J P MORGAN CHASE & CO
Form 10-K
March 01, 2007

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	**13-2624428**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. employer identification no.)**
270 Park Avenue, New York, NY	**10017**
(Address of principal executive offices)	**(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	**JPMorgan Market Participation Notes on the S&P 500® Index due March 12, 2008**
$6^{1}/_{8}$% subordinated notes due 2008	
6.75% subordinated notes due 2008	**Capped Quarterly Observation Notes Linked to S&P 500® Index due September 22, 2008**
6.50% subordinated notes due 2009	
Guarantee of 7.00% Capital Securities, Series J, of J.P. Morgan Chase Capital X	**Capped Quarterly Observation Notes Linked to S&P 500® Index due October 30, 2008**
Guarantee of $5^{7}/_{8}$% Capital Securities, Series K, of J.P. Morgan Chase Capital XI	**Capped Quarterly Observation Notes Linked to S&P 500® Index due January 21, 2009**
Guarantee of 6.25% Capital Securities, Series L, of J.P. Morgan Chase Capital XII	**JPMorgan Market Participation Notes on the S&P 500® Index due March 31, 2009**
Guarantee of 6.20% Capital Securities, Series N, of JPMorgan Chase Capital XIV	**Capped Quarterly Observation Notes Linked to S&P 500® Index due July 7, 2009**
Guarantee of 6.35% Capital Securities, Series P, of JPMorgan Chase Capital XVI	**Capped Quarterly Observation Notes Linked to S&P 500® Index due September 21, 2009**
Guarantee of 6.625% Capital Securities, Series S, of JPMorgan	**Consumer Price Indexed Securities due January 15, 2010**

Chase Capital XIX

Principal Protected Notes Linked to S&P 500® Index due September 30, 2010

Guarantee of 7.20% Preferred Securities of BANK ONE Capital VI

Indexed Linked Notes on the S&P 500® Index due November 26, 2007

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. x Yes o 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. o Yes x 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. x Yes o 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. x

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): x Large accelerated filer o Accelerated filer o Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x 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.

Form 10-K Index

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 geographies 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.

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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 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.

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.

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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.

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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 filled 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, superceding 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).

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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 (i), (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 pur- suant 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.

Pages 17-20 not used

Table of contents

Financial:

Management s discussion and analysis:

Audited financial statements:

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]	2003	Heritage JPMorgan Chase only 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 business loans, investments and insurance. Over 1,200 additional mortgage officers provide home loans throughout the country.

Card Services

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

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

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

Commercial Banking

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

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

Treasury & Securities Services

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

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 deconsolida-tion 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 further discussion of litigation, refer to Note 27 on pages 130 131 of this Annual Report. Also contributing to the decline from the prior year were charges of $93 million in connection with the termination of a client contract in TSS in 2005; and in RFS, the sale of the insurance business in the third quarter of 2006. These items were offset partially by higher charges related to other litigation, and the impact of growth in business volume, acquisitions and investments in the businesses.

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

2005 compared with 2004

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

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

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

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

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

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

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

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

Income tax expense

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

Year ended December 31, (in millions, except rate)	**2006**	2005	2004(a)
Income from continuing operations before income tax expense	**$ 19,886**	$ 11,839	$ 5,856
Income tax expense	**6,237**	3,585	1,596
Effective tax rate	**31.4%**	30.3%	27.3%

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

2006 compared with 2005

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

2005 compared with 2004

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

Income from discontinued operations

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

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

Year ended December 31,

(in millions)	**2006**	2005	2004(a)
Income from discontinued operations	**$ 795**	$ 229	$ 206

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

The increases from the prior two periods in Income from discontinued operations were due primarily to a gain of $622 million from exiting the corporate trust business in the fourth quarter of 2006.

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,	**2006**				2005			
(in millions, except per share and ratio data)	Reported results	Credit card (a)	Tax-equivalent adjustments	Managed basis	Reported results	Credit card (a)	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.

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

Year ended December 31,	Net income (loss)			Return on equity		
(in millions, except ratios)	**2006**	2005	2004(c)	**2006**	2005	2004(c)
Investment Bank	**$ 3,674**	$ 3,673	$ 2,956	**18%**	18%	17%
Retail Financial Services	**3,213**	3,427	2,199	**22**	26	24
Card Services	**3,206**	1,907	1,274	**23**	16	17
Commercial Banking	**1,010**	951	561	**18**	28	27

Treasury & Securities Services	**1,090**	863	277	**48**	57	14
Asset Management	**1,409**	1,216	681	**40**	51	17
Corporate[(b)]	**842**	(3,554)	(3,482)	**NM**	NM	NM
Total	**$ 14,444**	$ 8,483	$ 4,466	**13%**	8%	6%

(a) Represents reported results on a tax-equivalent basis and excludes the impact of credit card securitizations.
(b) Net income includes Income from discontinued operations (after-tax) of $795 million, $229 million and $206 million for 2006, 2005 and 2004, respectively.
(c) 2004 results include six months of the combined Firm s results and six months of heritage JPMorgan Chase results.

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(d)			
Trading activities:			
Fixed income	**$ 56**	$ 67	$ 74
Foreign exchange	**22**	23	17
Equities	**31**	34	28
Commodities and other	**45**	21	9
Less: portfolio diversification	**(70)**	(59)	(43)
Total trading VAR	**84**	86	85
Credit portfolio VAR	**15**	14	14
Less: portfolio diversification	**(11)**	(12)	(9)
Total trading and credit portfolio VAR	**$ 88**	$ 88	$ 90

(a) Loans retained include Credit Portfolio, conduit loans, leveraged leases, bridge loans for underwriting and other accrual loans.

(b) Loans held-for-sale, which include loan syndications, and warehouse loans held as part of the IB s mortgage-backed, asset-backed and other securitization businesses, are excluded from Total loans for the allowance coverage ratio and net charge-off rate.

(c) Adjusted assets, a non-GAAP financial measure, equals total average assets minus (1) securities purchased under resale agreements and securities borrowed less securities sold, not yet purchased; (2) assets of variable interest entities (VIEs) consolidated under FIN 46R; (3) cash and securities segregated and on deposit for regulatory and other purposes; and (4) goodwill and intangibles. The amount of adjusted assets is presented to assist the reader in comparing the IB s asset and capital levels to other investment banks in the securities industry. Asset-to-equity leverage ratios are commonly used as one measure to assess a company s capital adequacy. The IB believes an adjusted asset amount that excludes the assets discussed above, which are considered to have a low risk profile, provides a more meaningful measure of balance sheet leverage in the securities industry.

(d) Nonperforming loans include loans held-for-sale of $3 million,

$109 million and $2 million as of December 31, 2006, 2005 and 2004, respectively, which are excluded from the allowance coverage ratios. Nonperforming loans exclude distressed HFS loans purchased as part of IB s proprietary activities.

(e) For a more complete description of VAR, see page 77 of this Annual Report.

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

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

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

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

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

Market shares and rankings[(a)]

	2006		2005		2004	
December 31,	Market Share	Rankings	Market Share	Rankings	Market Share	Rankings
	7%	**#2**	7%	#2	7%	#3

Global debt, equity and equity-related						
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.

Management s discussion and analysis
JPMorgan Chase & Co.

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 mil- lion 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

Management s discussion and analysis
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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
Headcount	**18,639**	18,629	19,598
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.

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COMMERCIAL BANKING

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

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

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

Selected income statement data

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

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

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

Asset-based financing, syndications and collateral analysis through Chase Business Credit.

A variety of equipment finance and leasing products, with specialties in aircraft finance, public sector, healthcare and information technology through Chase Equipment Leasing.

Alternative capital strategies that provide a broader range of financing options, such as mezzanine and second lien loans and preferred equity, through Chase Capital Corporation.

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

2006 compared with 2005

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

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

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

Provision for credit losses was $160 million, up from $73 million in the prior year, reflecting portfolio activity and the establishment of additional allowance for loan losses related to loans acquired from The Bank of New York, partially

offset by a release of the unused portion of the special reserve established in 2005 for Hurricane Katrina. Net charge-offs were flat compared with the prior year. Nonperforming loans declined 56%, to $121 million.
Total noninterest expense of $2.0 billion increased by $123 million, or 7%, from last year, primarily related to incremental Compensation expense related to SFAS 123R and increased expense resulting from higher client usage of Treasury Services products.

2005 compared with 2004

Net income of $951 million was up $390 million, or 70%, from the prior year, primarily due to the Merger.
Total net revenue of $3.5 billion increased by $1.2 billion, or 53%, primarily as a result of the Merger. In addition to the overall increase from the Merger, Net interest income of $2.5 billion was positively affected by wider spreads on higher volume related to liability balances and increased loan volumes, partially offset by narrower loan spreads. Noninterest revenue of $986 million was positively impacted by the Merger and higher IB revenue, partially offset by lower deposit-related fees due to higher interest rates.
Each business within CB demonstrated revenue growth over the prior year, primarily due to the Merger. Middle Market Banking revenue was $2.4 billion, an increase of $861 million, or 58%, over the prior year; Mid-Corporate Banking revenue was $551 million, an increase of $183 million, or 50%; and

Real Estate Banking revenue was $434 million, up $162 million, or 60%. In addition to the Merger, revenue was higher for each business due to wider spreads and higher volume related to liability balances and increased investment banking revenue, partially offset by narrower loan spreads.
Provision for credit losses of $73 million increased by $32 million, primarily due to a special provision related to Hurricane Katrina, increased loan balances and refinements in the data used to estimate the allowance for credit losses. The credit quality of the portfolio was strong with net charge-offs of $26 million, down $35 million from the prior year, and nonperforming loans of $272 million were down $255 million, or 48%.
Total noninterest expense of $1.9 billion increased by $530 million, or 40%, primarily due to the Merger and to an increase in allocated unit costs for Treasury Services products.

Selected metrics

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

Nonperforming loans	**121**	272	527
Allowance for loan losses	**1,519**	1,392	1,322
Allowance for lending-related commitments	**187**	154	169
Net charge-off rate[(b)]	**0.05%**	0.05%	0.21%
Allowance for loan losses to average loans[(b)]	**2.86**	2.91	4.57
Allowance for loan losses to nonperforming loans	**1,255**	512	251
Nonperforming loans to average loans	**0.23**	0.57	1.82

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

Commercial Banking revenues comprise the following:

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

Term loans

Revolving lines of credit

Bridge financing

Asset-based structures

Leases

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

U.S. dollar and multi-currency clearing

ACH

Lockbox

Disbursement and reconciliation services

Check deposits

Other check and currency-related services

Trade finance and logistics solutions

Commercial card

Deposit products, sweeps and money market mutual funds

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

Advisory

Equity underwriting

Loan syndications

Investment-grade debt

Asset-backed securities

Private placements

High-yield bonds

Derivatives

Foreign exchange hedges

Securities sales

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,