Date or Redemption Date any Event of Default resulting from a Debenture Event of Default shall have occurred and be continuing, no payment of any Distribution (including Additional Amounts, if applicable) on, or Redemption Price of, any Common Security, and no other payment on account of the redemption, liquidation or other acquisition of Common Securities, shall be made unless payment in full in cash of all accumulated and unpaid Distributions (including Additional Amounts, if applicable) on all Outstanding Capital Securities for all Distribution periods terminating on or prior thereto, or in the case of payment of the Redemption Price the full amount of such Redemption Price on all Outstanding Capital Securities then called for redemption,

shall have been made or provided for, and all funds immediately available to the Property Trustee shall first be applied to the payment in full in cash of all Distributions (including Additional Amounts, if applicable) on, or the Redemption Price of, Capital Securities then due and payable.

(b) In the case of the occurrence of any Event of Default resulting from any Debenture Event of Default, the Holder of Common Securities will be deemed to have waived any right to act with respect to any such Event of Default under this Trust Agreement until the effect of all such Events of Default with respect to the Capital Securities have been cured, waived or otherwise eliminated. Until any such Event of Default under this Trust Agreement with respect to the Capital Securities has been so cured, waived or otherwise eliminated, the Property Trustee shall act solely on behalf of the Holders of the Capital Securities and not the Holder of the Common Securities, and only the Holders of the Capital Securities will have the right to direct the Property Trustee to act on their behalf.

Section 4.4 Payment Procedures.

Payments of Distributions (including Additional Amounts, if applicable) in respect of the Capital Securities shall be made by check mailed to the address of the Person entitled thereto as such address shall appear on the Securities Register or, if the Capital Securities are held by a Clearing Agency, such Distributions shall be made to the Clearing Agency in immediately available funds, which shall credit the relevant Persons' accounts at such Clearing Agency on the applicable Distribution Dates. Payments in respect of the Common Securities shall be made in such manner as shall be mutually agreed in writing between the Property Trustee and the Common Securityholder.

Section 4.5 Tax Returns and Reports.

The Administrative Trustees shall prepare (or cause to be prepared), at the Depositor's expense, and file all United States federal, state and local tax and information returns and reports required to be filed by or in respect of the Trust. In this regard, the Administrative Trustees shall (a) prepare and file (or cause to be prepared and filed) the appropriate Internal Revenue Service Form required to be filed in respect of the Trust in each taxable year of the Trust and (b) prepare and furnish (or cause to be prepared and furnished) to each Securityholder the appropriate Internal Revenue Service form and the information required to be provided on such form. The Administrative Trustees shall provide the Depositor and the Property Trustee with a copy of all such returns and reports promptly after such filing or furnishing. The Trustees shall comply with United States federal withholding and backup withholding tax laws and information reporting requirements with respect to any payments to Securityholders under the Trust Securities.

Section 4.6 Payment of Expenses of the Trust.

Pursuant to Section 10.6 of the Indenture, the Depositor, as borrower, has agreed to pay to the Trust, and reimburse the Trust for, the full amount of any costs, expenses or liabilities of the Trust (other than obligations of the Trust to pay the Holders of any Capital Securities or other similar interests in the Trust the amounts due such Holders pursuant to the terms of the Capital Securities or such other similar interests, as the case may be), including, without limitation, any taxes, duties or other governmental charges of whatever nature (other than withholding taxes) imposed on the Trust by the United States or any other taxing authority. Such payment obligation includes any such costs, expenses or liabilities of the Trust that are required by applicable law to be satisfied in connection with a termination of the Trust.

Section 4.7 Payments under Indenture or Pursuant to Direct Actions.

Any amount payable hereunder to any Holder of Capital Securities shall be reduced by the amount of any corresponding payment such Holder (or an Owner with respect to the Holder's Capital Securities) has directly received pursuant to Section 5.8 of the Indenture or Section 5.14 of this Trust Agreement.

ARTICLE V

TRUST SECURITIES CERTIFICATES

Section 5.1 Initial Ownership.

Upon the creation of the Trust and the contribution by the Depositor pursuant to Section 2.3 and until the issuance of the Trust Securities, and at any time during which no Trust Securities are Outstanding, the Depositor shall be the sole beneficial owner of the Trust.

Section 5.2 The Trust Securities Certificates.

The Capital Securities Certificates shall be issued in minimum denominations of \$1,000 Liquidation Amount and integral multiples of \$1,000 in excess thereof, and the Common Securities Certificates shall be issued in denominations of \$1,000 Liquidation Amount and integral multiples thereof. The Trust Securities Certificates shall be executed on behalf of the Trust by manual or facsimile signature of at least one Administrative Trustee and, if executed on behalf of the Trust by facsimile, countersigned by a transfer agent or its agent. The Capital Securities Certificates shall be authenticated by the Property Trustee by manual or facsimile signature of an authorized signatory thereof and, if executed by such authorized signatory of the Property Trustee by facsimile, countersigned by a transfer agent or its agent. Trust Securities Certificates bearing the manual signatures of individuals who were, at the time when such signatures shall have been affixed, authorized to sign on behalf of the Trust or, if executed on behalf

of the Trust by facsimile, countersigned by a transfer agent or its agent, shall be validly issued and entitled to the benefits of this Trust Agreement, notwithstanding that such individuals or any of them shall have ceased to be so authorized prior to the delivery of such Trust Securities Certificates or did not hold such offices at the date of delivery of such Trust Securities Certificates. A transferee of a Trust Securities Certificate shall become a Securityholder, and shall be entitled to the rights and subject to the obligations of a Securityholder hereunder, upon due registration of such Trust Securities Certificate in such transferee's name pursuant to Sections 5.4, 5.11 and 5.13.

Section 5.3 Execution and Delivery of Trust Securities Certificates.

On the Closing Date, the Administrative Trustees shall cause Trust Securities Certificates, in an aggregate Liquidation Amount as provided in Sections 2.4 and 2.5, to be executed on behalf of the Trust and delivered to or upon the written order of the Depositor, signed by its chairman of the board, its president, any executive vice president, any managing director or any vice president, treasurer or assistant treasurer or controller without further corporate action by the Depositor, in authorized denominations.

Section 5.4 Registration of Transfer and Exchange of Capital Securities Certificate.

The Depositor shall keep or cause to be kept, at the office or agency maintained pursuant to Section 5.8, a register or registers for the purpose of registering Trust Securities Certificates and transfers and exchanges of Capital Securities Certificates (the "Securities Register") in which the transfer agent and registrar designated by the Depositor (the "Securities Registrar"), subject to such reasonable regulations as it may prescribe, shall provide for the registration of Capital Securities Certificates and Common Securities Certificates (subject to Section 5.10 in the case of the Common Securities Certificates) and registration of transfers and exchanges of Capital Securities Certificates as herein provided. The Bank shall be the initial Securities Registrar.

Upon surrender for registration of transfer of any Capital Securities Certificate at the office or agency maintained pursuant to Section 5.8, the Administrative Trustees or any one of them shall execute on behalf of the Trust (and if executed on behalf of the Trust by a facsimile signature, such certificate shall be countersigned by a transfer agent or its agent) and deliver, in the name of the designated transferee or transferees, one or more new Capital Securities Certificates in authorized denominations of a like aggregate Liquidation Amount dated the date of execution by such Administrative Trustee or Trustees. The Securities Registrar shall not be required to register the transfer of any Capital Securities that have been called for redemption during a period beginning at the opening of business 15 days before the day of selection for such redemption.

At the option of a Holder, Capital Securities Certificates may be exchanged for other Capital Securities Certificates in authorized denominations of the same class and of

a like aggregate Liquidation Amount upon surrender of the Capital Securities Certificates to be exchanged at the office or agency maintained pursuant to Section 5.8.

Every Capital Securities Certificate presented or surrendered for registration of transfer or exchange shall be accompanied by a written instrument of transfer in form satisfactory to an Administrative Trustee and the Securities Registrar duly executed by the Holder or his attorney duly authorized in writing. Each Capital Securities Certificate surrendered for registration of transfer or exchange shall be cancelled and subsequently disposed of by an Administrative Trustee or the Securities Registrar in accordance with such Person's customary practice.

No service charge shall be made for any registration of transfer or exchange of Capital Securities Certificates, but the Securities Registrar may require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer or exchange of Capital Securities Certificates.

Section 5.5 Mutilated, Destroyed, Lost or Stolen Trust Securities Certificates.

If (a) any mutilated Trust Securities Certificate shall be surrendered to the Securities Registrar, or if the Securities Registrar shall receive evidence to its satisfaction of the destruction, loss or theft of any Trust Securities Certificate and (b) there shall be delivered to the Securities Registrar and the Administrative Trustees such security or indemnity as may be required by them to save each of them harmless, then in the absence of notice that such Trust Securities Certificate shall have been acquired by a bona fide or protected purchaser, the Administrative Trustees, or any one of them, on behalf of the Trust shall execute by manual or facsimile signature and, if executed on behalf of the Trust by facsimile signature, such certificate shall be countersigned by a transfer agent, and make available for delivery, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Trust Securities Certificate, a new Trust Securities Certificate of like class, tenor and denomination. In connection with the issuance of any new Trust Securities Certificate under this Section, the Administrative Trustees or the Securities Registrar may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith. Any duplicate Trust Securities Certificate issued pursuant to this Section shall constitute conclusive evidence of an undivided beneficial interest in the Trust Property, as if originally issued, whether or not the lost, stolen or destroyed Trust Securities Certificate shall be found at any time.

Section 5.6 Persons Deemed Securityholders.

The Trustees or the Securities Registrar shall treat the Person in whose name any Trust Securities Certificate shall be registered in the Securities Register as the owner of such Trust Securities Certificate for the purpose of receiving Distributions and for all other purposes whatsoever, and neither the Trustees nor the Securities Registrar shall be bound by any notice to the contrary.

Section 5.7 Access to List of Securityholders' Names and Addresses.

Each Holder and each Owner shall be deemed to have agreed not to hold the Depositor, the Property Trustee or the Administrative Trustees accountable by reason of the disclosure of its name and address, regardless of the source from which such information was derived.

Section 5.8 Maintenance of Office or Agency.

The Administrative Trustees shall maintain an office or offices or agency or agencies where Capital Securities Certificates may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Trustees in respect of the Trust Securities Certificates may be served. The Administrative Trustees initially designate The Bank of New York, 101 Barclay Street, Floor 8 West, New York, New York 10286, Attn: Corporate Trust Department, as its principal corporate trust office for such purposes. The Administrative Trustees shall give prompt written notice to the Depositor, the Property Trustee and to the Securityholders of any change in the location of the Securities Register or any such office or agency.

Section 5.9 Appointment of Paying Agent.

The Paying Agent shall make Distributions to Securityholders from the Payment Account and shall report the amounts of such Distributions to the Property Trustee and the Administrative Trustees. Any Paying Agent shall have the revocable power to withdraw funds from the Payment Account for the purpose of making the Distributions referred to above. The Administrative Trustees may revoke such power and remove the Paying Agent if such Trustees determine in their sole discretion that the Paying Agent shall have failed to perform its obligations under this Trust Agreement in any material respect. The Paying Agent shall initially be the Bank, and any co-paying agent chosen by the Bank, and acceptable to the Administrative Trustees and the Depositor. Any Person acting as Paying Agent shall be permitted to resign as Paying Agent upon 30 days' written notice to the Administrative Trustees, the Property Trustee and the Depositor. In the event that the Bank shall no longer be the Paying Agent or a successor Paying Agent shall resign or its authority to act be revoked, the Administrative Trustees shall appoint a successor that is acceptable to the Property Trustee and the Depositor to act as Paying Agent (which shall be a bank or trust company). The Administrative Trustees shall cause such successor Paying Agent or any additional Paying Agent appointed by the Administrative Trustees to execute and deliver to the Trustees an instrument in which such successor Paying Agent or additional Paying Agent shall agree with the Trustees that as Paying Agent, such successor Paying Agent or additional Paying Agent will hold all sums, if any, held by it for payment to the Securityholders in trust for the benefit of the Securityholders entitled thereto until such sums shall be paid to such Securityholders. The Paying Agent shall return all unclaimed funds to the Property Trustee and upon resignation or removal of a Paying Agent such Paying Agent shall also return all funds in its possession to the Property Trustee. The provisions of Sections 8.1, 8.3 and 8.6 herein

shall apply to the Bank also in its role as Paying Agent, for so long as the Bank shall act as Paying Agent and, to the extent applicable, to any other paying agent appointed hereunder, and any Paying Agent shall be bound by the requirements with respect to paying agents of securities issued pursuant to the Trust Indenture Act. Any reference in this Agreement to the Paying Agent shall include any co-paying agent unless the context requires otherwise.

Section 5.10 Ownership of Common Securities by Depositor.

On the Closing Date, the Depositor shall acquire and retain beneficial and record ownership of the Common Securities. To the fullest extent permitted by law, other than a transfer in connection with a consolidation or merger of the Depositor into another Person, or any conveyance, transfer or lease by the Depositor of its properties and assets substantially as an entirety to any Person, pursuant to Section 8.1 of the Indenture, any attempted transfer of the Common Securities shall be void. The Administrative Trustees shall cause each Common Securities Certificate issued to the Depositor to contain a legend stating "THIS CERTIFICATE IS NOT TRANSFERABLE TO ANY PERSON OTHER THAN AS SET FORTH IN THE TRUST AGREEMENT (AS DEFINED BELOW)".

Section 5.11 Book-Entry Capital Securities Certificates; Common Securities Certificate.

(a) The Capital Securities Certificates, upon original issuance, will be issued in the form of a typewritten Capital Securities Certificate or Certificates representing Book-Entry Capital Securities Certificates, to be delivered to The Depository Trust Company, the initial Clearing Agency, by, or on behalf of, the Trust. Such Capital Securities Certificate or Certificates shall initially be registered on the Securities Register in the name of Cede & Co., the nominee of the initial Clearing Agency, and no Owner will receive a Definitive Capital Securities Certificate representing such Owner's interest in such Capital Securities, except as provided in Section 5.13. Unless and until Definitive Capital Securities Certificates have been issued to Owners pursuant to Section 5.13:

(i) the provisions of this Section 5.11(a) shall be in full force and effect;

(ii) the Securities Registrar and the Trustees shall be entitled to deal with the Clearing Agency for all purposes of this Trust Agreement relating to the Book-Entry Capital Securities Certificates (including the payment of the Liquidation Amount of and Distributions on the Capital Securities evidenced by Book-Entry Capital Securities Certificates and the giving of instructions or directions to Owners of Capital Securities evidenced by Book-Entry Capital Securities Certificates) as the sole Holder of Capital Securities evidenced by Book-Entry Capital Securities Certificates and shall have no obligations to the Owners thereof;

(iii) to the extent that the provisions of this Section 5.11 conflict with any other provisions of this Trust Agreement, the provisions of this Section 5.11 shall control; and

(iv) the rights of the Owners of the Book-Entry Capital Securities Certificates shall be exercised only through the Clearing Agency and shall be limited to those established by law and agreements between such Owners and the Clearing Agency and/or the Clearing Agency Participants. Pursuant to the Certificate Depository Agreement, unless and until Definitive Capital Securities Certificates are issued pursuant to Section 5.13, the initial Clearing Agency will make book-entry transfers among the Clearing Agency Participants and receive and transmit payments on the Capital Securities to such Clearing Agency Participants.

(b) A single Common Securities Certificate representing the Common Securities shall be issued to the Depositor in the form of a definitive Common Securities Certificate.

Section 5.12 Notices to Clearing Agency.

To the extent that a notice or other communication to the Owners is required under this Trust Agreement, unless and until Definitive Capital Securities Certificates shall have been issued to Owners pursuant to Section 5.13, the Trustees shall give all such notices and communications specified herein to be given to Owners to the Clearing Agency, and shall have no obligations to the Owners.

Section 5.13 Definitive Capital Securities Certificates.

If (a) the Depositor advises the Trustees in writing that the Clearing Agency is no longer willing or able to properly discharge its responsibilities with respect to the Capital Securities Certificates, and the Depositor is unable to locate a qualified successor, (b) the Depositor at its option on behalf of the Trust advises the Trustees in writing that it elects to terminate the book-entry system through the Clearing Agency or (c) after the occurrence of a Debenture Event of Default, Owners of Capital Securities Certificates representing beneficial interests aggregating at least a majority of the Liquidation Amount advise the Administrative Trustees in writing that the continuation of a book-entry system through the Clearing Agency is no longer in the best interest of the Owners of Capital Securities Certificates, then the Administrative Trustees shall notify other Trustees and the Clearing Agency, and the Clearing Agency, in accordance with its customary rules and procedures, shall notify all Clearing Agency Participants for whom it holds Capital Securities of the occurrence of any such event and of the availability of the Definitive Capital Securities Certificates to Owners of such class or classes, as applicable, requesting the same. Upon surrender to the Administrative Trustees of the typewritten Capital Securities Certificate or Certificates representing the Book-Entry Capital Securities Certificates by the Clearing Agency, accompanied by registration

instructions, the Administrative Trustees, or any one of them, shall execute the Definitive Capital Securities Certificates in accordance with the instructions of the Clearing Agency or, if executed on behalf of the Trust by facsimile, countersigned by a transfer agent or its agent. Neither the Securities Registrar nor the Trustees shall be liable for any delay in delivery of such instructions and may conclusively rely on, and shall be protected in relying on, such instructions. Upon the issuance of Definitive Capital Securities Certificates, the Trustees shall recognize the Holders of the Definitive Capital Securities Certificates as Securityholders. The Definitive Capital Securities Certificates shall be typewritten, printed, lithographed or engraved or may be produced in any other manner as is reasonably acceptable to the Administrative Trustees that meets the requirements of any stock exchange or automated quotation system on which the Capital Securities are then listed or approved for trading, as evidenced by the execution thereof by the Administrative Trustees or any one of them.

Section 5.14 Rights of Securityholders.

(a) The legal title to the Trust Property is vested exclusively in the Property Trustee (in its capacity as such) in accordance with Section 2.9, and the Securityholders shall not have any right or title therein other than the undivided beneficial ownership interest in the assets of the Trust conferred by their Trust Securities and they shall have no right to call for any partition or division of property, profits or rights of the Trust except as described below. The Trust Securities shall be personal property giving only the rights specifically set forth therein and in this Trust Agreement. The Trust Securities shall have no preemptive or similar rights and when issued and delivered to Securityholders against payment of the purchase price therefor will be fully paid and nonassessable by the Trust. The Holders of the Capital Securities, in their capacities as such, shall be entitled to the same limitation of personal liability extended to stockholders of private corporations for profit organized under the General Corporation Law of the State of Delaware.

(b) For so long as any Capital Securities remain Outstanding, if, upon a Debenture Event of Default described in Section 2.1(j)(1) of the Supplemental Indenture, the Debenture Trustee fails or the holders of not less than 25% in principal amount of the outstanding Debentures fail to declare the principal of all of the Debentures to be immediately due and payable, the Holders of at least 25% in Liquidation Amount of the Capital Securities then Outstanding shall have such right by a notice in writing to the Depositor and the Debenture Trustee; and upon any such declaration such principal amount of and the accrued interest on all of the Debentures shall become immediately due and payable as set forth in the Indenture, *provided* that the payment of principal and interest on such Debentures shall remain subordinated to the extent provided in the Indenture.

At any time after such a declaration of acceleration with respect to the Debentures has been made and before a judgment or decree for payment of the money due has been obtained by the Debenture Trustee as described in the Indenture, the Holders of a

majority in Liquidation Amount of the Capital Securities, by written notice to the Property Trustee, the Depositor and the Debenture Trustee, may rescind and annul such declaration and its consequences if:

(i) the Depositor has paid or deposited with the Debenture Trustee a sum sufficient to pay:

(A) all overdue installments of interest (including any Additional Interest (as defined in the Indenture)) on all of the Debentures,

(B) the principal of any Debentures which have become due otherwise than by such declaration of acceleration and interest thereon at the rate borne by the Debentures, and

(C) all sums paid or advanced by the Debenture Trustee under the Indenture and the reasonable compensation, expenses, disbursements and advances of the Debenture Trustee and the Property Trustee, their agents and counsel; and

(ii) all Events of Default with respect to the Debentures, other than the non-payment of the principal of the Debentures which has become due solely by such acceleration, have been cured or waived as provided in Section 5.13 of the Indenture.

The Holders of a majority in aggregate Liquidation Amount of the Capital Securities may, on behalf of the Holders of all the Capital Securities, waive any past default under the Indenture, except a default in the payment of principal or interest (unless all Events of Default with respect to the Debentures, other than the non-payment of the principal of the Debentures which has become due solely by such acceleration, have been cured or annulled as provided in Section 5.3 of the Indenture and the Depositor has paid or deposited with the Debenture Trustee a sum sufficient to pay all overdue installments of interest (including any Additional Interest (as defined in the Indenture)) on the Debentures, the principal of any Debentures which have become due otherwise than by such declaration of acceleration and interest thereon at the rate borne by the Debentures, and all sums paid or advanced by the Debenture Trustee under the Indenture and the reasonable compensation, expenses, disbursements and advances of the Debenture Trustee and the Property Trustee, their agents and counsel) or a default in respect of a covenant or provision which under the Indenture cannot be modified or amended without the consent of the holder of each outstanding Debenture. No such rescission shall affect any subsequent default or impair any right consequent thereon.

Upon receipt by the Property Trustee of written notice declaring such an acceleration, or rescission and annulment thereof, by Holders of the Capital Securities all or part of which are represented by Book-Entry Capital Securities Certificates, a record date shall be established for determining Holders of Outstanding Capital Securities

entitled to join in such notice, which record date shall be at the close of business on the day the Property Trustee receives such notice. The Holders of Outstanding Capital Securities on such record date, or their duly designated proxies, and only such Persons, shall be entitled to join in such notice, whether or not such Holders remain Holders after such record date; *provided* that, unless such declaration of acceleration, or rescission and annulment, as the case may be, shall have become effective by virtue of the requisite percentage having joined in such notice prior to the day which is 90 days after such record date, such notice of declaration of acceleration, or rescission and annulment, as the case may be, shall automatically and without further action by any Holder be canceled and of no further effect. Nothing in this paragraph shall prevent a Holder, or a proxy of a Holder, from giving, after expiration of such 90-day period, a new written notice of declaration of acceleration, or rescission and annulment thereof, as the case may be, that is identical to a written notice which has been canceled pursuant to the proviso to the preceding sentence, in which event a new record date shall be established pursuant to the provisions of this Section 5.14(b).

(c) For so long as any Capital Securities remain Outstanding, to the fullest extent permitted by law and subject to the terms of this Trust Agreement and the Indenture, upon a Debenture Event of Default specified in Sections 2.1(j)(1) or 2.1(j)(2) of the Supplemental Indenture, any Holder of Capital Securities shall have the right to institute a proceeding directly against the Depositor, pursuant to Section 5.8 of the Indenture, for enforcement of payment to such Holder of the principal amount of or interest on Debentures having a principal amount equal to the Liquidation Amount of the Capital Securities of such Holder (a “Direct Action”). Except as set forth in Section 5.14(b) and this Section 5.14(c), the Holders of Capital Securities shall have no right to exercise directly any right or remedy available to the holders of, or in respect of, the Debentures.

Section 5.15 *CUSIP Numbers.*

The Administrative Trustees in issuing the Capital Securities may use “CUSIP” numbers (if then generally in use), and, if so, the Property Trustee shall use “CUSIP” numbers in notices of redemption as a convenience to Holders; *provided* that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Capital Securities or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Capital Securities, and any such redemption shall not be affected by any defect in or omission of such numbers. The Administrative Trustees will promptly notify the Property Trustee of any change in the CUSIP numbers.

ARTICLE VI

ACTS OF SECURITYHOLDERS; MEETINGS; VOTING

Section 6.1 *Limitations on Voting Rights.*

(a) Except as provided in this Section, in Sections 5.14, 8.10 and 10.3 and in the Indenture and as otherwise required by law, no Holder of Capital Securities shall have any right to vote or in any manner otherwise control the administration, operation and management of the Trust or the obligations of the parties hereto, nor shall anything herein set forth, or contained in the terms of the Trust Securities Certificates, be construed so as to constitute the Securityholders from time to time as partners or members of an association.

(b) So long as any Debentures are held by the Property Trustee, the Trustees shall not (i) direct the time, method and place of conducting any proceeding for any remedy available to the Debenture Trustee, or executing any trust or power conferred on the Debenture Trustee with respect to such Debentures, (ii) waive any past default which is waivable under Section 5.13 of the Indenture, (iii) exercise any right to rescind or annul a declaration that the principal of all the Debentures shall be due and payable or (iv) consent to any amendment, modification or termination of the Indenture or the Debentures, where such consent shall be required, without, in each case, obtaining the prior approval of the Holders of at least a majority in Liquidation Amount of all Outstanding Capital Securities; *provided, however*, that where a consent under the Indenture would require the consent of each holder of Debentures affected thereby, no such consent shall be given by the Property Trustee without the prior written consent of each Holder of Capital Securities. The Trustees shall not revoke any action previously authorized or approved by a vote of the Holders of Capital Securities, except by a subsequent vote of the Holders of Capital Securities. The Property Trustee shall notify all Holders of the Capital Securities of any notice of default received from the Debenture Trustee with respect to the Debentures. In addition to obtaining the foregoing approvals of the Holders of the Capital Securities, prior to taking any of the foregoing actions, the Administrative Trustees shall, at the expense of the Depositor, obtain an Opinion of Counsel experienced in such matters to the effect that such action shall not cause the Trust to fail to be classified as a grantor trust for United States federal income tax purposes.

(c) If any proposed amendment to the Trust Agreement provides for, or the Trustees otherwise propose to effect, (i) any action that would adversely affect in any material respect the powers, preferences or special rights of the Capital Securities, whether by way of amendment to the Trust Agreement or otherwise, or (ii) the dissolution, winding-up or termination of the Trust, other than pursuant to the terms of this Trust Agreement, then the Holders of Outstanding Capital Securities as a class will be entitled to vote on such amendment or proposal and such amendment or proposal shall not be effective except with the approval of the Holders of at least a majority in

Liquidation Amount of the Outstanding Capital Securities. Notwithstanding any other provision of this Trust Agreement, no amendment to this Trust Agreement may be made if, as a result of such amendment, it would cause the Trust to fail to be classified as a grantor trust for United States federal income tax purposes.

Section 6.2 Notice of Meetings.

Notice of all meetings of the Capital Securityholders, stating the time, place and purpose of the meeting, shall be given by the Property Trustee pursuant to Section 10.9 to each Capital Securityholder of record, at his registered address, at least 15 days and not more than 90 days before the meeting. At any such meeting, any business properly before the meeting may be so considered whether or not stated in the notice of the meeting. Any adjourned meeting may be held as adjourned without further notice.

Section 6.3 Meetings of Capital Securityholders.

No annual meeting of Securityholders is required to be held. The Administrative Trustees, however, shall call a meeting of Capital Securityholders to vote on any matter upon the written request of the Capital Securityholders of record of 25% of the Outstanding Capital Securities (based upon their Liquidation Amount) and the Administrative Trustees or the Property Trustee may, at any time in their discretion, call a meeting of Capital Securityholders to vote on any matters as to which Capital Securityholders are entitled to vote.

Capital Securityholders of record of 50% of the Outstanding Capital Securities (based upon their Liquidation Amount), present in person or by proxy, shall constitute a quorum at any meeting of Capital Securityholders.

If a quorum is present at a meeting, an affirmative vote by the Capital Securityholders of record present, in person or by proxy, holding a majority of the Outstanding Capital Securities (based upon their Liquidation Amount) held by holders of record of Outstanding Capital Securities present, either in person or by proxy, at such meeting shall constitute the action of the Capital Securityholders, unless this Trust Agreement requires a greater number of affirmative votes.

Section 6.4 Voting Rights.

Securityholders shall be entitled to one vote for each \$1,000 of Liquidation Amount represented by their Trust Securities in respect of any matter as to which such Securityholders are entitled to vote.

Section 6.5 Proxies, etc.

At any meeting of Securityholders, any Securityholder entitled to vote thereat may vote by proxy, *provided* that no proxy shall be voted at any meeting unless it shall have been placed on file with the Administrative Trustees, or with such other officer or

agent of the Trust as the Administrative Trustees may direct, for verification prior to the time at which such vote shall be taken. Pursuant to a resolution of the Property Trustee, proxies may be solicited in the name of the Property Trustee or one or more officers of the Property Trustee. Only Securityholders of record shall be entitled to vote. When Trust Securities are held jointly by several Persons, any one of them may vote at any meeting in person or by proxy in respect of such Trust Securities, but if more than one of them shall be present at such meeting in person or by proxy, and such joint owners or their proxies so present disagree as to any vote to be cast, such vote shall not be received in respect of such Trust Securities. A proxy purporting to be executed by or on behalf of a Securityholder shall be deemed valid unless challenged at or prior to its exercise, and the burden of proving invalidity shall rest on the challenger. No proxy shall be valid more than three years after its date of execution.

Section 6.6 Securityholder Action by Written Consent.

Any action which may be taken by Securityholders at a meeting may be taken without a meeting and without prior notice if Securityholders holding a majority of all Outstanding Trust Securities (based upon their Liquidation Amount) entitled to vote in respect of such action (or such larger proportion thereof as shall be required by any express provision of this Trust Agreement) shall consent to the action in writing.

Section 6.7 Record Date for Voting and Other Purposes.

For the purposes of determining the Securityholders who are entitled to notice of and to vote at any meeting or by written consent, or to participate in any Distribution on the Trust Securities in respect of which a record date is not otherwise provided for in this Trust Agreement, or for the purpose of any other action, the Administrative Trustees may from time to time fix a date, not more than 90 days prior to the date of any meeting of Securityholders or the payment of a Distribution or other action, as the case may be, as a record date for the determination of the identity of the Securityholders of record for such purposes.

Section 6.8 Acts of Securityholders.

Any request, demand, authorization, direction, notice, consent, waiver or other action provided or permitted by this Trust Agreement to be given, made or taken by Securityholders or Owners may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Securityholders or Owners in person or by an agent duly appointed in writing; and, except as otherwise expressly provided herein, such action shall become effective when such instrument or instruments are delivered to an Administrative Trustee. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Securityholders or Owners signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be

sufficient for any purpose of this Trust Agreement and (subject to Section 8.1) conclusive in favor of the Trustees, if made in the manner provided in this Section.

The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which any Trustee receiving the same deems sufficient.

The ownership of Capital Securities shall be proved by the Securities Register.

Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Securityholder of any Trust Security shall bind every future Securityholder of the same Trust Security and the Securityholder of every Trust Security issued upon the registration of transfer thereof or in exchange therefore or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustees or the Trust in reliance thereon, whether or not notation of such action is made upon such Trust Security.

Without limiting the foregoing, a Securityholder entitled hereunder to take any action hereunder with regard to any particular Trust Security may do so with regard to all or any part of the Liquidation Amount of such Trust Security or by one or more duly appointed agents each of which may do so pursuant to such appointment with regard to all or any part of such Liquidation Amount.

If any dispute shall arise between the Securityholders and the Administrative Trustees or among such Securityholders or Trustees with respect to the authenticity, validity or binding nature of any request, demand, authorization, direction, consent, waiver or other Act of such Securityholder or Trustee under this Article VI, then the determination of such matter by the Property Trustee shall be conclusive with respect to such matter.

Section 6.9 Inspection of Records

Upon reasonable notice to the Administrative Trustees and the Property Trustee, the records of the Trust shall be open to inspection by Securityholders during normal business hours for any purpose reasonably related to such Securityholder's interest as a Securityholder.

ARTICLE VII

REPRESENTATIONS AND WARRANTIES

Section 7.1 *Representations and Warranties of the Property Trustee and the Delaware Trustee.*

The Property Trustee and the Delaware Trustee, each severally on behalf of and as to itself, hereby represents and warrants for the benefit of the Depositor and the Securityholders that:

- (a) the Property Trustee is a New York banking corporation duly organized, validly existing and in good standing under the laws of the State of New York;
- (b) the Property Trustee has full corporate power, authority and legal right to execute, deliver and perform its obligations under this Trust Agreement and has taken all necessary action to authorize the execution, delivery and performance by it of this Trust Agreement;
- (c) the Delaware Trustee is a Delaware banking corporation duly organized, validly existing and in good standing under the laws of the State of Delaware;
- (d) the Delaware Trustee has full corporate power, authority and legal right to execute, deliver and perform its obligations under this Trust Agreement and has taken all necessary action to authorize the execution, delivery and performance by it of this Trust Agreement;
- (e) this Trust Agreement has been duly authorized, executed and delivered by the Property Trustee and the Delaware Trustee and constitutes the valid and legally binding agreement of each of the Property Trustee and the Delaware Trustee enforceable against each of them in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles;
- (f) the execution, delivery and performance of this Trust Agreement has been duly authorized by all necessary corporate or other action on the part of the Property Trustee and the Delaware Trustee and does not require any approval of stockholders of the Property Trustee and the Delaware Trustee and such execution, delivery and performance will not (i) violate the charter or by-laws of the Property Trustee or the Delaware Trustee, (ii) violate any provision of, or constitute, with or without notice or lapse of time, a default under, or result in the creation or imposition of, any Lien on any properties included in the Trust Property pursuant to the provisions of, any indenture, mortgage, credit agreement, license or other agreement or instrument to which the Property Trustee or the Delaware Trustee is a party or by which it is bound, or (iii) violate any law, governmental rule or regulation of the State of New York or the State of

Delaware, as the case may be, governing the banking, trust or general powers of the Property Trustee or the Delaware Trustee (as appropriate in context) or any order, judgment or decree applicable to the Property Trustee or the Delaware Trustee;

(g) neither the authorization, execution or delivery by the Property Trustee or the Delaware Trustee of this Trust Agreement nor the consummation of any of the transactions by the Property Trustee or the Delaware Trustee (as appropriate in context) contemplated herein or therein requires the consent or approval of, the giving of notice to, the registration with or the taking of any other action with respect to any governmental authority or agency under any existing New York or Delaware law governing the banking, trust or general powers of the Property Trustee or the Delaware Trustee, as the case may be; and

(h) there are no proceedings pending or, to the best of each of the Property Trustee's and the Delaware Trustee's knowledge, threatened against or affecting the Property Trustee or the Delaware Trustee in any court or before any governmental authority, agency or arbitration board or tribunal which, individually or in the aggregate, would materially and adversely affect the Trust or would question the right, power and authority of the Property Trustee or the Delaware Trustee, as the case may be, to enter into or perform its obligations as one of the Trustees under this Trust Agreement.

Section 7.2 Representations and Warranties of Depositor.

The Depositor hereby represents and warrants for the benefit of the Securityholders that:

(a) the Trust Securities Certificates issued at the Closing Date on behalf of the Trust have been duly authorized and will have been, duly and validly executed, issued and delivered by the Trustees pursuant to the terms and provisions of, and in accordance with the requirements of, this Trust Agreement and the Securityholders will be, as of such date, entitled to the benefits of this Trust Agreement; and

(b) there are no taxes, fees or other governmental charges payable by the Trust (or the Trustees on behalf of the Trust) under the laws of the State of Delaware or any political subdivision thereof in connection with the execution, delivery and performance by the Property Trustee or the Delaware Trustee, as the case may be, of this Trust Agreement.

ARTICLE VIII

THE TRUSTEES

Section 8.1 Certain Duties and Responsibilities.

(a) The duties and responsibilities of the Trustees shall be as provided by this Trust Agreement and, in the case of the Property Trustee, by the Trust Indenture Act.

Notwithstanding the foregoing, no provision of this Trust Agreement shall require the Trustees to expend or risk their own funds or otherwise incur any financial liability in the performance of any of their duties hereunder, or in the exercise of any of their rights or powers, if they shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to them. Whether or not therein expressly so provided, every provision of this Trust Agreement relating to the conduct or affecting the liability of or affording protection to the Trustees shall be subject to the provisions of this Section. Nothing in this Trust Agreement shall be construed to release an Administrative Trustee from liability for its own gross negligent action, its own gross negligent failure to act, or its own willful misconduct. To the extent that, at law or in equity, an Administrative Trustee has duties (including fiduciary duties) and liabilities relating thereto to the Trust or to the Securityholders, such Administrative Trustee shall not be liable to the Trust or to any Securityholder for such Trustee's good faith reliance on the provisions of this Trust Agreement. The provisions of this Trust Agreement, to the extent that they restrict the duties and liabilities of the Administrative Trustees otherwise existing at law or in equity, are agreed by the Depositor and the Securityholders to replace such other duties and liabilities of the Administrative Trustees.

(b) All payments made by the Property Trustee or a Paying Agent in respect of the Trust Securities shall be made only from the revenue and proceeds from the Trust Property and only to the extent that there shall be sufficient revenue or proceeds from the Trust Property to enable the Property Trustee or a Paying Agent to make payments in accordance with the terms hereof. Each Securityholder, by its acceptance of a Trust Security, agrees that it will look solely to the revenue and proceeds from the Trust Property to the extent legally available for distribution to it as herein provided and that the Trustees are not personally liable to it for any amount distributable in respect of any Trust Security or for any other liability in respect of any Trust Security. This Section 8.1(b) does not limit the liability of the Trustees expressly set forth elsewhere in this Trust Agreement or, in the case of the Property Trustee, in the Trust Indenture Act.

(c) No provision of this Trust Agreement shall be construed to relieve the Property Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(i) the Property Trustee shall not be liable for any error of judgment made in good faith by an authorized officer of the Property Trustee, unless it shall be proved that the Property Trustee was negligent in ascertaining the pertinent facts;

(ii) the Property Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a majority in Liquidation Amount of the Trust Securities relating to the time, method and place of conducting any proceeding for

any remedy available to the Property Trustee, or exercising any trust or power conferred upon the Property Trustee under this Trust Agreement;

(iii) the Property Trustee's sole duty with respect to the custody, safekeeping and physical preservation of the Debentures and the Payment Account shall be to deal with such property in a similar manner as the Property Trustee deals with similar property for its own account, subject to the protections and limitations on liability afforded to the Property Trustee under this Trust Agreement and the Trust Indenture Act;

(iv) the Property Trustee shall not be liable for any interest on any money received by it except as it may otherwise agree in writing with the Depositor; and money held by the Property Trustee need not be segregated from other funds held by it except in relation to the Payment Account maintained by the Property Trustee pursuant to Section 3.1 and except to the extent otherwise required by law; and

(v) the Property Trustee shall not be responsible for monitoring the compliance by the Administrative Trustees or the Depositor with their respective duties under this Trust Agreement, nor shall the Property Trustee be liable for the default or misconduct of the Administrative Trustees or the Depositor.

Section 8.2 *Certain Notices.*

Within ten Business Days after the occurrence of any Event of Default actually known to the Property Trustee, the Property Trustee shall transmit, in the manner and to the extent provided in Section 10.9, notice of such Event of Default to the Securityholders, the Administrative Trustees and the Depositor, unless such Event of Default shall have been cured or waived.

Within five Business Days after the receipt of notice of the Depositor's exercise of its right to defer the payment of interest on the Debentures pursuant to the Indenture, the Administrative Trustee shall transmit, in the manner and to the extent provided in Section 10.9, notice of such exercise to the Securityholders and the Property Trustee, unless such exercise shall have been revoked.

Section 8.3 *Certain Rights of Property Trustee.*

Subject to the provisions of Section 8.1:

(a) the Property Trustee may rely and shall be protected in acting or refraining from acting in good faith upon any resolution, Opinion of Counsel, certificate, written representation of a Holder or transferee, certificate of auditors or any other certificate, statement, instrument, opinion, report, notice, request, consent, order, appraisal, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) if (i) in performing its duties under this Trust Agreement the Property Trustee is required to decide between alternative courses of action or (ii) in construing any of the provisions of this Trust Agreement the Property Trustee finds the same ambiguous or inconsistent with any other provisions contained herein or (iii) the Property Trustee is unsure of the application of any provision of this Trust Agreement, then, except as to any matter as to which the Capital Securityholders are entitled to vote under the terms of this Trust Agreement, the Property Trustee shall deliver a notice to the Depositor requesting written instructions of the Depositor as to the course of action to be taken and the Property Trustee shall take such action, or refrain from taking such action, as the Property Trustee shall be instructed in writing to take, or to refrain from taking, by the Depositor; *provided, however*, that if the Property Trustee does not receive such instructions of the Depositor within ten Business Days after it has delivered such notice, or such reasonably shorter period of time set forth in such notice (which to the extent practicable shall not be less than two Business Days), it may, but shall be under no duty to, take or refrain from taking such action not inconsistent with this Trust Agreement as it shall deem advisable and in the best interests of the Securityholders, in which event the Property Trustee shall have no liability except for its own bad faith, negligence or willful misconduct;

(c) any direction or act of the Depositor or the Administrative Trustees contemplated by this Trust Agreement shall be sufficiently evidenced by an Officers' Certificate;

(d) whenever in the administration of this Trust Agreement, the Property Trustee shall deem it desirable that a matter be established before undertaking, suffering or omitting any action hereunder, the Property Trustee (unless other evidence is herein specifically prescribed) may, in the absence of bad faith on its part, request and rely upon an Officers' Certificate which, upon receipt of such request, shall be promptly delivered by the Depositor or the Administrative Trustees;

(e) the Property Trustee shall have no duty to see to any recording, filing or registration of any instrument (including any financing or continuation statement or any filing under tax or securities laws) or any rerecording, refiling or reregistration thereof;

(f) the Property Trustee may consult with counsel of its selection (which counsel may be counsel to the Depositor or any of its Affiliates, and may include any of its employees) and the advice of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon and in accordance with such advice; the Property Trustee shall have the right at any time to seek instructions concerning the administration of this Trust Agreement from any court of competent jurisdiction;

(g) the Property Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Trust Agreement at the request or direction of any of the Securityholders pursuant to this Trust Agreement, unless such Securityholders shall

have offered to the Property Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(h) the Property Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond, debenture, note or other evidence of indebtedness or other paper or document, unless requested in writing to do so by one or more Securityholders, but the Property Trustee may make such further inquiry or investigation into such facts or matters as it may see fit;

(i) the Property Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through its agents or attorneys; *provided* that the Property Trustee shall be responsible for its own negligence or recklessness with respect to selection of any agent or attorney appointed by it hereunder;

(j) whenever in the administration of this Trust Agreement the Property Trustee shall deem it desirable to receive written instructions with respect to enforcing any remedy or right or taking any other action hereunder the Property Trustee (i) may request written instructions from the Holders of the Trust Securities which written instructions may only be given by the Holders of the same proportion in Liquidation Amount of the Trust Securities as would be entitled to direct the Property Trustee under the terms of the Trust Securities in respect of such remedy, right or action, (ii) may refrain from enforcing such remedy or right or taking such other action until such written instructions are received, and (iii) shall be protected in acting in accordance with such written instructions; and

(k) except as otherwise expressly provided by this Trust Agreement, the Property Trustee shall not be under any obligation to take any action that is discretionary under the provisions of this Trust Agreement.

No provision of this Trust Agreement shall be deemed to impose any duty or obligation on the Property Trustee to perform any act or acts or exercise any right, power, duty or obligation conferred or imposed on it, in any jurisdiction in which it shall be illegal, or in which the Property Trustee shall be unqualified or incompetent in accordance with applicable law, to perform any such act or acts, or to exercise any such right, power, duty or obligation. No permissive power or authority available to the Property Trustee shall be construed to be a duty.

Section 8.4 Not Responsible for Recitals or Issuance of Securities.

The recitals contained herein and in the Trust Securities Certificates shall be taken as the statements of the Trust, and the Trustees do not assume any responsibility for their correctness. The Trustees shall not be accountable for the use or application by the Depositor of the proceeds of the Debentures.

Section 8.5 May Hold Securities.

Any Trustee or any other agent of any Trustee or the Trust, in its individual or any other capacity, may become the owner or pledgee of Trust Securities and, subject to Sections 8.8 and 8.13, except as provided in the definition of the term “Outstanding” in Article I, may otherwise deal with the Trust with the same rights it would have if it were not a Trustee or such other agent.

Section 8.6 Compensation; Indemnity; Fees.

Pursuant to Section 10.6 of the Indenture, the Depositor, as borrower, agrees:

(a) to pay to the Trustees from time to time such compensation as shall be agreed in writing with the Depositor for all services rendered by them hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(b) except as otherwise expressly provided herein, to reimburse the Trustees upon request for all reasonable expenses, disbursements and advances incurred or made by the Trustees in accordance with any provision of this Trust Agreement (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith; and

(c) to the fullest extent permitted by applicable law, to indemnify and hold harmless (i) each Trustee, (ii) any Affiliate of any Trustee, (iii) any officer, director, shareholder, employee, representative or agent of any Trustee, and (iv) any employee or agent of the Trust or its Affiliates, (referred to herein as an “Indemnified Person”) from and against any and all loss, damage, liability, tax, penalty, expense or claim of any kind or nature whatsoever incurred by such Indemnified Person by reason of the creation, operation or termination of the Trust or any act or omission performed or omitted by such Indemnified Person in good faith on behalf of the Trust and in a manner such Indemnified Person reasonably believed to be within the scope of authority conferred on such Indemnified Person by this Trust Agreement, except that no Indemnified Person shall be entitled to be indemnified in respect of any loss, damage or claim incurred by such Indemnified Person by reason of negligence or willful misconduct with respect to such acts or omissions. When the Property Trustee incurs expenses or renders services in connection with an Event of Default specified in Section 5.1(4) or Section 5.1(5) of the Indenture, the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable federal or state bankruptcy, insolvency or other similar law.

The provisions of this Section 8.6 shall survive the termination of this Trust Agreement.

No Trustee may claim any lien or charge on any Trust Property as a result of any amount due pursuant to this Section 8.6.

The Depositor and any Trustee (in the case of the Property Trustee, subject to Section 8.8 hereof) may engage in or possess an interest in other business ventures of any nature or description, independently or with others, similar or dissimilar to the business of the Trust, and the Trust and the Holders of Trust Securities shall have no rights by virtue of this Trust Agreement in and to such independent ventures or the income or profits derived therefrom, and the pursuit of any such venture, even if competitive with the business of the Trust, shall not be deemed wrongful or improper. Neither the Depositor, nor any Trustee, shall be obligated to present any particular investment or other opportunity to the Trust even if such opportunity is of a character that, if presented to the Trust, could be taken by the Trust, and the Depositor or any Trustee shall have the right to take for its own account (individually or as a partner or fiduciary) or to recommend to others any such particular investment or other opportunity. Any Trustee may engage or be interested in any financial or other transaction with the Depositor or any Affiliate of the Depositor, or may act as depository for, trustee or agent for, or act on any committee or body of holders of, securities or other obligations of the Depositor or its Affiliates.

Section 8.7 Corporate Property Trustee Required; Eligibility of Trustees.

(a) There shall at all times be a Property Trustee hereunder with respect to the Trust Securities. The Property Trustee shall be a Person that is eligible pursuant to the Trust Indenture Act to act as such, has a combined capital and surplus of at least \$50,000,000, and is a U.S. Person. At all times, the Property Trustee shall be (i) a bank, as defined in Section 581 of the Code or (ii) a U.S. government-owned agency or U.S. government-sponsored enterprise. If any such Person publishes reports of condition at least annually, pursuant to law or to the requirements of its supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Property Trustee with respect to the Trust Securities shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

(b) There shall at all times be one or more Administrative Trustees hereunder with respect to the Trust Securities. Each Administrative Trustee shall be either a natural person who is at least 21 years of age or a legal entity that shall act through one or more persons authorized to bind that entity, and, in either case, shall be a U.S. Person.

(c) There shall at all times be a Delaware Trustee with respect to the Trust Securities. The Delaware Trustee shall either be (i) a natural person who is at least 21 years of age and a resident of the State of Delaware or (ii) a legal entity with its principal place of business in the State of Delaware and that otherwise meets the requirements of

applicable Delaware law that shall act through one or more persons authorized to bind such entity, and, in either case, shall be a U.S. Person.

Section 8.8 Conflicting Interests.

If the Property Trustee has or shall acquire a conflicting interest within the meaning of the Trust Indenture Act, the Property Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and this Trust Agreement.

Section 8.9 Co-Trustees and Separate Trustee.

Unless an Event of Default shall have occurred and be continuing, at any time or times, for the purpose of meeting the legal requirements of the Trust Indenture Act or of any jurisdiction in which any part of the Trust Property may at the time be located, the Depositor and the Administrative Trustees, by agreed action of the majority of such Trustees, shall have power to appoint, and upon the written request of the Administrative Trustees, the Depositor shall for such purpose join with the Administrative Trustees in the execution, delivery, and performance of all instruments and agreements necessary or proper to appoint, one or more Persons approved by the Property Trustee either to act as co-trustee, jointly with the Property Trustee, of all or any part of such Trust Property, or to the extent required by law to act as separate trustee of any such property, in either case with such powers as may be provided in the instrument of appointment, and to vest in such Person or Persons in the capacity aforesaid, any property, title, right or power deemed necessary or desirable, subject to the other provisions of this Section. If the Depositor does not join in such appointment within 15 days after the receipt by it of a request so to do, or in case a Debenture Event of Default has occurred and is continuing, the Property Trustee alone shall have power to make such appointment. Any co-trustee or separate trustee appointed pursuant to this Section shall either be (i) a natural person who is at least 21 years of age and a resident of the United States or (ii) a legal entity with its principal place of business in the United States that shall act through one or more persons authorized to bind such entity, and, in either case, shall be a U.S. Person.

Should any written instrument from the Depositor be required by any co-trustee or separate trustee so appointed for more fully confirming to such co-trustee or separate trustee such property, title, right, or power, any and all such instruments shall, on request, be executed, acknowledged and delivered by the Depositor.

Every co-trustee or separate trustee shall, to the extent permitted by law, but to such extent only, be appointed subject to the following terms, namely:

(a) The Trust Securities shall be executed and delivered and all rights, powers, duties, and obligations hereunder in respect of the custody of securities, cash and other personal property held by, or required to be deposited or pledged with, the Trustees

specified hereunder shall be exercised solely by such Trustees and not by such co-trustee or separate trustee.

(b) The rights, powers, duties, and obligations hereby conferred or imposed upon the Property Trustee in respect of any property covered by such appointment shall be conferred or imposed upon and exercised or performed by the Property Trustee or by the Property Trustee and such co-trustee or separate trustee jointly, as shall be provided in the instrument appointing such co-trustee or separate trustee, except to the extent that under any law of any jurisdiction in which any particular act is to be performed, the Property Trustee shall be incompetent or unqualified to perform such act, in which event such rights, powers, duties and obligations shall be exercised and performed by such co-trustee or separate trustee.

(c) The Property Trustee at any time, by an instrument in writing executed by it, with the written concurrence of the Depositor, may accept the resignation of or remove any co-trustee or separate trustee appointed under this Section, and, in case a Debenture Event of Default has occurred and is continuing, the Property Trustee shall have power to accept the resignation of, or remove, any such co-trustee or separate trustee without the concurrence of the Depositor. Upon the written request of the Property Trustee, the Depositor shall join with the Property Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to effectuate such resignation or removal. A successor to any co-trustee or separate trustee so resigned or removed may be appointed in the manner provided in this Section.

(d) No co-trustee or separate trustee hereunder shall be personally liable by reason of any act or omission of the Property Trustee or any other trustee hereunder.

(e) The Property Trustee shall not be liable by reason of any act of a co-trustee or separate trustee.

(f) Any Act of Holders delivered to the Property Trustee shall be deemed to have been delivered to each such co-trustee and separate trustee.

Section 8.10 Resignation and Removal; Appointment of Successor.

No resignation or removal of any Trustee (the "Relevant Trustee") and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 8.11.

Subject to the immediately preceding paragraph, the Relevant Trustee may resign at any time by giving written notice thereof to the Securityholders. If the instrument of acceptance by the successor Trustee required by Section 8.11 shall not have been delivered to the Relevant Trustee within 30 days after the giving of such notice of

resignation, the Relevant Trustee may petition, at the expense of the Trust, any court of competent jurisdiction for the appointment of a successor Relevant Trustee.

Unless a Debenture Event of Default shall have occurred and be continuing, any Trustee may be removed at any time by Act of the Common Securityholder. If a Debenture Event of Default shall have occurred and be continuing, the Property Trustee or the Delaware Trustee, or both of them, may be removed at such time by Act of the Holders of a majority in Liquidation Amount of the Capital Securities, delivered to the Relevant Trustee (in its individual capacity and on behalf of the Trust). An Administrative Trustee may be removed by the Common Securityholder at any time. If the instrument of acceptance by the successor Trustee required by Section 8.11 shall not have been delivered to the Relevant Trustee within 30 days after such removal, the Relevant Trustee may petition, at the expense of the Trust, any court of competent jurisdiction for the appointment of a successor Relevant Trustee.

If any Trustee shall resign, be removed or become incapable of acting as Trustee, or if a vacancy shall occur in the office of any Trustee for any cause, at a time when no Debenture Event of Default shall have occurred and be continuing, the Common Securityholder, by Act of the Common Securityholder delivered to the retiring Trustee, shall promptly appoint a successor Trustee or Trustees, and the retiring Trustee shall comply with the applicable requirements of Section 8.11. If the Property Trustee or the Delaware Trustee shall resign, be removed or become incapable of continuing to act as the Property Trustee or the Delaware Trustee, as the case may be, at a time when a Debenture Event of Default shall have occurred and be continuing, the Capital Securityholders, by Act of the Securityholders of a majority in Liquidation Amount of the Capital Securities then Outstanding delivered to the retiring Relevant Trustee, shall promptly appoint a successor Relevant Trustee or Trustees, and such successor Trustee shall comply with the applicable requirements of Section 8.11. If an Administrative Trustee shall resign, be removed or become incapable of acting as Administrative Trustee, at a time when a Debenture Event of Default shall have occurred and be continuing, the Common Securityholder by Act of the Common Securityholder delivered to the Administrative Trustee shall promptly appoint a successor Administrative Trustee or Administrative Trustees and such successor Administrative Trustee or Trustees shall comply with the applicable requirements of Section 8.11. If no successor Relevant Trustee shall have been so appointed by the Common Securityholder or the Capital Securityholders and accepted appointment in the manner required by Section 8.11, any Securityholder who has been a Securityholder of Trust Securities for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Relevant Trustee.

The Property Trustee shall give notice of each resignation and each removal of the Property Trustee or the Delaware Trustee and each appointment of a successor Property Trustee or Delaware Trustee to all Securityholders in the manner provided in Section 10.9 and shall give notice to the Depositor. Each notice shall include the name of

the successor Property Trustee or Delaware Trustee, as the case may be, and the address of its Corporate Trust Office if it is the Property Trustee.

Notwithstanding the foregoing or any other provision of this Trust Agreement, in the event any Administrative Trustee or a Delaware Trustee who is a natural person dies or becomes, in the opinion of the Depositor, incompetent or incapacitated, the vacancy created by such death, incompetence or incapacity may be filled by (a) the unanimous act of the remaining Administrative Trustees if there are at least two of them or (b) otherwise by the Depositor (with the successor in each case being a Person who satisfies the eligibility requirement for Administrative Trustees or Delaware Trustee, as the case may be, set forth in Section 8.7).

A successor Trustee must be a U.S. Person to be appointed as such.

Section 8.11 Acceptance of Appointment by Successor.

In case of the appointment hereunder of a successor Relevant Trustee, the retiring Relevant Trustee (if requested by the Depositor) and each successor Relevant Trustee with respect to the Trust Securities shall execute and deliver an amendment hereto wherein each successor Relevant Trustee shall accept such appointment and which (a) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor Relevant Trustee all the rights, powers, trusts and duties of the retiring Relevant Trustee with respect to the Trust Securities and the Trust and (b) shall add to or change any of the provisions of this Trust Agreement as shall be necessary to provide for or facilitate the administration of the Trust by more than one Relevant Trustee, it being understood that nothing herein or in such amendment shall constitute such Relevant Trustees co-trustees and upon the execution and delivery of such amendment the resignation or removal of the retiring Relevant Trustee shall become effective to the extent provided therein and each such successor Relevant Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Relevant Trustee; but, on written request of the Trust or any successor Relevant Trustee such retiring Relevant Trustee shall duly assign, transfer and deliver to such successor Relevant Trustee all Trust Property, all proceeds thereof and money held by such retiring Relevant Trustee hereunder with respect to the Trust Securities and the Trust.

Upon written request of any such successor Relevant Trustee, the Trust shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Relevant Trustee all such rights, powers and trusts referred to in the preceding paragraph.

No successor Relevant Trustee shall accept its appointment unless at the time of such acceptance such successor Relevant Trustee shall be qualified and eligible under this Article.

Section 8.12 *Merger, Conversion, Consolidation or Succession to Business.*

Any Person into which the Property Trustee or the Delaware Trustee may be merged or converted or with which it may be consolidated, or any Person resulting from any merger, conversion or consolidation to which such Relevant Trustee shall be a party, or any Person succeeding to all or substantially all the corporate trust business of such Relevant Trustee, shall be the successor of such Relevant Trustee hereunder, provided such Person shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto.

Section 8.13 *Preferential Collection of Claims Against Depositor or Trust.*

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other similar judicial proceeding relative to the Trust or any other obligor upon the Trust Securities or the property of the Trust or of such other obligor or their creditors, the Property Trustee (irrespective of whether any Distributions on the Trust Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Property Trustee shall have made any demand on the Trust for the payment of any past due Distributions) shall be entitled and empowered, to the fullest extent permitted by law, by intervention in such proceeding or otherwise:

(a) to file and prove a claim for the whole amount of any Distributions owing and unpaid in respect of the Trust Securities and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Property Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Property Trustee, its agents and counsel) and of the Holders allowed in such judicial proceeding, and

(b) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same; and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Property Trustee and, in the event the Property Trustee shall consent to the making of such payments directly to the Holders, to pay to the Property Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Property Trustee, its agents and counsel, and any other amounts due the Property Trustee.

Nothing herein contained shall be deemed to authorize the Property Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement adjustment or compensation affecting the Trust Securities or the rights of any Holder thereof or to authorize the Property Trustee to vote in respect of the claim of any Holder in any such proceeding.

Section 8.14 Reports by Property Trustee.

(a) The Property Trustee shall transmit to Securityholders such reports concerning the Property Trustee and its actions under this Trust Agreement as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant thereto. If required by Section 313(a) of the Trust Indenture Act, the Property Trustee shall, within sixty days after each May 15 following the date of this Trust Agreement deliver to Securityholders a brief report, dated as of such May 15, which complies with the provisions of such Section 313(a).

(b) A copy of each such report shall, at the time of such transmission to Holders, be filed by the Property Trustee with each national stock exchange, the Nasdaq National Market or such other interdealer quotation system or self-regulatory organization upon which the Capital Securities are listed or traded, if any, with the Commission and with the Depositor. The Depositor will promptly notify the Property Trustee of any such listing or trading.

Section 8.15 Reports to the Property Trustee.

The Depositor and the Administrative Trustees on behalf of the Trust shall provide to the Property Trustee such documents, reports and information as required by Section 314 of the Trust Indenture Act (if any) and the compliance certificate required by Section 314(a) of the Trust Indenture Act in the form, in the manner and at the times required by Section 314 of the Trust Indenture Act. Delivery of such reports, information and documents to the Property Trustee is for informational purposes only and the Property Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Trust's compliance with any of its covenants hereunder (as to which the Property Trustee is entitled to rely exclusively on Officers' Certificates).

Section 8.16 Evidence of Compliance with Conditions Precedent.

Each of the Depositor and the Administrative Trustees on behalf of the Trust shall provide to the Property Trustee such evidence of compliance with any conditions precedent, if any, provided for in this Trust Agreement that relate to any of the matters set forth in Section 314(c) of the Trust Indenture Act. Any certificate or opinion required to be given by an officer pursuant to Section 314(c)(1) of the Trust Indenture Act shall be given in the form of an Officers' Certificate.

Section 8.17 Number of Trustees.

(a) The number of Trustees shall be four, *provided* that the Holder of all of the Common Securities by written instrument may increase or decrease the number of Administrative Trustees. The Property Trustee and the Delaware Trustee may be the same Person.

(b) If a Trustee ceases to hold office for any reason and the number of Administrative Trustees is not reduced pursuant to Section 8.17(a), or if the number of Trustees is increased pursuant to Section 8.17(a), a vacancy shall occur. The vacancy shall be filled with a Trustee appointed in accordance with Section 8.10.

(c) The death, resignation, retirement, removal, bankruptcy, incompetence or incapacity to perform the duties of a Trustee shall not operate to dissolve, terminate or annul the Trust. Whenever a vacancy in the number of Administrative Trustees shall occur, until such vacancy is filled by the appointment of an Administrative Trustee in accordance with Section 8.10, the Administrative Trustees in office, regardless of their number (and notwithstanding any other provision of this Trust Agreement), shall have all the powers granted to the Administrative Trustees and shall discharge all the duties imposed upon the Administrative Trustees by this Trust Agreement.

Section 8.18 Delegation of Power.

(a) Any Administrative Trustee may, by power of attorney consistent with applicable law, delegate to any other natural person over the age of 21 (provided such person is a U.S. Person) his or her power for the purpose of executing any documents contemplated in Section 2.7(a), including any registration statement or amendment thereto filed with the Commission, or making any other governmental filing; and

(b) The Administrative Trustees shall have power to delegate from time to time to such of their number or to the Depositor the doing of such things and the execution of such instruments either in the name of the Trust or the names of the Administrative Trustees or otherwise as the Administrative Trustees may deem expedient, to the extent such delegation is not prohibited by applicable law or contrary to the provisions of this Trust Agreement, as set forth herein.

ARTICLE IX

TERMINATION, LIQUIDATION AND MERGER

Section 9.1 Termination Upon Expiration Date.

Unless earlier dissolved, the Trust shall automatically dissolve on January 15, 2087 (the “Expiration Date”). Upon such a dissolution, after satisfaction of the liabilities of the Trust, as provided by applicable law, the Trust Property shall be distributed in accordance with Section 9.4.

Section 9.2 Early Termination.

The first to occur of any of the following events is an “Early Termination Event”, the occurrence of which shall cause a dissolution of the Trust:

(a) the occurrence of a Bankruptcy Event in respect of, or the dissolution or liquidation of, the Holder of the Common Securities;

(b) the written direction to the Property Trustee from the Depositor at any time to dissolve the Trust and, after satisfaction of liabilities to creditors of the Trust as provided by applicable law, distribute Debentures to Securityholders in exchange for the Capital Securities (which direction is optional and wholly within the discretion of the Depositor);

(c) the redemption of all of the Capital Securities in connection with the redemption or repayment of all of the Debentures; and

(d) the entry of an order for dissolution of the Trust by a court of competent jurisdiction.

Section 9.3 *Termination.*

The respective obligations and responsibilities of the Trustees and the Trust created and continued hereby shall terminate upon the latest to occur of the following: (a) the distribution by the Property Trustee to Securityholders upon the liquidation of the Trust pursuant to Section 9.4, or upon the redemption of all of the Trust Securities pursuant to Section 4.2, of all amounts required to be distributed hereunder upon the final payment of the Trust Securities; (b) the payment of any expenses owed by the Trust; and (c) the discharge of all administrative duties of the Administrative Trustees, including the performance of any tax reporting obligations with respect to the Trust or the Securityholders.

Section 9.4 *Liquidation.*

(a) If an Early Termination Event specified in clause (a), (b) or (d) of Section 9.2 occurs or upon the Expiration Date, the Trust shall be liquidated by the Trustees as expeditiously as the Trustees determine to be possible by distributing, after satisfaction or the making of reasonable provisions for the payment of liabilities to creditors of the Trust as provided by applicable law, to each Securityholder a Like Amount of Debentures, subject to Section 9.4(d). Notice of liquidation shall be given by the Property Trustee by first-class mail, postage prepaid mailed not later than 30 nor more than 60 days prior to the Liquidation Date to each Holder of Trust Securities at such Holder's address appearing in the Securities Register. All notices of liquidation shall:

(i) state the CUSIP Number of the Trust Securities;

(ii) state the Liquidation Date;

(iii) state that from and after the Liquidation Date, the Trust Securities will no longer be deemed to be Outstanding and any Trust Securities Certificates

not surrendered for exchange will be deemed to represent a Like Amount of Debentures; and

(iv) provide such information with respect to the mechanics by which Holders may exchange Trust Securities Certificates for Debentures, or if Section 9.4(d) applies receive a Liquidation Distribution, as the Administrative Trustees or the Property Trustee shall deem appropriate.

(b) Except where Section 9.2(c) or 9.4(d) applies, in order to effect the liquidation of the Trust and distribution of the Debentures to Securityholders, the Property Trustee shall establish a record date for such distribution (which shall be not more than 45 days prior to the Liquidation Date) and, either itself acting as exchange agent or through the appointment of a separate exchange agent, shall establish such procedures as it shall deem appropriate to effect the distribution of Debentures in exchange for the Outstanding Trust Securities Certificates.

(c) Except where Section 9.2(c) or 9.4(d) applies, after the Liquidation Date, (i) the Trust Securities will no longer be deemed to be Outstanding, (ii) certificates representing a Like Amount of Debentures will be issued to Holders of Trust Securities Certificates, upon surrender of such certificates to the Administrative Trustees or their agent for exchange, (iii) if the Capital Securities are then listed or traded on the New York Stock Exchange or other exchange, interdealer quotation system or self-regulatory organization, the Depositor shall use its best efforts to have the Debentures listed on such other exchange, interdealer quotation system or self-regulatory organization as the Capital Securities are then listed or traded, (iv) any Trust Securities Certificates not so surrendered for exchange will be deemed to represent a Like Amount of Debentures, accruing interest at the rate provided for in the Debentures from the last Distribution Date on which a Distribution was made on such Trust Securities Certificates until such certificates are so surrendered (and until such certificates are so surrendered, no payments of interest or principal will be made to Holders of Trust Securities Certificates with respect to such Debentures) and (v) all rights of Securityholders holding Trust Securities will cease, except the right of such Securityholders to receive Debentures upon surrender of Trust Securities Certificates.

(d) In the event that, notwithstanding the other provisions of this Section 9.4, whether because of an order for dissolution entered by a court of competent jurisdiction or otherwise, distribution of the Debentures in the manner provided herein is determined by the Property Trustee not to be practical, the Trust Property shall be liquidated, and the Trust shall be wound-up, by the Property Trustee. In such event, Securityholders will be entitled to receive out of the assets of the Trust available for distribution to Securityholders, after satisfaction of liabilities to creditors of the Trust as provided by applicable law, an amount equal to the Liquidation Amount per Trust Security plus accumulated and unpaid Distributions thereon to the date of payment (such amount being the "Liquidation Distribution"). If the Liquidation Distribution can be paid only in part because the Trust has insufficient assets available to pay in full the aggregate Liquidation

Distribution, then, subject to the next succeeding sentence, the amounts payable by the Trust on the Trust Securities shall be paid on a *pro rata* basis (based upon Liquidation Amounts). The Holder of the Common Securities will be entitled to receive Liquidation Distributions upon any such winding-up or termination *pro rata* (determined as aforesaid) with Holders of Capital Securities, except that, if a Debenture Event of Default has occurred and is continuing, the Capital Securities shall have a priority over the Common Securities.

Section 9.5 Mergers, Consolidations, Amalgamations or Replacements of the Trust.

The Trust may not merge with or into, consolidate, amalgamate, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to any corporation or other Person, except pursuant to this Article IX. At the request of the Depositor, with the consent of the Administrative Trustees and without the consent of the Holders of the Capital Securities, the Property Trustee or the Delaware Trustee, the Trust may merge with or into, consolidate, amalgamate, or be replaced by or convey, transfer or lease its properties and assets substantially as an entirety to a trust organized as such under the laws of any State; *provided* that (i) such successor entity either (a) expressly assumes all of the obligations of the Trust with respect to the Capital Securities or (b) substitutes for the Capital Securities other securities having substantially the same terms as the Capital Securities (the “Successor Securities”) so long as the Successor Securities rank the same as the Capital Securities rank in priority with respect to distributions and payments upon liquidation, redemption and otherwise, (ii) the Depositor expressly appoints a trustee of such successor entity possessing the same powers and duties as the Property Trustee as the holder of the Debentures, (iii) the Successor Securities are listed or traded, or any Successor Securities will be listed upon notification of issuance, on any national securities exchange or other organization on which the Capital Securities are then listed or traded, if any, (iv) such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not cause the Capital Securities (including any Successor Securities) to be downgraded by any nationally recognized statistical rating organization, (v) such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not adversely affect the rights, preferences and privileges of the Holders of the Capital Securities (including any Successor Securities) in any material respect, (vi) such successor entity has a purpose substantially identical to that of the Trust, (vii) prior to such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease, the Depositor has received an Opinion of Counsel to the effect that (a) such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not adversely affect the rights, preferences and privileges of the Holders of the Capital Securities (including any Successor Securities) in any material respect, and (b) following such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease, neither the Trust nor such successor entity will be required to register as an investment company under the 1940 Act and (viii) the Depositor owns all of the common securities of such successor entity and guarantees the obligations of such successor entity under the

Successor Securities at least to the extent provided by the Guarantee. Notwithstanding the foregoing, the Trust shall not, except with the consent of Holders of 100% in Liquidation Amount of the Capital Securities, consolidate, amalgamate, merge with or into, or be replaced by or convey, transfer or lease its properties and assets substantially as an entirety to any other Person or permit any other Person to consolidate, amalgamate, merge with or into, or replace it if such consolidation, amalgamation, merger, replacement, conveyance, transfer or lease would cause the Trust or the successor entity to be classified as other than a grantor trust for United States federal income tax purposes.

ARTICLE X

MISCELLANEOUS PROVISIONS

Section 10.1 *Limitation of Rights of Securityholders.*

The death, incapacity, liquidation, dissolution, termination or bankruptcy of any Person having an interest, beneficial or otherwise, in Trust Securities shall not operate to terminate this Trust Agreement, nor dissolve, terminate or annul the Trust, nor entitle the legal representatives or heirs of such Person or any Securityholder for such Person, to claim an accounting, take any action or bring any proceeding in any court for a partition or winding up of the arrangements contemplated hereby, nor otherwise affect the rights, obligations and liabilities of the parties hereto or any of them.

Section 10.2 *Liability of the Common Securityholder.*

The Holder of the Common Securities shall be liable for all of the debts and obligations of the Trust (other than with respect to the Trust Securities) to the extent not satisfied out of the Trust's assets.

Section 10.3 *Amendment.*

(a) This Trust Agreement may be amended from time to time by the Property Trustee, the Administrative Trustees and the Depositor, without the consent of any Securityholders, (i) to cure any ambiguity, correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Trust Agreement, which shall not be inconsistent with the other provisions of this Trust Agreement, (ii) to effect any amendment required in order to make this Trust Agreement consistent with the description of the Trust Agreement contained in the Prospectus, dated September 1, 2005, as supplemented by the Prospectus Supplement, dated January 26, 2007, relating to the Capital Securities or (iii) to modify, eliminate or add to any provisions of this Trust Agreement to such extent as shall be necessary to ensure that the Trust will be classified for United States federal income tax purposes as a grantor trust at all times that any Trust Securities are Outstanding or to ensure that the Trust will not be required to register as an investment company under the 1940 Act; *provided, however*, that in the case of clause (i),

clause (ii) or clause (iii), such action shall not adversely affect in any material respect the interests of any Securityholder, and any such amendments of this Trust Agreement shall become effective when notice thereof is given to the Securityholders.

(b) Except as provided in Section 10.3(c) hereof, any provision of this Trust Agreement may be amended by the Trustees and the Depositor (i) with the consent of Trust Securityholders representing not less than a majority (based upon Liquidation Amounts) of the Trust Securities then Outstanding and (ii) upon receipt by the Trustees of an Opinion of Counsel to the effect that such amendment or the exercise of any power granted to the Trustees in accordance with such amendment will not affect the Trust's status as a grantor trust for United States federal income tax purposes or the Trust's exemption from status of an investment company under the 1940 Act.

(c) In addition to and notwithstanding any other provision in this Trust Agreement, without the consent of each affected Securityholder, this Trust Agreement may not be amended to (i) change the amount or timing of any Distribution on the Trust Securities or otherwise adversely affect the amount of any Distribution required to be made in respect of the Trust Securities as of a specified date or (ii) restrict the right of a Securityholder to institute suit for the enforcement of any such payment on or after such date. Notwithstanding any other provision herein, without the unanimous consent of the Securityholders, this paragraph (c) of this Section 10.3 may not be amended.

(d) Notwithstanding any other provisions of this Trust Agreement, no Trustee shall enter into or consent to any amendment to this Trust Agreement which would cause the Trust to fail or cease to qualify for the exemption from status of an investment company under the 1940 Act or fail or cease to be classified as a grantor trust for United States federal income tax purposes.

(e) Notwithstanding anything in this Trust Agreement to the contrary, without the consent of the Depositor, this Trust Agreement may not be amended in a manner which imposes any additional obligation on the Depositor.

(f) In the event that any amendment to this Trust Agreement is made, the Administrative Trustees shall promptly provide to the Depositor a copy of such amendment.

(g) Neither the Property Trustee nor the Delaware Trustee shall be required to enter into any amendment to this Trust Agreement which affects its own rights, duties or immunities under this Trust Agreement. The Property Trustee shall be entitled to receive an Opinion of Counsel and an Officers' Certificate stating that any amendment to this Trust Agreement is in compliance with this Trust Agreement.

Section 10.4 Separability.

In case any provision in this Trust Agreement or in the Trust Securities Certificates shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 10.5 Governing Law.

THIS TRUST AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF EACH OF THE SECURITYHOLDERS, THE TRUST AND THE TRUSTEES WITH RESPECT TO THIS TRUST AGREEMENT AND THE TRUST SECURITIES SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF DELAWARE (WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES).

Section 10.6 Payments Due on Non-Business Day.

If the date fixed for any payment on any Trust Security shall be a day that is not a Business Day, then such payment need not be made on such date but may be made on the next succeeding day that is a Business Day (except as otherwise provided in Sections 4.1(a) and 4.2(d)), with the same force and effect as though made on the date fixed for such payment, and no interest shall accrue thereon for the period after such date.

Section 10.7 Successors.

This Trust Agreement shall be binding upon and shall inure to the benefit of any successor to the Depositor, the Trust or the Relevant Trustee, including any successor by operation of law. Except in connection with a consolidation, merger or sale involving the Depositor that is permitted under Article Eight of the Indenture and pursuant to which the assignee agrees in writing to perform the Depositor's obligations hereunder, the Depositor shall not assign its obligations hereunder.

Section 10.8 Headings.

The Article and Section headings are for convenience only and shall not affect the construction of this Trust Agreement.

Section 10.9 Reports, Notices and Demands.

Any report, notice, demand or other communication which by any provision of this Trust Agreement is required or permitted to be given or served to or upon any Securityholder or the Depositor may be given or served in writing by deposit thereof, first-class postage prepaid, in the United States mail, hand delivery or facsimile transmission, in each case, addressed, (a) in the case of a Capital Securityholder, to such Capital Securityholder as such Securityholder's name and address may appear on the

Securities Register; and (b) in the case of the Common Securityholder or the Depositor, to JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017, Attention: Treasurer, facsimile no.: (212) 270-1604. Such notice, demand or other communication to or upon a Securityholder shall be deemed to have been sufficiently given or made, for all purposes, upon hand delivery, mailing or transmission.

Any notice, demand or other communication which by any provision of this Trust Agreement is required or permitted to be given or served to or upon the Trust, the Property Trustee, the Delaware Trustee or the Administrative Trustees shall be given in writing addressed (until another address is published by the Trust) as follows: (a) with respect to the Property Trustee to The Bank of New York, 101 Barclay Street, New York, New York 10286, Attention: Corporate Trust Administration; (b) with respect to the Delaware Trustee, to The Bank of New York (Delaware), White Clay Center, Route 273, Newark, Delaware, with a copy to the Property Trustee at the address set forth in Clause (a); and (c) with respect to the Administrative Trustees, to them at the address above for notices to the Depositor, marked "Attention Administrative Trustees of JPMorgan Chase Capital XXI." Such notice, demand or other communication to or upon the Trust or the Property Trustee shall be deemed to have been sufficiently given or made only upon actual receipt of the writing by the Trust or the Property Trustee.

Section 10.10 Agreement Not to Petition.

Each of the Trustees and the Depositor agree for the benefit of the Securityholders that, until at least one year and one day after the Trust has been terminated in accordance with Article X, they shall not file, or join in the filing of, a petition against the Trust under any bankruptcy, insolvency, reorganization or other similar law (including, without limitation, the United States Bankruptcy Code) (collectively, "Bankruptcy Laws") or otherwise join in the commencement of any proceeding against the Trust under any Bankruptcy Law. In the event the Depositor takes action in violation of this Section 10.10, the Property Trustee agrees, for the benefit of Securityholders, that at the expense of the Depositor, it shall file an answer with the bankruptcy court or otherwise properly contest the filing of such petition by the Depositor against the Trust or the commencement of such action and raise the defense that the Depositor has agreed in writing not to take such action and should be stopped and precluded therefrom and such other defenses, if any, as counsel for the Property Trustee or the Trust may assert. The provisions of this Section 10.10 shall survive the termination of this Trust Agreement.

Section 10.11 Trust Indenture Act; Conflict with Trust Indenture Act.

(a) This Trust Agreement is subject to the provisions of the Trust Indenture Act that are required or deemed to be part of this Trust Agreement and shall, to the extent applicable, be governed by such provisions.

(b) The Property Trustee shall be the only Trustee which is a trustee for the purposes of the Trust Indenture Act.

(c) If any provision hereof limits, qualifies or conflicts with another provision hereof which is required or deemed to be included in this Trust Agreement by any of the provisions of the Trust Indenture Act, such required or deemed provision shall control. If any provision of this Trust Agreement modifies or excludes any provision of the Trust Indenture Act which may be so modified or excluded, the latter provision shall be deemed to apply to this Trust Agreement as so modified or excluded, as the case may be.

(d) The application of the Trust Indenture Act to this Trust Agreement shall not affect the nature of the Trust Securities as equity securities representing undivided beneficial interests in the assets of the Trust.

Section 10.12 Acceptance of Terms of Trust Agreement, Guarantee and Indenture.

THE RECEIPT AND ACCEPTANCE OF A TRUST SECURITY OR ANY INTEREST THEREIN BY OR ON BEHALF OF A SECURITYHOLDER OR ANY BENEFICIAL OWNER, WITHOUT ANY SIGNATURE OR FURTHER MANIFESTATION OF ASSENT, SHALL CONSTITUTE THE UNCONDITIONAL ACCEPTANCE BY THE SECURITYHOLDER AND ALL OTHERS HAVING A BENEFICIAL INTEREST IN SUCH TRUST SECURITY OF ALL THE TERMS AND PROVISIONS OF THIS TRUST AGREEMENT AND AGREEMENT TO THE SUBORDINATION PROVISIONS AND OTHER TERMS OF THE GUARANTEE AND THE INDENTURE, AND SHALL CONSTITUTE THE AGREEMENT OF THE TRUST, SUCH SECURITYHOLDER AND SUCH OTHERS THAT THE TERMS AND PROVISIONS OF THIS TRUST AGREEMENT SHALL BE BINDING, OPERATIVE AND EFFECTIVE AS BETWEEN THE TRUST AND SUCH SECURITYHOLDER AND SUCH OTHERS.

Section 10.13 Holders are Parties.

Notwithstanding that Holders have not executed and delivered this Trust Agreement or any counterpart thereof, Holders shall be deemed to be parties to this Trust Agreement and shall be bound by all of the terms and conditions hereof and of the Trust Securities by acceptance and delivery of the Trust Securities.

Section 10.14 Treatment of Trust as Grantor Trust and Debentures as Debt for Federal Income Tax Purposes.

(a) Holders of Trust Securities by virtue of accepting delivery thereof, agree that the arrangement created by this Trust Agreement shall be treated as a grantor trust under Subpart E of the Code for United States federal income tax purposes and that the Depositor and the Trustees shall be authorized to take any action consistent with such treatment. Neither the Trustees nor the Depositor shall make any check-the-box election for the Trust to be treated as an association under Treas. Reg. § 301.7701-3 or take any

other action inconsistent with the treatment of the Trust as a grantor trust for all tax purposes.

(b) Holders of Capital Securities, by virtue of accepting delivery thereof, agree to treat the Debentures as debt for United States federal income tax purposes.

Section 10.15 *Counterparts*.

This Trust Agreement may contain more than one counterpart of the signature page and this Trust Agreement may be executed by the affixing of the signature of each of the Trustees of one of such counterpart signature pages. All of such counterpart signature pages shall be read as though one, and they shall have the same force and effect as though all of the signers had signed a single signature page.

JPMORGAN CHASE & CO.

By: /s/ Authorized Signatory _____
Name:
Title:

THE BANK OF NEW YORK,
as Property Trustee

By: /s/ Authorized Signatory _____
Name:
Title:

THE BANK OF NEW YORK (DELAWARE),
as Delaware Trustee

By: /s/ Authorized Signatory _____
Name:
Title:

_____, as Administrative Trustee

/s/ Authorized Signatory _____

_____, as Administrative Trustee

/s/ Authorized Signatory _____

JPMORGAN CHASE CAPITAL XXI

Certain Sections of this Trust Agreement relating to
Sections 310 through 318 of the
Trust Indenture Act of 1939:

<u>Trust Indenture Act Section</u>	<u>Trust Agreement Section</u>
(§) 310 (a)(1)	8.7
(a)(2)	8.7
(a)(3)	8.9
(a)(4)	2.7(a)(ii)
(b)	8.8
(§) 311 (a)	8.13
(b)	8.13
(§) 312 (a)	5.7
(b)	5.7
(c)	5.7
(§) 313 (a)	8.14(a)
(a)(4)	8.14(b)
(b)	8.14(b)
(c)	10.9
(d)	8.14(c)
(§) 314 (a)	8.15
(b)	Not Applicable
(c)(1)	8.16
(c)(2)	8.16
(c)(3)	Not Applicable
(d)	Not Applicable
(e)	1.1,8.16
(§) 315 (a)	8.1(a), 8.3(a)
(b)	8.2,10.9
(c)	8.1(a)
(d)	8.1,8.3
(e)	Not Applicable
(§) 316 (a)	Not Applicable
(a)(1)(A)	Not Applicable
(a)(1)(B)	Not Applicable
(a)(2)	Not Applicable
(b)	5.14
(c)	6.7
(§) 317 (a)(1)	Not Applicable
(a)(2)	Not Applicable
(b)	5.9
(§) 318 (a)	10.11

Note: This reconciliation and tie sheet shall not, for any purpose, be deemed to be a part of the Trust.

J.P. MORGAN CHASE & CO.

STOCK OPTION PLAN

Effective January 18, 2001

Purposes.

The purposes of the J. P. Morgan Chase & Co. Stock Option Plan (the “Plan”) are to encourage key employees of the Company to acquire a proprietary and vested interest in the growth and performance of the Company, to retain their services, and to generate an increased incentive to contribute to the Company’s future success and prosperity, thus enhancing the value of the Company for the benefit of stockholders.

The purposes of the Plan are to be achieved through grants of stock options to be awarded to Employees of the Company.

Article 1. Definitions.

For purposes of the Plan, the following terms shall have the meanings set forth below:

1.1 “Award” shall mean a stock option or stock appreciation right granted pursuant to the Plan.

1.2 “Board” shall mean the Board of Directors of the Corporation; provided that any action taken by a duly authorized committee of the Board within the scope of authority delegated to such committee by the Board shall be considered an action of the Board for purposes of this Plan.

1.3 “Code” shall mean the Internal Revenue Code of 1986, as from time to time amended.

1.4 “Committee” shall mean the Compensation and Management Development Committee of the Board or any subcommittee thereof or any other Committee of the Board or subcommittee thereof performing substantially similar duties.

1.5 “Common Stock” shall mean the common stock of the Corporation, \$1 par value.

6. “Company” shall mean the Corporation and its Subsidiaries.

1.7 “Corporation” shall mean J. P. Morgan Chase & Co., and, except as otherwise specified in this Plan in a particular context, any successor thereto, whether by merger, consolidation, purchase of all or substantially all its assets or otherwise.

1.8 “Employee” shall mean any employee of the Company who is receiving compensation for services rendered to the Company as an employee. By way of clarification, individuals who are not classified as employees of the Company for purposes of the Company’s human resources information and payroll systems on the actual date of an Award, including, without limitation, individuals employed by temporary help firms or other staffing firms or who are treated as independent contractors by the Company (whether or not deemed to be common law employees or leased employees), are not “Employees.” In addition, in the event that any individual is re-classified as an employee for any purpose by any action of any third party or as a result of any lawsuit, action or administrative proceeding, such individual shall not be deemed an “Employee” under the Plan.

1.9 “Executive Officer” shall mean an Employee who is subject to the requirements of Sections 16(a) and 16(b) of the Securities Exchange Act of 1934.

1.10 “Fair Market Value” shall mean, for each share of Common Stock, the average of high and low sale prices of the Common Stock as reported on the New York Stock Exchange (the “NYSE”) composite tape on the applicable date, or, if there are no such sale prices of Common Stock reported on the NYSE composite tape on such date, then the average price of the Common Stock on the last previous day on which high and low sale prices are reported on the NYSE composite tape; provided that notwithstanding the foregoing, the Committee can select such other method of establishing “Fair Market Value” as it deems reasonable and appropriate.

1.11 “Participant” shall mean an Employee who is selected by the Committee or its designatee to receive an Award under the Plan; provided that no Award may be made to any Employee who is an Executive Officer on the date of grant.

1.12 “Subsidiary” shall mean any corporation which at the time qualifies as a subsidiary of the Corporation under the definition of “subsidiary corporation” in Section 424(f) of the Code, as amended from time to time.

13. “Total Disability” shall mean a physical or mental incapacity, which would entitle the individual to benefits under the long term disability program sponsored by a Subsidiary employing such individual; provided that if an individual has not elected coverage under the applicable program, the Committee shall determine, utilizing the criteria of such program, whether the individual has incurred a Total Disability.

Article 2. Shares Subject to the Plan.

2.1 Shares of Common Stock which may be issued under the Plan may be authorized and unissued shares of Common Stock or authorized and issued shares of Common Stock held in Treasury. Subject to adjustment as provided in Article 10, the number of shares of Common Stock that may be granted under the Plan shall be the number specified by the Committee from time to time.

Article 3. Award Dates; Eligibility.

1. Awards may be made on such dates as the Committee specifies.

3.2 The Committee shall designate the Employees eligible for an Award hereunder and number of options awarded each such individual who shall be a Participant following delivery of the Award agreement; provided that, the Committee may designate that the Director Human Resources or other officers of the Corporation shall determine the Employee who are to be recipients of Awards and the number of options to be awarded hereunder; provided that the Committee or its designatee may specify different levels of Awards for different Employees; provided, further, that no Executive Officer shall receive an Award under this Plan.

Article 4. Administration.

4.1 The Committee shall administer the Plan. The Committee may operate through subcommittees established by it, consisting of not fewer than two members of the Committee. The Committee may delegate any or all of its responsibilities and authorities hereunder to one or more officers or employees of the Company. The Director Human Resources of the Corporation shall be deemed to have been delegated all of the Committee's responsibilities and authorities hereunder until such time, if any, as the Committee shall determine to withdraw such delegation.

4.2 The Committee is authorized to interpret the Plan, to establish, amend, and rescind any rules and regulations relating to the Plan, to determine the terms and provisions of any agreements entered into hereunder, and to make all other determinations necessary or advisable for the administration of the Plan. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or in any Award in the manner and to the extent it shall deem desirable to carry the Plan or any such Award into effect. The determinations of the Committee or its designatee in the administration of the Plan, as described herein, shall be final and conclusive.

4.3 The validity, construction and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with the laws of the State of New York and applicable laws of the United States of America.

Article 5. Stock Options.

5.1 Any stock options granted under the Plan shall be in such form as the Committee may from time to time approve and shall be subject to the terms and conditions provided herein and such additional terms and conditions, as the Committee shall deem desirable. In particular, the Committee may establish performance criteria that relate to the exercise of any award.

5.2 Stock options (other than incentive stock options) may be granted to any Participant. The Committee shall establish the option price at the time each stock option is granted, which price in the case of a nonqualified stock option shall not be less than 100% of the Fair Market Value of the Common Stock on the date of grant.

5.3 Stock options under an Award may not be exercisable later than 10 years after their date of grant. The option price of each share of Common Stock as to which a stock option is exercised shall be paid in full at the time of such exercise. Such payment may be made at the sole discretion of the Committee, pursuant to and in accordance with criteria and guidelines established by the Committee as the same may be modified from time to time, (i) in cash, (ii) by tender of shares of Common Stock already owned by the Participant, valued at Fair Market Value as of the date of exercise, (iii) if authorized by the Committee, by withholding pursuant to the election of the Participant from those shares that would

otherwise be obtained upon exercise of the option a number of shares having a Fair Market Value equal to the option price, (iv) if authorized by the Committee, by delivery of a properly executed exercise notice together with irrevocable instructions to a securities broker (or, in the case of pledges, lender) approved by the Committee (or telephonic instructions to the Company, having the same effect) to, (a) sell shares of Common Stock subject to the option and to deliver promptly to the Corporation a portion of the proceeds of such sale transaction on behalf of the exercising Participant to pay the option price, or (b) pledge shares of Common Stock subject to the option to a margin account maintained with a broker or lender, as security for a loan, and such broker or lender, pursuant to irrevocable instructions, delivers to the Corporation the loan proceeds, at the time of exercise to pay the option price, or (v) by any combination of (i), (ii), (iii) or (iv) above.

Article 6. Award Agreements.

6.1 Each Award under the Plan shall be evidenced by an agreement (which agreement need not be executed by the option holder) setting forth the terms and conditions, as determined by the Committee, which shall apply to such Award.

Article 7. Withholding.

7.1 The Company shall have the right to deduct from all amounts paid to any Participant in cash (whether under this Plan or otherwise) any taxes required by law to be withheld therefrom. In the case of payments of Awards in the form of Common Stock, at the Committee's discretion the Participant may be required to pay to the Company the amount of any taxes required to be withheld with respect to such Common Stock, or, in lieu thereof, the Company shall have the right to retain the number of shares of Common Stock the Fair Market Value of which equals the amount required to be withheld. Without limiting the foregoing, the Committee may, in its discretion and subject to such conditions as it shall impose, permit share withholding to be done at the Participant's election.

Article 8. Nontransferability.

8.1 No Award shall be assignable or transferable, and no right or interest of any Participant in any Award shall be subject to any lien, obligation or liability of the Participant, except as otherwise set forth in the Award agreement; provided that with respect to Awards, the Committee may, in its sole discretion, permit certain Participants to transfer Awards to such individuals or entities as the Committee may specify.

Article 9. No Right to Employment or Continued Participation in Plan.

9.1 No person shall have any claim or right to the grant of an Award prior to the date that an Award agreement is delivered to such person and the satisfaction of the appropriate formalities specified in the Award agreement, and the grant of an Award shall not be construed as giving a Participant the right to be retained in the employ of the Company or to be eligible for any subsequent Awards. Further, the Company expressly reserves the right to dismiss at any time a Participant free from any liability or any claim under the Plan, except as provided herein or in any agreement entered into hereunder.

Article 10. Adjustment of and Changes in Common Stock.

10.1 In the event of any change in the outstanding shares of Common Stock by reason of any stock dividend or split, recapitalization, issuance of a new class of common stock, merger, consolidation, spin-off, combination or exchange of shares or other similar corporate change, or any distributions to

stockholders of Common Stock other than regular cash dividends, the Committee may make such substitution or adjustment, if any, as it deems to be equitable, as to the number or kind of shares of Common Stock or other securities issued or reserved for issuance pursuant to the Plan, adjustments (including the number of shares and the exercise price) to outstanding Awards.

Article 11. Amendment.

11.1 The Board or the Committee may amend, suspend or terminate the Plan or any portion hereof at any time.

Article 12. Unfunded Status of Plan.

1. The Plan is intended to constitute an “unfunded” plan for long-term incentive compensation. Nothing herein shall be construed to give any Participant any rights that are greater than those of a general unsecured creditor of the Corporation.

Article 13. Non-United States Locations.

13.1 Notwithstanding anything to the contrary in the Plan, the Plan as applied to Employees located outside the United States and all Awards granted to such Employees shall be subject to applicable laws, rules, regulations, orders and requirements from time to time in effect in such jurisdictions, including those that may limit, restrict or prevent such Awards or the exercise of any Award. The Corporation shall have no obligation to take any action required to comply with any such laws, rules, regulations, orders or requirements in order to grant any Award to, or to make any stock option exercisable by, any Employee.

Notwithstanding anything herein to the contrary, the Committee, in its discretion, may issue stock appreciation rights in lieu of options to Employees located outside the United States when, in the opinion of the Committee, the grant of an option would be in violation of local law or be administratively burdensome.

Article 14. Effective Date.

14.1 This Plan shall be effective on January 18, 2001.

Exhibit 12.1
JPMorgan Chase & Co.

Computation of Ratio of Earnings to Fixed Charges

Year ended December 31, 2006 (in millions, except ratios)

Excluding interest on deposits

Income from continuing operations before income taxes	\$ 19,886
Fixed charges:	
Interest expense	20,823
One-third of rents, net of income from subleases(a)	357
Total fixed charges	<u>21,180</u>
Less: Equity in undistributed income of affiliates	<u>(152)</u>
Income from continuing operations before income taxes and fixed charges, excluding capitalized interest	\$ 40,914
Fixed charges, as above	\$ 21,180
Ratio of earnings to fixed charges	<u>1.93</u>

Including interest on deposits

Fixed charges, as above	\$ 21,180
Add: Interest on deposits	17,042
Total fixed charges and interest on deposits	<u>\$ 38,222</u>
Income from continuing operations before income taxes and fixed charges, excluding capitalized interest, as above	\$ 40,914
Add: Interest on deposits	17,042
Total Income from continuing operations before income taxes, fixed charges and interest on deposits	\$ 57,956
Ratio of earnings to fixed charges	<u>1.52</u>

(a) The proportion deemed representative of the interest factor.

Exhibit 12.2
JPMorgan Chase & Co.

**Computation of Ratio of Earnings to Fixed Charges
and Preferred Stock Dividend Requirements**

Year ended December 31, 2006 (in millions, except ratios)

Excluding interest on deposits

Income from continuing operations before income taxes	\$ 19,886
Fixed charges:	
Interest expense	20,823
One-third of rents, net of income from subleases ^(a)	357
Total fixed charges	21,180
Less: Equity in undistributed income of affiliates	(152)
Income from continuing operations before income taxes and fixed charges, excluding capitalized interest	\$ 40,914
Fixed charges, as above	\$ 21,180
Preferred stock dividends (pretax)	6
Fixed charges including preferred stock dividends	\$ 21,186
Ratio of earnings to fixed charges and preferred stock dividend requirements	1.93

Including interest on deposits

Fixed charges including preferred stock dividends, as above	\$ 21,186
Add: Interest on deposits	17,042
Total fixed charges including preferred stock dividends and interest on deposits	\$ 38,228
Income from continuing operations before income taxes and fixed charges, excluding capitalized interest, as above	\$ 40,914
Add: Interest on deposits	17,042
Total Income from continuing operations before income taxes, fixed charges and interest on deposits	\$ 57,956
Ratio of earnings to fixed charges and preferred stock dividend requirements	1.52

(a) The proportion deemed representative of the interest factor.

Exhibit 21.1
JPMorgan Chase & Co.

List of subsidiaries

JPMorgan Chase had the following subsidiaries at December 31, 2006:

Name	Organized under the laws of	Percentage of voting securities owned by immediate parent
Banc One Building Management Corporation	Wisconsin	100
Banc One Capital Holdings LLC	Delaware	100
BOCP Holdings Corporation	Ohio	100
Banc One Capital Partners BC, LLC	Ohio	80
Banc One Capital BIDCO-1998, LLC	Louisiana	100
Banc One Capital Partners Holdings, Ltd.	Ohio	100
Banc One Capital Partners, LLC	Delaware	100
Banc One Capital Partners II, LLC	Delaware	100
Banc One Capital Partners IV, Ltd.	Ohio	100
Banc One Capital Partners VI, Ltd.	Ohio	100
Banc One Stonehenge Capital Fund Wisconsin, LLC	Delaware	100
BOCF, LLC	Delaware	80(a)
BOCNY, LLC	Delaware	100
BOME Investors, Inc.	Delaware	100
Tax Credit Acquisitions, LLC	Ohio	100
Chase Investment Services Corp.	Delaware	100
Banc One Deferred Benefits Corporation	Ohio	98
Banc One Financial LLC	Delaware	100
JPMorgan Capital Corporation	Delaware	100
Bank One Investment Corporation	Delaware	100
OEP Holding Corporation	Delaware	100
Banc One Equity Capital Fund II, L.L.C.	Delaware	99.5
Banc One Equity Capital SBIC Fund II, L.L.C.	Delaware	100
One Equity Partners II, L.P.	Cayman Islands, BWI	99.9
One Equity Partners LLC	Delaware	99.8
First Chicago Capital Corporation	Delaware	100
JPMorgan Capital (Canada) Corp.	Canada	100
One Mortgage Partners Corp.	Vermont	100
First Chicago Leasing Corporation	Delaware	100
FCL Ship Fifteen, Inc.	Delaware	100
FCL Ship Fourteen, Inc.	Delaware	100
First Chicago Lease Holdings, Inc.	Delaware	100
Palo Verde Leasing Corporation	Delaware	100
FM Holdings I, Inc.	Delaware	100
FM Holdings II, Inc.	Delaware	100
Fountains FSC, Ltd.	Bermuda	100
GHML Holdings I, Inc.	Delaware	100
GHML Holdings II, Inc.	Delaware	100
GTC Fund III Holdings, Inc.	Delaware	100
GTC Fund IV Holdings, Inc.	Delaware	100
GTC Fund V Holdings, Inc.	Delaware	100
JPMorgan Housing Corporation	Delaware	100
Cooper Project, L.L.C.	Delaware	100
JPMorgan Housing Upper Tier Limited Partnership 2	Ohio	100
JPMorgan Housing Upper Tier Limited Partnership 3	Delaware	100
NLTC Fund Holdings I, Inc.	Delaware	100
OX FCL Two, Inc.	Delaware	100
SAHP130 Holdings, Inc.	Delaware	100
JPMorgan Capital Management LLC	Delaware	100

Name	Organized under the laws of	Percentage of voting securities owned by immediate parent
Banc One Kentucky Insurance Company	Kentucky	100
Banc One Neighborhood Development Corporation	Ohio	100
BOI Leasing Corporation	Indiana	100
Bridge Acquisition Holdings, Inc.	Delaware	100
Hambrecht & Quist Group	Delaware	100
Hambrecht & Quist California	California	100
H&Q Holdings Inc.	Delaware	100
CCC Holding, Inc.	Delaware	100
Chase Commercial Corporation	Delaware	100
Chase Home Mortgage Corporation of the Southeast	Florida	100
Chase Lincoln First Commercial Corporation	Delaware	100
Chase Manhattan Realty Leasing Corporation	New York	100
Palo Verde 1-PNM August 50 Corporation	Delaware	100
Palo Verde 1-PNM December 75 Corporation	Delaware	100
PV2-APS 150 Corporation	Delaware	100
PV2-PNM December 35 Corporation	Delaware	100
Chatham Ventures, Inc.	New York	100
J.P. Morgan Partners (BHCA) , L.P.	California	80(b)
J.P. Morgan Partners (SBIC), LLC	California	100
Chemical Equity Incorporated	New York	100
Chemical Investments, Inc.	Delaware	100
Clintstone Properties Inc.	New York	100
CMRCC, Inc.	New York	100
Hatherley Insurance Ltd.	Bermuda	100
Homesales, Inc.	Delaware	100
J.P. Morgan Capital Financing Limited	England	100
Aldermanbury Investments Limited	England	100
J.P. Morgan Chase International Financing Limited	England	100
Robert Fleming Holdings Limited	England	100
Copthall Overseas Limited	England	100
Robert Fleming (Luxembourg) (Joint Ventures) S.à r.l.	Luxembourg	100
Robert Fleming Investment Trust Limited	England	100
J.P. Morgan Chase Community Development Corporation	Delaware	100
J.P. Morgan Chase National Corporate Services, Inc.	New York	100
J.P. Morgan Corporate Services Limited	England	100
Robert Fleming Holdings Inc.	Delaware	100
J.P. Morgan Equity Holdings, Inc.	Delaware	100
CBD Holdings Ltd.	Delaware	100
Great Lakes Insurance Company	Delaware	100
CMC Holding Delaware Inc.	Delaware	100
Chase Bank USA, National Association	United States	100
Card Acquisition Funding LLC	Delaware	100
Chase BankCard Services, Inc.	Delaware	100
First USA Services, Inc.	Delaware	100
First USA Management Services, Inc.	Delaware	100
J.P. Morgan Investor Services Co.	Delaware	100
JPMorgan Insurance Agency, Inc.	Delaware	100
Chase Re Limited	Bermuda	100
J.P. Morgan Trust Company of Delaware	Delaware	100
J.P. Morgan Trust Company, National Association	United States	100
JPM Capital Corporation	Texas	100
J.P. Morgan Funding Corp.	England	99.99
J.P. Morgan Futures Inc.	Delaware	100
J.P. Morgan GT Corporation	Delaware	100
J.P. Morgan Insurance Holdings, L.L.C.	Arizona	100
Banc One Insurance Company	Vermont	100
Banc One Life Reinsurance Company	Arizona	100
Chase Insurance Agency, Inc.	Wisconsin	100
J.P. Morgan International Holdings LLC	Delaware	100
J.P. Morgan Trust Company (Bahamas) Limited	Bahamas	100
J.P. Morgan Trust Company (Cayman) Limited	Cayman Islands, BWI	100
JPMAC Holdings Inc.	Delaware	100
J.P. Morgan Invest Holdings LLC	Delaware	100
J.P. Morgan Retirement Plan Services LLC	Delaware	100

Name	Organized under the laws of	Percentage of voting securities owned by immediate parent
CCA Strategies LLC	Illinois	100
Small Business Group LLC	Delaware	100
J.P. Morgan Private Investments Inc.	Delaware	100
J.P. Morgan Services Asia Holdings Limited	Mauritius	100
J.P. Morgan Services India Private Limited	India	100
J.P. Morgan Services Inc.	Delaware	100
J.P. Morgan Ventures Corporation	Delaware	100
J.P. Morgan Ventures Energy Corporation	Delaware	100
JPMorgan Asset Management Holdings Inc.	Delaware	100
Highbridge Capital Management, LLC	Delaware	55
Highbridge Capital Management (Hong Kong), Limited	Hong Kong	100
J.P. Morgan Alternative Asset Management, Inc.	Delaware	100
J.P. Morgan Investment Management Inc.	Delaware	100
JPMorgan Asset Management (Asia) Inc.	Delaware	100
JF Asset Management (Singapore) Limited	Singapore	100
JF Asset Management Limited	Hong Kong	100
JF Funds Limited	Hong Kong	100
JF Asset Management (Taiwan) Limited	Taiwan	100
JFAM Securities Taiwan Limited	Taiwan	100
JPMorgan Asset Management (Japan) Limited	Japan	100
JPMorgan Asset Management (Canada) Inc.	Canada	100
JPMorgan Asset Management International Limited	England	100
JPMorgan Asset Management Holdings (UK) Limited	England	100
JPMorgan Asset Management (UK) Limited	England	100
J.P. Morgan Investment Management Limited	England	100
JPMorgan Asset Management (London) Limited	England	100
JPMorgan Asset Management Holdings (Luxembourg) S.à r.l.	Luxembourg	100
JPMorgan Asset Management (Europe) S.à r.l.	Luxembourg	100
JPMorgan Asset Management France SAS	France	100
JPMorgan Asset Management Societa di Gestione del Risparmio SpA	Italy	99.9
JPMorgan Asset Management Luxembourg S.A.	Luxembourg	99.99
JPMorgan Asset Management Advisory Company S.à r.l.	Luxembourg	99.99
JPMorgan Fleming srl	Italy	100
JPMorgan Asset Management Marketing Limited	England	100
JPMorgan Equity Plan Managers Limited	England	100
JPMorgan Funds Limited	Scotland	100
Perth Investments Limited	England	100
Save & Prosper Insurance Limited	England	100
Save & Prosper Pensions Limited	England	100
JPMorgan Investments Limited	England	100
JPMorgan Life Limited	England	100
JPMorgan LDHES LLC	Delaware	100
JPMorgan Chase Bank, Dearborn	Michigan	100
Pierpont Real Estate Company	Delaware	100
JPMorgan Chase Bank, National Association	United States	100
Banc One Acceptance Corporation	Ohio	100
Banc One Arizona Leasing Corporation	Arizona	100
Banc One Building Corporation	Illinois	100
Banc One Community Development Corporation	Delaware	100
Banc One Equipment Finance, Inc.	Indiana	100
Banc One Kentucky Leasing Corporation	Kentucky	100
Banc One Kentucky Vehicle Leasing Company	Kentucky	100
Banc One National Processing Corporation	Delaware	100
Banc One POS Services Corporation	Ohio	100
Banc One Real Estate Investment Corp.	Delaware	100
Bank One Auto Securitization LLC	Delaware	100
Bank One Education Finance Corporation	Ohio	100
Bank One Equity Investors – BIDCO, Inc.	Louisiana	100
Bank One International Corporation	United States	100
BOILL IHC, Inc.	Nevada	100
Chase BankCard LLC	Delaware	100
BONA Capital I, LLC	Delaware	100
BONA Capital II, LLC	Delaware	100
BOTAC, Inc.	Nevada	100

Name	Organized under the laws of	Percentage of voting securities owned by immediate parent
Cedar Hill International Corp.	Delaware	100
Chase Access Services Corporation	Delaware	100
Chase Auto Finance Corp.	Delaware	100
Chase Community Development Corporation	Delaware	100
Chase Education Holdings, Inc.	Delaware	100
Chase Equipment Leasing Inc.	Ohio	100
Chase Funding Corporation	Delaware	100
Chase Home Finance Inc.	Delaware	100
Chase Home Finance LLC	Delaware	100
Chase Merchant Ventures, Inc.	Delaware	100
Chase Mortgage Holdings, Inc.	Delaware	100
Chase New Markets Corporation	Delaware	100
Chase Preferred Capital Corporation	Delaware	100
CPCC Delaware Statutory Trust	Delaware	100
CPCC Texas Limited Partnership	Texas	99.5
CPCC Massachusetts Business Trust	Massachusetts	100
Chase Ventures Holdings, Inc.	New Jersey	100
The Home Loan Group, LP	California	50
Cheshire Holding Corp.	Delaware	100
Collegiate Funding Services, Inc.	Delaware	100
Collegiate Funding Services, L.L.C.	Virginia	100
CFS Servicing, LLC	Delaware	100
CFS-SunTech Servicing LLC	Delaware	100
Collegiate Funding of Delaware, L.L.C.	Delaware	100
Collegiate Funding Services Education Loan Trust 2003A	Delaware	100
Collegiate Funding Services Education Loan Trust 2003B	Delaware	100
Collegiate Funding Services Education Loan Trust 2004A	Delaware	100
Collegiate Funding Services Education Loan Trust 2005A	Delaware	100
Collegiate Funding Services Education Loan Trust 2005B	Delaware	100
Collegiate Funding Originations, LLC	Delaware	100
Collegiate Funding Services Resources I, LLC	Delaware	100
Collegiate Funding Services Resources III, LLC	Delaware	100
Members Connect Inc.	Delaware	100
eGrad, LLC	Delaware	100
Cross Country Insurance Company	Vermont	100
CSL Leasing Inc.	Delaware	100
DNT Asset Trust	Delaware	100
Ventures Business Trust	Delaware	100
FC Energy Finance I, Inc.	Delaware	100
FC Energy Finance II, Inc.	Delaware	100
FNBC Leasing Corporation	Delaware	100
ICIB Fund I Holdings, Inc.	Delaware	100
Genesis Holding Corporation	Delaware	100
Georgetown/Chase Phase I LLC	Delaware	99
Georgetown/Chase Phase II, LLC	Delaware	99
Harvest Opportunity Holdings Corp.	New York	100
Independence Park Building Inc.	Delaware	100
J.P. Morgan Chase Custody Services, Inc.	Delaware	100
J.P. Morgan Electronic Financial Services, Inc.	New York	100
J.P. Morgan FCS Corporation	Texas	100
J.P. Morgan International Inc.	United States	100
Bank One International Holdings Corporation	United States	100
Bank One Europe Limited	England	100
J.P. Morgan International Finance Limited	United States	100
Banco J.P. Morgan S.A.	Brazil	99.27
J.P. Morgan Corretora de Cambio e Valores Mobiliarios S.A.	Brazil	100
J.P. Morgan S.A. Distribuidora de Titulos e Valores Mobiliarios	Brazil	100
Bedford Holdings, Inc.	Delaware	100
BOL (C) II, Inc.	Delaware	100
BOL Canada II Sub, Inc.	Delaware	100
BOL Canada II Trust	Delaware	100
BO Leasing II ULC	Canada	100
BOL Canada I, Inc.	Delaware	100
BOL Canada I Sub, Inc.	Delaware	100

Name	Organized under the laws of	Percentage of voting securities owned by immediate parent
BO Leasing I ULC	Canada	100
BOL Canada III, Inc.	Delaware	100
BOL Canada III Sub, Inc.	Delaware	100
BO Leasing III ULC	Canada	100
Chase Manhattan Holdings Limitada	Brazil	99.99
Dearborn Merchant Services, Inc	Canada	100
Inversiones Y Asesorias Chase Manhattan Limitada	Chile	99.94
J.P. Morgan & Cie S.A.S.	France	100
J.P. Morgan (Suisse) SA	Switzerland	100
J.P. Morgan Bank (Ireland) plc	Republic of Ireland	100
J.P. Morgan Administration Services (Ireland) Limited	Republic of Ireland	100
JPMorgan Tranaut Holdings Limited	Bermuda	100
JPMorgan Hedge Fund Services (Ireland) Limited	Republic of Ireland	100
J.P. Morgan Bank Canada	Canada	100
J.P. Morgan Bank International LLC	Russian Federation	99
J.P. Morgan Bank Luxembourg S.A.	Luxembourg	99.99
J.P. Morgan Beteiligungs-und Verwaltungsgesellschaft mbH	Germany	99.8
J.P. Morgan AG	Germany	100
J.P. Morgan Services GmbH	Germany	100
J.P. Morgan Capital Holdings Limited	England	72.72(c)
CaTO Finance II C.V.	Netherlands	98.79
CaTO Finance V Limited Partnership	England	99
J.P. Morgan Chase (UK) Holdings Limited	England	100
J.P. Morgan Chase International Holdings	England	100
J.P. Morgan EU Holdings Limited	England	100
J.P. Morgan (SC) Limited	England	100
J.P. Morgan Equities Limited	South Africa	100
J.P. Morgan Europe Limited	England	100
Crosby Sterling (Holdings) Limited	England	79 (d)
J.P. Morgan Markets LLP	England	36.02(e)
J.P. Morgan Chase Finance Limited	England	65 (f)
JPMorgan Cazenove Holdings	England	50.01
J.P. Morgan Securities Ltd.	England	98.95
Robert Fleming (Overseas) Number 2 Limited	England	100
J.P. Morgan plc	England	100
J.P. Morgan Trustee and Depositary Company Limited	England	100
J.P. Morgan Holdings B.V.	The Netherlands	100
J.P. Morgan Chase Bank Berhad	Malaysia	100
J.P. Morgan Chile Limitada	Chile	99.8
J.P. Morgan Funding South East Asia Private Limited	Singapore	100
J.P. Morgan (S.E.A.) Limited	Singapore	70 (g)
J.P. Morgan Grupo Financiero S.A. De C.V.	Mexico	99.46
Banco J.P. Morgan S.A., Institucion de Banca Multiple, J.P. Morgan Grupo Financiero	Mexico	99.99
Banco J.P. Morgan Socio Liquidador	Mexico	100
J.P. Morgan Servicios, S.A. de C.V., J.P. Morgan Grupo Financiero	Mexico	99
J.P. Morgan Holdings (Hong Kong) Limited	Hong Kong	100
Copthall Mauritius Investment Limited	Mauritius	100
J.P. Morgan Futures (Korea) Limited	South Korea	100
J.P. Morgan Securities (Far East) Limited	Hong Kong	100
J.P. Morgan Broking (Hong Kong) Limited	Hong Kong	100
J.P. Morgan International Derivatives Ltd.	Channel Islands	100
J.P. Morgan International Holdings Limited	Cayman Islands, BWI	100
Fledgeling Nominees International Limited	Cayman Islands, BWI	100
J.P. Morgan India Securities Holdings Limited	Mauritius	100
J.P. Morgan India Private Limited	India	99.99
J.P. Morgan Indonesia Holdings (B.V.I.) Limited	British Virgin Islands	100
J.P. Morgan Securities Holdings (Bermuda) Limited	Bermuda	100
J.P. Morgan Securities Singapore Private Limited	Singapore	100
J.P. Morgan Securities Thailand Holdings Limited	British Virgin Islands	100
PGW Limited	Thailand	100
JPMorgan Securities (Thailand) Limited	Thailand	50.1 (h)
Jadeling Malaysia Holdings Limited	British Virgin Islands	100
J.P. Morgan Services (Malaysia) Sdn. Bhd.	Malaysia	100

Name	Organized under the laws of	Percentage of voting securities owned by immediate parent
JPMorgan Securities (Malaysia) Sdn. Bhd.	Malaysia	100
J.P. Morgan Investimentos e Financas Ltda.	Brazil	99.79
J.P. Morgan Luxembourg International S.a.r.l.	Luxembourg	100
J.P. Morgan Malaysia Ltd.	Malaysia	100
J.P. Morgan Overseas Capital Corporation	Delaware	100
J.P. Morgan Australia Group Pty Limited	Australia	100
J.P. Morgan Operations Australia Limited	Australia	100
J.P. Morgan Administrative Services Australia Limited	Australia	100
J.P. Morgan Australia Limited	New South Wales	100
J.P. Morgan Global Capital Australia Limited	New South Wales	100
J.P. Morgan Financial Services New Zealand Limited	Australia	100
J.P. Morgan Nominees Australia Limited	Australia	100
J.P. Morgan Portfolio Services Limited	Australia	100
JFOM Pty Limited	Australia	100
JPMorgan Investments Australia Limited	Australia	100
J.P. Morgan Markets Australia Pty Limited	Australia	100
J.P. Morgan Espana S.A.	Spain	100
JPMorgan Gestion, Sociedad Gestora de Instituciones de Inversion Colectiva, S.A.	Spain	100
JPMorgan Sociedad de Valores, S.A.	Spain	80.61(i)
J.P. Morgan International Bank Limited	England	100
J.P. Morgan Securities Canada Inc.	Canada	100
J.P. Morgan Whitefriars Inc.	Delaware	100
J.P. Morgan Whitefriars (UK)	England	99.99
JPMorgan Corporacion Financiera S.A.	Colombia	90(j)
Morgan Guaranty Trust Company Limited	England	100
PT J.P. Morgan Securities Indonesia	Indonesia	42.5(k)
J.P. Morgan Partners (CMB Reg K GP), Inc.	Delaware	100
J.P. Morgan Securities (C.I.) Limited	Channel Islands	100
J.P. Morgan (Jersey) Limited	Channel Islands	100
J.P. Morgan Securities (Taiwan) Limited	Taiwan	65.3(l)
J.P. Morgan Securities Asia Private Limited	Singapore	88.47(m)
JPMorgan Securities Japan Co., Ltd.	Japan	68.99(n)
J.P. Morgan Securities Holdings (Hong Kong) Limited	Hong Kong	86.38(o)
J.P. Morgan Securities (Asia Pacific) Limited	Hong Kong	100
J.P. Morgan Securities Holdings (Caymans) Limited	Cayman Islands, BWI	100
J.P. Morgan Securities India Private Limited	India	99.99
J.P. Morgan Securities South Africa (Proprietary) Limited	South Africa	100
JPMorgan Administration Services (Proprietary) Limited	South Africa	100
J.P. Morgan Trust Company (Jersey) Limited	Channel Islands	100
JPMorgan Trust Bank Limited	Japan	72.16(p)
Norchem Holdings e Negocios S.A.	Brazil	48.97(q)
NorChem Participacoes e Consultoria S.A.	Brazil	50
Sibelius Corporation	Delaware	100
J.P. Morgan Mortgage Acquisition Corp.	Delaware	100
J.P. Morgan Partners (23A SBIC Manager), Inc.	Delaware	100
J.P. Morgan Partners (23A SBIC), L.P.	Delaware	80(r)
J.P. Morgan Property Exchange Inc.	Delaware	100
J.P. Morgan Real Estate S.p.A.	Italy	100
J.P. Morgan Treasury Technologies Corporation	Delaware	100
JPMorgan Chase Vastera, Inc.	Delaware	100
JP Morgan Chase Vastera Professional Services Inc.	Delaware	100
JPMorgan Investment Advisors Inc.	Ohio	100
Security Capital Research & Management Incorporated	Delaware	100
Kscott Holding Corp.	Delaware	100
Liberty Payment Services, Inc.	Kentucky	100
Manufacturers Hanover Leasing International Corp.	Delaware	100
Chase Leasing of Texas, Inc.	Delaware	100
Naugatuck Holding Corp.	Delaware	100
Orcas Island Corp.	Delaware	100
South Cutler Corporation	Delaware	100
Systems & Services Technologies, Inc.	Delaware	100
JPMorgan Distribution Services, Inc.	Delaware	100
JPMorgan Funds Management, Inc.	Delaware	100

Name	Organized under the laws of	Percentage of voting securities owned by immediate parent
JPMorgan Mezzanine Corporation	Delaware	100
JPMorgan Securities Holdings LLC	Delaware	100
J.P. Morgan Institutional Investments Inc.	Delaware	100
J.P. Morgan Securities Inc.	Delaware	100
Neovest Holdings, Inc.	Delaware	100
Neovest, Inc.	Utah	100
JPMorgan Special Situations Asia Corporation	Delaware	100
J.P. Morgan Investment Holdings II (Mauritius) Limited	Mauritius	67
Tong Yuan Asset Management Limited Liability Company	China	90
JPMorgan Special Situations (Mauritius) Limited	Mauritius	100
Silver Summit (Delaware) Corporation	Delaware	100
JPMP Capital Corp.	New York	100
J.P. Morgan Partners, LLC	Delaware	100
JPMP Capital, LLC	Delaware	100
J.P. Morgan Capital, L.P.	Delaware	99.5
J.P. Morgan SBIC Holdings LLC	Delaware	100
JPMCC Luxembourg Corporation	Luxembourg	100
J.P. Morgan Capital Luxembourg S.a.r.l.	Luxembourg	100
JPMCC Belgium S.P.R.L.	Belgium	100
JPMCC Belgium (SCA)	Belgium	100
J.P. Morgan Partnership Capital Corporation	Delaware	100
J.P. Morgan Partnership Investment Corporation	Delaware	100
J.P. Morgan Whitney Partnership Corporation	Delaware	100
Peabody Real Estate Partnership Corporation	Delaware	100
The Peabody Fund Consultants, Inc.	Delaware	100
LabMorgan Corporation	Delaware	100
LabMorgan Investment Corporation	Delaware	100
MorServ, Inc.	Delaware	100
NBD Community Development Corporation	Michigan	100
Offshore Equities, Inc.	New York	100
Park Assurance Company	Vermont	100
Special Situations Investing Inc.	Delaware	100
Support Development Corporation	Delaware	100

- (a) JPMorgan Capital Corporation owns 20%
- (b) JPMP Master Fund Manager, L.P. owns 20%
- (c) J.P. Morgan Overseas Capital Corporation owns 27.28%
- (d) J.P. Morgan Chase International Holdings owns 21%
- (e) J.P. Morgan Securities Ltd., J.P. Morgan plc, and J.P. Morgan Whitefriars (UK) own 27.29%, 27.07%, and 9.62%, respectively.
- (f) J.P. Morgan Securities Ltd. owns 35%
- (g) J.P. Morgan International Finance Limited owns 30%
- (h) J.P. Morgan International Finance Limited and J.P. Morgan International Holdings Limited own 30.28% and 19.61%, respectively.
- (i) J.P. Morgan & Cie S.A.S. owns 19.39%
- (j) J.P. Morgan International Finance Limited owns 10%
- (k) J.P. Morgan Indonesia Holdings (B.V.I.) Limited and J.P. Morgan Securities Asia Private Limited own 42.5% and 13.75%, respectively.
- (l) J.P. Morgan International Holdings Limited, Robert Fleming Investment Trust Limited, JF Securities Overseas Limited own 27.7%, 3.5%, and 3.5%, respectively.
- (m) J.P. Morgan Securities Holdings (Bermuda) Limited owns 11.53%
- (n) J.P. Morgan International Finance Limited and J.P. Morgan Securities Holdings (Bermuda) Limited own 27.77% and 3.24%, respectively.
- (o) JPMorgan Securities Japan Co., Ltd. and J.P. Morgan Securities (Far East) Limited own 10.77% and 2.85%, respectively.
- (p) J.P. Morgan & Cie S.A. owns 27.84%
- (q) Chase Manhattan Holdings Limitada owns 29.28%
- (r) JPMP Master Fund Manager, L.P. owns 20%

Consent of independent registered public accounting firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-117775, 333-116822, 333-130051, 333-14959, 333-14959-02, 333-14959-03, 333-19719, 333-19719-01, 333-19719-02, 333-22437, 333-37567, 333-37567-03, 333-42807, 333-52962, 333-52962-01, 333-68500, 333-68500-02, 333-68500-03, 333-68500-04, 333-116771, 333-116771-03, 333-116773, 333-116773-01, 333-116775, 333-116775-02, 333-117785, 333-117785-01, 333-117785-02, 333-117785-03, 333-117785-04, 333-117785-05, 333-126750, 333-126750-03,

333-126750-04, 333-126750-05, 333-126750-06 and 333-126750-07) and in the Registration Statements on Form S-8 (Nos. 33-49911, 33-54547, 333-22451, 333-31634, 333-31666, 333-47350, 333-64476, 333-73119, 333-92217, 333-112967 and 333-125827) of JPMorgan Chase & Co. or affiliates of our report dated February 21, 2007, relating to the financial statements, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP
New York, New York
March 1, 2007

CERTIFICATION

I, James Dimon, certify that:

1. I have reviewed this annual report on Form 10-K of JPMorgan Chase & Co.;
2. Based upon my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based upon my knowledge, the Consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based upon our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2007

/s/ James Dimon

James Dimon
Chairman and Chief Executive Officer

CERTIFICATION

I, Michael J. Cavanagh, certify that:

1. I have reviewed this annual report on Form 10-K of JPMorgan Chase & Co.;
2. Based upon my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based upon my knowledge, the Consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based upon our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2007

/s/ Michael J. Cavanagh

Michael J. Cavanagh
Executive Vice President and Chief Financial Officer

Exhibit 32
JPMorgan Chase & Co.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of JPMorgan Chase & Co. on Form 10-K for the period ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of JPMorgan Chase & Co., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of JPMorgan Chase & Co.

Date: March 1, 2007

By: /s/ James Dimon
James Dimon
Chairman and Chief Executive Officer

Date: March 1, 2007

By: /s/ Michael J. Cavanagh
Michael J. Cavanagh
Executive Vice President and Chief Financial Officer

This certification accompanies this Form 10-K and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that Section.

A signed original of this written statement required by Section 906 has been provided to, and will be retained by, JPMorgan Chase & Co. and furnished to the Securities and Exchange Commission or its staff upon request.