

J P MORGAN CHASE & CO
Form 10-Q
August 09, 2006

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10 Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2006

Commission file number 1-5805

JPMORGAN CHASE & CO.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-2624428
(I.R.S. Employer
Identification No.)

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

10017
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

Number of shares of common stock outstanding as of July 31, 2006: 3,471,427,077

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JPMORGAN CHASE & CO.
CONSOLIDATED FINANCIAL HIGHLIGHTS

| | Six months | | | | | |
|---|----------------------|-----------|----------|----------|----------|------------------|
| | ended | | | | | |
| | for the period ended | | | | | |
| | 2Q06 | 1Q06 | 4Q05 | 3Q05 | 2Q05 | 2006 |
| All amounts are in millions of dollars, except per share, headcount and ratio data) | | | | | | |
| Income statement data | | | | | | |
| Net revenue | \$ 9,762 | \$ 10,050 | \$ 8,804 | \$ 9,482 | \$ 7,616 | \$ 19,812 |
| Net income | 5,178 | 4,993 | 4,678 | 4,783 | 4,932 | 10,171 |
| Revenue | 14,940 | 15,043 | 13,482 | 14,265 | 12,548 | 29,983 |
| For credit losses ^(a) | 493 | 831 | 1,224 | 1,245 | 587 | 1,324 |
| Net expense | 9,236 | 9,648 | 8,430 | 9,359 | 10,798 | 18,884 |
| Income from continuing operations before income tax | 5,211 | 4,564 | 3,828 | 3,661 | 1,163 | 9,775 |
| Income tax expense | 1,727 | 1,537 | 1,186 | 1,192 | 226 | 3,264 |
| Income from continuing operations (after-tax) | 3,484 | 3,027 | 2,642 | 2,469 | 937 | 6,511 |
| Income from discontinued operations (after-tax) ^(b) | 56 | 54 | 56 | 58 | 57 | 110 |
| Income before income tax | \$ 3,540 | \$ 3,081 | \$ 2,698 | \$ 2,527 | \$ 994 | \$ 6,621 |
| Per share | | | | | | |
| Earnings per share | | | | | | |
| Income from continuing operations | \$ 1.00 | \$ 0.87 | \$ 0.76 | \$ 0.71 | \$ 0.27 | \$ 1.87 |
| Income | 1.02 | 0.89 | 0.78 | 0.72 | 0.28 | 1.91 |
| Earnings per share | | | | | | |
| Income from continuing operations | \$ 0.98 | \$ 0.85 | \$ 0.74 | \$ 0.70 | \$ 0.26 | \$ 1.82 |
| Income | 0.99 | 0.86 | 0.76 | 0.71 | 0.28 | 1.85 |
| Dividends declared per share | 0.34 | 0.34 | 0.34 | 0.34 | 0.34 | 0.68 |
| Dividends per share | 31.89 | 31.19 | 30.71 | 30.26 | 29.95 | |
| Shares outstanding | | | | | | |
| Basic | 3,474 | 3,473 | 3,472 | 3,485 | 3,493 | 3,473 |
| Weighted average | 3,572 | 3,571 | 3,564 | 3,548 | 3,548 | 3,571 |
| Shares at period-end | 3,471 | 3,473 | 3,487 | 3,503 | 3,514 | |
| Ratios | | | | | | |
| Return on common equity (ROE ^(c)) | 13% | 12% | 10% | 9% | 4% | 12% |
| Return on assets (ROA ^{(c)(d)}) | 1.06 | 1.00 | 0.89 | 0.84 | 0.34 | 1.03 |
| Capital ratio | 8.5 | 8.5 | 8.5 | 8.2 | 8.2 | |
| Debt to capital ratio | 12.0 | 12.1 | 12.0 | 11.3 | 11.3 | |
| Dividend coverage ratio | 5.8 | 6.1 | 6.3 | 6.2 | 6.2 | |

Balance sheet data (period-end)

| | | | | | |
|--------------------------|---------------------|--------------|--------------|--------------|--------------|
| Assets | \$ 1,328,001 | \$ 1,273,282 | \$ 1,198,942 | \$ 1,203,033 | \$ 1,171,283 |
| Cash | 78,022 | 67,126 | 47,600 | 68,697 | 58,573 |
| Securities | 455,104 | 432,081 | 419,148 | 420,504 | 416,025 |
| Loans | 593,716 | 584,465 | 554,991 | 535,123 | 534,640 |
| Debt | 125,280 | 112,133 | 108,357 | 101,853 | 101,182 |
| Stockholders' equity | 110,684 | 108,337 | 107,072 | 105,996 | 105,246 |
| Non-stockholders' equity | 110,684 | 108,337 | 107,211 | 106,135 | 105,385 |

Quality metrics

| | | | | | | |
|--|-----------------|----------|----------|----------|----------|-----------------|
| Provision for credit losses | \$ 7,500 | \$ 7,659 | \$ 7,490 | \$ 7,615 | \$ 7,233 | \$ 7,500 |
| Allowance for credit losses | 2,384 | 2,348 | 2,590 | 2,839 | 2,832 | 2,384 |
| Ratio of allowance for credit losses to total loans ^(g) | 1.69% | 1.83% | 1.84% | 1.86% | 1.76% | 1.69% |
| Charge-offs | \$ 654 | \$ 668 | \$ 1,360 | \$ 870 | \$ 773 | \$ 1,322 |
| Charge-off rate ^{(c)(g)} | 0.64% | 0.69% | 1.39% | 0.89% | 0.82% | 0.66% |
| Recovery rate | (0.05) | (0.06) | 0.07 | (0.12) | (0.16) | (0.05) |
| Net charge-off rate ^(c) | 3.28 | 2.99 | 6.39 | 4.70 | 4.87 | 3.13 |
| Net charge-off rate ^(h) | 172,423 | 170,787 | 168,847 | 168,955 | 168,708 | |
| Provision for credit losses | \$ 46.80 | \$ 42.43 | \$ 40.56 | \$ 35.95 | \$ 36.50 | \$ 46.80 |
| Charge-offs | 39.33 | 37.88 | 32.92 | 33.31 | 33.35 | 37.88 |
| Recovery rate | 42.00 | 41.64 | 39.69 | 33.93 | 35.32 | 42.00 |

(a) *Second quarter 2006 includes a \$90 million release of Allowance for loan losses related to Hurricane Katrina. Third-quarter 2005 includes a \$400 million special provision related to Hurricane Katrina.*

(b) *The Firm has announced the exchange of a portion of the corporate trust business for the consumer,*

small-business and middle-market banking businesses of The Bank of New York. The corporate trust businesses to be transferred includes trustee, paying agent, loan agency services and document management but excludes the American Depositary Receipts, escrow and commercial paper businesses. As a result of this pending transaction, the results of operations of these businesses are being reported as discontinued operations for each of the periods presented.

- (c) Based upon annualized amounts.*
- (d) Represents Net income divided by Total average assets.*
- (e) Excludes deposits of \$26.5 billion at June 30, 2006,*

that have been reclassified to Liabilities of discontinued operations held-for-sale.

- (f) Excludes wholesale held-for-sale (HFS) loans purchased as part of the Investment Bank s proprietary activities.*
- (g) Excluded from the allowance coverage ratios were end-of-period loans held-for-sale; and excluded from the net charge-off rates were average loans held-for-sale.*
- (h) 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.*

Table of Contents**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This Form 10-Q provides management's discussion and analysis (MD&A) of the financial condition and results of operations for JPMorgan Chase & Co. See the Glossary of terms on pages 99-100 for definitions of terms used throughout this Form 10-Q. The MD&A included in this Form 10-Q 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. See Forward-looking statements on page 103 and Part II, Item 1A: Risk Factors on page 105, of this Form 10-Q.

INTRODUCTION

JPMorgan Chase & Co. (JPMorgan Chase or the Firm), a financial holding company incorporated under Delaware law in 1968, is a leading global financial services firm and one of the largest banking institutions in the United States, with \$1.3 trillion in assets, \$111 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 and wealth 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), a national banking association with branches in 17 states; and Chase Bank USA, National Association, a national bank that is the Firm's credit card issuing bank. JPMorgan Chase's principal nonbank subsidiary is J.P. Morgan Securities Inc. (JPMSI), 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 & Wealth 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 Chase is one of the world's leading investment banks, as evidenced by the breadth of the Investment Bank client relationships and product capabilities. The Investment Bank (IB) has extensive relationships with corporations, financial institutions, governments and institutional investors worldwide. The Firm provides 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, and market-making in cash securities and derivative instruments. The IB also commits the Firm's own capital to proprietary investing and trading activities.

Retail Financial Services

Retail Financial Services (RFS) realigned its business reporting segments on January 1, 2006, into Regional Banking, Mortgage Banking and Auto Finance. Regional Banking offers one of the largest branch networks in the United States, covering 17 states with 2,660 branches and 7,753 automated teller machines (ATMs). Regional Banking distributes, through its network, a variety of products including checking, savings and time deposit accounts; home equity, residential mortgage, small business banking and education loans; mutual fund and annuity investments; and on-line banking services. Mortgage Banking is a leading provider of mortgage loan products and is one of the largest originators and servicers of home mortgages. Auto Finance is one of the largest noncaptive originators of automobile loans, primarily through a network of automotive dealers across the United States.

Card Services

Card Services (CS) is one of the largest issuers of credit cards in the United States, with more than 136 million cards in circulation. CS offers a wide variety of general purpose and private label cards to satisfy the needs of individual consumers, small businesses and partner organizations. The Chase Paymentech Solutions, LLC joint venture is the largest processor of MasterCard® and Visa® payments in the world.

Commercial Banking

Commercial Banking (CB) has more than 25,000 clients, including corporations, municipalities, financial institutions

and not-for-profit entities, with annual revenues generally ranging from \$10 million to \$2 billion. While most Middle Market clients are located within the RFS footprint, CB also serves larger corporations, as well as local governments and financial institutions, on a national basis. CB serves clients through local market presence, offering industry expertise, a dedicated client service team and risk management capabilities. Partnership with other JPMorgan Chase businesses positions CB to deliver broad product capabilities including lending, treasury services, investment banking, and asset and wealth management in order to meet its clients' financial needs.

Table of Contents**Treasury & Securities Services**

Treasury & Securities Services (TSS) is a global leader in providing transaction, investment and information services to support the needs of corporations, issuers and institutional investors worldwide. TSS is one of the largest cash management providers in the world and a leading global custodian. The Treasury Services (TS) business provides a variety of cash management products, trade finance and logistics solutions, wholesale card products, and short-term liquidity management tools. TS partners with the CB, Regional Banking and Asset & Wealth Management businesses to serve clients firmwide. As a result, certain TS revenues are included in other segments' results. The Worldwide Securities Services (WSS) business provides safekeeping, valuing, clearing and servicing of securities and portfolios for investors and broker-dealers and management of American Depositary Receipts (ADRs) programs. The Firm has announced an agreement to acquire the consumer, small-business and middle-market banking business of The Bank of New York in exchange for certain portions of the Firm's corporate trust business. As a result of this pending transaction with The Bank of New York, certain portions of the corporate trust business have been reflected in discontinued operations (for all periods presented) within the Corporate line of business. For a description of the transaction, see Other Business Events below.

Asset & Wealth Management

Asset & Wealth Management (AWM) provides investment advice and management for institutions and individuals. With \$1.2 trillion of Assets under supervision, AWM is one of the largest asset and wealth managers in the world. AWM serves four distinct client groups through three businesses: institutions through JPMorgan Asset Management; ultra-high-net-worth clients through the Private Bank; high-net-worth clients through Private Client Services; and retail clients through JPMorgan Asset Management. The majority of AWM's client assets are in actively managed portfolios. AWM has global investment expertise in equities, fixed income, real estate, hedge funds, private equity and liquidity, including both money market instruments and bank deposits. AWM also provides trust and estate services to ultra-high-net-worth and high-net-worth clients and retirement services for corporations and individuals.

OTHER BUSINESS EVENTS**Acquisition of the consumer, small-business and middle-market banking businesses of The Bank of New York in exchange for certain portions of the corporate trust business, including trustee, paying agent, loan agency services and document management businesses**

On April 8, 2006, JPMorgan Chase announced an agreement to acquire The Bank of New York's consumer, small-business and middle-market banking businesses in exchange for certain portions of the Firm's corporate trust business plus a cash payment of \$150 million. The Bank of New York businesses being acquired are valued at a premium of \$2.30 billion; the Firm's corporate trust businesses being transferred (i.e., trustee, paying agent, loan agency services and document management businesses) are valued at a premium of \$2.15 billion. The Firm may also make a future payment to The Bank of New York of up to \$50 million depending on certain new account openings. JPMorgan Chase expects to recognize an after-tax gain of approximately \$600-\$700 million. The transaction has been approved by both companies' boards of directors and is subject to regulatory approvals. It is expected to close in the fourth quarter of 2006.

Sale of insurance underwriting business

On July 3, 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. The sale included both the heritage Chase insurance business and the insurance business that Bank One had bought from Zurich Insurance in 2003. The sale is not expected to have a material impact on earnings.

Table of Contents**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 Form 10-Q. For a more complete understanding of events, trends and uncertainties, as well as the liquidity, capital, credit and market risks, and the critical accounting estimates, affecting the Firm and its various lines of business, this Form 10-Q should be read in its entirety.

Business overview

The Firm reported 2006 second quarter net income of \$3.5 billion, or \$0.99 per share, compared with net income of \$1.0 billion, or \$0.28 per share, for the second quarter of 2005. Return on common equity for the quarter was 13%, compared with 4% in the prior year. The comparison with the prior year benefited from the absence of a litigation reserve charge of \$1.2 billion, or \$0.33 per share, in the second quarter of 2005. Results for the current quarter included \$53 million of merger charges, or \$0.01 per share, compared with \$173 million, or \$0.05 per share, in the second quarter of 2005.

Net income for the first six months of 2006 was \$6.6 billion, or \$1.85 per share, compared with \$3.3 billion, or \$0.91 per share, in the comparable period last year. Return on common equity was 12% for the first six months of 2006, compared with 6% for the prior-year period. Current year-to-date results included incremental expense of \$350 million, or \$0.10 per share, related to the adoption of SFAS 123R; and Merger costs of \$97 million, or \$0.03 per share. Prior-year results included a litigation reserve charge of \$1.7 billion, or \$0.48 per share, and Merger costs of \$263 million, or \$0.07 per share.

Global economic and market conditions affected the performance of each of the Firm's businesses. In the second quarter of 2006, the global economy continued a steady expansion, while the pace of growth in the U.S. economy slowed moderately and the capital markets environment remained favorable. The U.S. economy experienced a continued rise in interest rates driven by improving global economic prospects and concerns about inflation, resulting in two quarter-point increases in the federal funds rate, from 4.75% to 5.25%; at the same time, the yield curve remained relatively flat. Equity markets, both domestic and international, while higher versus the prior year, were flat on average compared with the prior quarter. International markets experienced more weakness and volatility than domestic markets during the latter portion of the quarter.

The discussion that follows highlights the performance of each business segment during the second quarter of 2006 with the comparable period in the prior year, unless otherwise noted.

Investment Bank net income increased due to strong Fixed Income Markets and record investment banking fees, reflecting strong performance, investments in strategic initiatives and global capital markets activity. This was partially offset by higher expenses and a reduced benefit from the provision for credit losses. Investment banking fees were driven by record fees in both debt and equity underwriting. Debt underwriting benefited from record bond underwriting fees and equity underwriting reflected strong performance across all regions. Fixed Income Markets revenue grew due to stronger performance across essentially all products, while Equity Markets revenue benefited from continued strength in equity commissions. The reduced benefit from the provision for credit losses reflected portfolio activity. Credit quality remained stable. The increase in expense was due primarily to higher performance-based compensation.

Retail Financial Services net income declined due to lower Mortgage Banking performance. Revenue was down slightly reflecting lower MSR risk management results in Mortgage Banking, and narrower spreads on loans and deposits. Partially offsetting these lower results were higher deposit and loan balances and increased fee income in Regional Banking. Credit quality remained stable in all loan portfolios. Expense increased due to the ongoing investment in retail distribution and the acquisition of Collegiate Funding Services in March, partially offset by merger-related expense savings and other operating efficiencies. Continuing investment in the retail distribution network and the overall strength of the U.S. economy contributed to increases in the number of checking accounts, average deposit and loan balances, and to improved cross-selling of credit cards, mortgages and investment products.

Card Services net income increased due to lower credit losses benefiting from the significantly lower level of bankruptcy filings. Total net revenue (excluding the impact of the deconsolidation of Paymentech) was relatively flat as lower loan spreads and higher volume-driven payments to partners was partially offset by an increase in average managed loan balances and higher interchange income due to higher charge volume. The increase in average managed

loans reflected the recent acquisitions of the Sears Canada and Kohl's loan portfolios in the fourth quarter of 2005 and the second quarter of 2006, respectively. The increase in loan balances was partially offset by higher customer payment rates, which management believes was related to the new minimum payment rules and a higher proportion of customers in rewards-based programs. The Provision for credit losses benefited from lower bankruptcy-related losses, strong underlying credit quality and the release of allowance for loan losses related to Hurricane Katrina. Total noninterest expense (excluding the impact of the deconsolidation of Paymentech) was flat compared with the prior year, with benefits from merger savings, other efficiencies and the absence of a litigation charge offset by the higher expense due to the previously discussed acquisitions, higher marketing spend and by increased fraud-related losses.

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Commercial Banking net income benefited from a lower provision for credit losses and higher revenues. Revenues increased due to wider spreads and higher liability balances and increased loan balances, partially offset by narrower loan spreads reflecting continued competitive pressure. The provision for credit losses in the prior year was related primarily to refinements to the data used to estimate the allowance for credit losses. Expense increased due primarily to higher compensation expense.

Treasury & Securities Services net income increased significantly, benefiting from higher revenue and lower expense. Revenue growth reflected growth in assets under custody, business growth and wider spreads on higher average liability balances, all of which benefited from global economic strength and stronger capital markets activity. The decrease in expense was due to the absence of prior-year charges to terminate a client contract, partially offset by higher compensation expense related to business growth.

Asset & Wealth Management net income benefited from increased revenue, partially offset by higher expense. Revenue growth was driven by increased assets under management, which in turn reflected improved investment performance, net asset inflows, mainly in equity-related and liquidity products, as well as strength in global equity markets. The increase in expense was due primarily to higher performance-based compensation.

The Corporate segment reported a significantly lower net loss (excluding the impact of discontinued operations, as discussed further below). Revenue benefited due to an improved Treasury net interest spread, a higher level of available-for-sale securities and increased Private Equity gains. These benefits were offset partially by higher securities losses in Treasury. Expense benefited from the absence of the litigation reserve charge in the second quarter of 2005, insurance recoveries related to certain material litigation, lower merger-related costs and increased merger-related savings and other efficiencies.

During the quarter ended June 30, 2006, approximately \$610 million (pre-tax) of merger savings were realized, which is an annualized rate of approximately \$2.4 billion. Management estimates that annualized merger savings will be approximately \$2.8 billion by the end of 2006. Merger costs of \$86 million were expensed during the second quarter of 2006, bringing the total amount expensed since the merger announcement to \$3.3 billion (including capitalized costs). Management previously estimated that total merger costs would be approximately \$4.0 billion to \$4.5 billion; management currently expects total merger costs will be approximately \$4.0 billion. The remaining merger costs are expected to be incurred by the end of 2007.

On April 8, 2006, the Firm announced the exchange of select Corporate Trust businesses, including trustee, paying agent, loan agency services and document management, for the consumer, small-business and middle-market banking businesses of The Bank of New York. These Corporate Trust businesses, which were previously reported in Treasury & Securities Services, have been deemed discontinued operations and the related balance sheet and income statement activity have been transferred to the Corporate segment.

The Firm had, at June 30, 2006, total stockholders' equity of \$110.7 billion and a Tier 1 capital ratio of 8.5%. The Firm purchased \$745.5 million, or 17.7 million shares, of common stock during the quarter and \$2.0 billion, or 49.5 million shares, of common stock during the first half of 2006.

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.

The performance of the Firm's capital markets and wholesale businesses are affected by overall global economic growth and by financial market movements and activity levels. The Investment Bank enters the third quarter of 2006 with a strong fee pipeline, but the level of investment banking fees actually realized will be dependent upon overall capital markets conditions. Market conditions can also impact trading results, which are difficult to predict. Both investment banking fees and trading results can be affected by the seasonal level of business activity, which is typically lower during the third quarter. The Investment Bank remains focused on new product expansion initiatives, which are intended to promote growth and reduce volatility in trading results over time.

In the consumer businesses, the relatively flat yield curve and continuing increase in interest rates are expected to keep margins stable to modestly down. Beginning with the third quarter, Retail Financial Services' revenue and expense will reflect the sale of the insurance business in July 2006 although the impact is expected to be immaterial. Loan balances

in Card Services are expected to continue to experience the negative effect of higher customer payment rates. The Corporate segment includes Private Equity, Treasury, Corporate Other support units and discontinued operations. 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 2006, but results can be volatile from quarter to quarter. This quarter, the Firm achieved improved Treasury net interest income and a reduction of the net loss reported in Corporate Other. Management believes this progress is sustainable in the third and fourth quarters of 2006, though results may have some volatility.

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Credit quality overall remains stable across the wholesale and consumer portfolios. However, management does not expect the favorable credit environment to continue indefinitely and, therefore, anticipates higher credit losses over time. The Provision for credit losses for Card Services is anticipated to increase in the third quarter of 2006 relative to the second quarter of 2006 due to higher expected bankruptcy-related losses and the impact of the new minimum payment rules.

CONSOLIDATED RESULTS OF OPERATIONS

The following section provides a comparative discussion of JPMorgan Chase's consolidated results of operations on a reported basis. Factors that relate 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 for prior periods 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 page 66 of this Form 10-Q and pages 81-83 of the JPMorgan Chase Annual Report on Form 10-K for the year ended December 31, 2005 (2005 Annual Report).

The following table presents the components of Total net revenue:

| Total net revenue (in millions) | Three months ended June 30, | | | Six months ended June 30, | | |
|--|-----------------------------|-----------|--------|---------------------------|-----------|--------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Investment banking fees | \$ 1,370 | \$ 961 | 43% | \$ 2,539 | \$ 1,954 | 30% |
| Principal transactions | 2,628 | 724 | 263 | 5,230 | 3,360 | 56 |
| Lending & deposit related fees | 865 | 851 | 2 | 1,706 | 1,671 | 2 |
| Asset management, administration and commissions | 2,933 | 2,416 | 21 | 5,782 | 4,786 | 21 |
| Securities gains (losses) | (502) | 70 | NM | (618) | (752) | 18 |
| Mortgage fees and related income | 213 | 336 | (37) | 454 | 698 | (35) |
| Credit card income | 1,791 | 1,763 | 2 | 3,701 | 3,497 | 6 |
| Other income | 464 | 495 | (6) | 1,018 | 693 | 47 |
| Noninterest revenue | 9,762 | 7,616 | 28 | 19,812 | 15,907 | 25 |
| Net interest income | 5,178 | 4,932 | 5 | 10,171 | 10,094 | 1 |
| Total net revenue | \$ 14,940 | \$ 12,548 | 19% | \$ 29,983 | \$ 26,001 | 15% |

Total net revenue for the second quarter of 2006 was up by \$2.4 billion, or 19%, from the prior year. The increase was due to higher Principal transactions revenue, reflecting stronger performance in both Fixed Income and Equities trading, and a large realized gain from a single private equity investment. Also contributing to the increase were record Investment banking fees, growth in assets under management and custody, as well as an increase in brokerage transaction volume. These items were partly offset by higher securities losses related to the repositioning of the Treasury investment portfolio. For the first six months of 2006, Total net revenue was up by \$4.0 billion, or 15%, from the prior year. The increase was primarily driven by the same aforementioned items with the exception of securities losses, which were lower than the losses in the first half of last year.

Record Investment banking fees of \$1.4 billion in the current year's second quarter and \$2.5 billion in the first half of 2006 were up 43% from last year's second quarter, and up 30% from the first six months of 2005. The results for the 2006 second quarter reflected record fees in equity and debt underwriting. For a further discussion of Investment banking fees, which are primarily recorded in the IB, see the IB segment results on pages 16-19 of this Form 10-Q.

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 market, primarily in the Investment Bank, and Private equity gains (losses), primarily in the private equity business of Corporate. The significant increases from the second quarter and first half of last year were driven by higher Trading revenue, reflecting strong performance across essentially all Fixed Income products, and a recovery in Equities from both a weak 2005 second quarter and first half. Private equity gains increased from the second quarter of last year primarily as a result of a large realized gain from a single investment. In the first half of the year, Private equity gains were lower than the prior year reflecting two large gains realized in the first quarter of 2005. For a further discussion of Principal transactions, see the IB and Corporate segment results on pages 16 19 and 40 42, respectively, of this Form 10 Q.

Lending & deposit related fees rose slightly in comparison with the 2005 second quarter and year-to-date periods as a result of higher fee income on deposit-related products from growth in business volume. For a further discussion of deposit fees, which are partly recorded at RFS, see the RFS segment results on pages 19 26 of this Form 10 Q.

The increases in Asset management, administration and commissions for the second quarter and first half of 2006 were due to growth in assets under management and custody, driven by market value appreciation and net new business, higher performance and placement fees, as well as growth in securities lending and ADR revenues attributable to a combination of increased product usage by existing and new business. Commissions were higher than last year s periods due to an increase in brokerage transaction volume across regions, partly offset by the sale of BrownCo. For additional information on these fees and commissions, see the segment discussions for the IB on pages 16 19, TSS on pages 33 36, and AWM on pages 36 39, of this Form 10 Q.

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The variances in Securities gains (losses) for all periods were primarily a result of the impact of portfolio repositioning in connection with the Firm's asset/liability management activities. For a further discussion of Securities gains (losses), which are primarily recorded in the Firm's Treasury business, see the Corporate segment discussion on pages 40-42 of this Form 10-Q.

Mortgage fees and related income declined in comparison with the second quarter and first six months of 2005, primarily due to lower MSR risk management results, partially offset by an increase in production income reflecting higher gain-on-sale margins. 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 pages 24-25 of this Form 10-Q.

Credit card income increased from both the second quarter and the first half of 2005 primarily from higher customer charge volume that favorably impacted interchange income, and servicing fees, which benefited from growth in average securitized credit card loans and lower credit losses incurred on securitized credit card loans. These were partially offset 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 was also negatively impacted by the deconsolidation of Paymentech.

The decrease in Other income from the second quarter of 2005 was partly from higher writedowns for loans held-for-sale and lower gains from loan workouts and loan sales. These items were partially offset by a gain of \$103 million on the sale of MasterCard shares in its initial public offering. Other income for the first six months of 2006 increased due to the aforementioned gain from the sale of MasterCard shares in its initial public offering, higher equity investment income, in particular, from a merchant processing joint venture, and increased income from automobile operating leases.

Net interest income rose from the 2005 second quarter and first six months largely due to the improvement in the Corporate segment's net interest spread, wider spreads on higher wholesale liability balances, and growth in volume of loans and consumer deposits. These increases were offset partially by narrower spreads on trading assets and consumer loans, as well as consumer deposits. The Firm's total average interest-earning assets for the second quarter of 2006 were \$1.0 trillion, up 13% from the second quarter of 2005, as a result of an increase in loans and other liquid earning assets. The net interest yield on these assets, on a fully taxable-equivalent basis, was 2.07%, a decrease of 18 basis points from the prior year. The Firm's total average interest-earning assets for the six months ended June 30, 2006, were \$975 billion, up 10% from 2005, as a result of an increase in loans and other liquid earning assets, partially offset by a decline resulting from the repositioning of Treasury's investment portfolio during 2005. The net interest yield on these assets, on a fully taxable-equivalent basis, was 2.13%, a decrease of 19 basis points from the prior year.

Provision for credit losses

The Provision for credit losses was \$493 million for the second quarter of 2006, \$94 million lower compared with the prior year, primarily due to Card Services as a result of lower bankruptcy-related net charge-offs and the release of Allowance for loan losses relating to Hurricane Katrina. For the first half of 2006, the Provision for credit losses was \$310 million higher than the first half of 2005; the wholesale provision increased by \$706 million, offset by a decrease of \$396 million in consumer. The wholesale increase, primarily in the IB, was due to the release of allowance for credit losses as a result of improvement in credit quality in the prior year. The decrease in consumer, mainly in Card Services, was due to lower bankruptcy-related net charge-offs and the release of Allowance for loan losses relating to Hurricane Katrina. The total net charge-off rate was 0.64% for the second quarter of 2006, compared with 0.82% in the prior year. The net charge-off rate for the first half of 2006 was 0.66%, compared with 0.85% for the same period in 2005. The improvements were primarily due to lower bankruptcies in Card Services. For a more detailed discussion of the loan portfolio and the Allowance for loan losses, refer to Credit risk management on pages 51-62 of this Form 10-Q.

Noninterest expense

The following table presents the components of Noninterest expense:

| (in millions) | Three months ended June 30, | | | Six months ended June 30, | | |
|---------------|-----------------------------|------|--------|---------------------------|------|--------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |

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| | | | | | | |
|---|-----------------|-----------|-------|------------------|-----------|------|
| Compensation expense | \$ 5,268 | \$ 4,220 | 25% | \$ 10,816 | \$ 8,874 | 22% |
| Occupancy expense | 553 | 572 | (3) | 1,147 | 1,090 | 5 |
| Technology, communications and equipment expense | 876 | 891 | (2) | 1,745 | 1,806 | (3) |
| Professional & outside services | 939 | 1,115 | (16) | 1,815 | 2,176 | (17) |
| Marketing | 526 | 537 | (2) | 1,045 | 1,020 | 2 |
| Other expense ^(a) | 631 | 2,808 | (78) | 1,447 | 4,496 | (68) |
| Amortization of intangibles | 357 | 376 | (5) | 712 | 751 | (5) |
| Merger costs | 86 | 279 | (69) | 157 | 424 | (63) |
| Total Noninterest expense | \$ 9,236 | \$ 10,798 | (14)% | \$ 18,884 | \$ 20,637 | (8)% |

(a) *Includes litigation reserve charges of \$1,872 million in the second quarter of 2005 and \$2,772 million in the first six months of 2005 related to the settlement of the Enron and WorldCom class action litigations and for certain other material legal proceedings. In the first six months of 2006, insurance recoveries relating to certain material litigation of \$358 million were recorded, \$98 million in the first quarter and \$260 million in the second quarter.*

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Total Noninterest expense for the second quarter of 2006 was \$9.2 billion, down by \$1.6 billion, or 14%, from the prior year. The following items were included in the second quarter of 2006: insurance recoveries related to certain material litigation of \$260 million, incremental expense of \$106 million from SFAS 123R and \$86 million of Merger costs; compared with the following in 2005: a material litigation charge of \$1.9 billion and \$279 million of Merger costs. Excluding these items from both quarters, Noninterest expense would have been up by \$657 million. The increase was driven by higher performance-based compensation and acquisitions, partially offset by the deconsolidation of Paymentech, as well as merger-related savings and other operating efficiencies. For the first six months of the year, Noninterest expense declined by \$1.8 billion, or 8%. The following items were included in 2006: \$358 million of insurance recoveries related to certain material litigation, \$565 million of incremental expense from SFAS 123R and \$157 million of Merger costs; and in 2005: a material litigation charge of \$2.8 billion and \$424 million of merger costs. Excluding these items from both years, Noninterest expense would have been up by \$1.1 billion. The increase was driven by higher performance-based compensation and acquisitions, offset partly by merger-related savings and other operating efficiencies.

The increases in Compensation expense from the second quarter and first half of 2005 were primarily the result of higher performance-based incentives, incremental expense of \$106 million and \$565 million for the three and six months ended June 30, 2006, respectively, related to SFAS 123R, and additional headcount in connection with investments in businesses. These increases were partially offset by merger-related savings and other operating efficiencies throughout the Firm. For a detailed discussion of the adoption of SFAS 123R and employee stock-based incentives, see Note 7 on pages 76-79 of this Form 10-Q.

Occupancy expense in the second quarter of the current year was down from the same quarter of last year due to merger-related savings and other operating efficiencies compared with a charge of \$35 million in 2005 for excess real estate. This was offset partly by ongoing investments in the retail distribution network. On a year-to-date basis, occupancy expense increased from the investments in the retail distribution network, partly offset by merger-related savings and other operating efficiencies.

Technology, communications and equipment expense was lower in comparison with the second quarter and first six months of 2005, primarily the result of merger-related savings and other operating efficiencies, partially offset by higher depreciation expense related to owned automobiles subject to operating leases.

Professional & outside services decreased from the second quarter and first half of 2005 due to merger-related savings and other operating efficiencies, the settlement of several legal matters in 2005 and the Paymentech deconsolidation.

Other expense decreased from the second quarter and first six months of 2005 due to significant litigation-related charges in 2005, which were \$1.9 billion in the second quarter and \$900 million in the first quarter of 2005 associated with the settlement of the Enron and WorldCom class action litigations and certain other material legal proceedings. In addition, in the 2006 second and first quarters, the Firm recognized insurance recoveries of \$260 million and \$98 million, respectively, pertaining to certain material litigation matters. In the second quarter of 2005, Treasury & Securities Services incurred \$93 million of charges in connection with the termination of a client contract, and in the first quarter of 2005, Retail Financial Services recorded a \$40 million charge as a result of the dissolution of a student loan joint venture. These items were offset partially by the impact of growth in business volume and other investments.

For discussion of Amortization of intangibles and Merger costs, refer to Note 15 and Note 8 on pages 87-89 and 79, respectively, of this Form 10-Q.

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:

| (in millions, except rate) | Three months ended June | | Six months ended June | |
|----------------------------|-------------------------|-------------|-----------------------|-------------|
| | 2006 | 30, 2005 | 2006 | 30, 2005 |
| | \$ 5,211 | \$ 1,163 | \$ 9,775 | \$ 4,350 |

Income from continuing operations before income
tax expense

| | | | | |
|--------------------|--------------|-------|--------------|-------|
| Income tax expense | 1,727 | 226 | 3,264 | 1,207 |
| Effective tax rate | 33.1% | 19.4% | 33.4% | 27.7% |

The increases in the effective tax rate for the second quarter and first six months of 2006, as compared with prior-year periods, were primarily the result of higher reported pre-tax 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.

Table of Contents**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 68-71 of this Form 10-Q. 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.

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 are adjusted to exclude credit card securitizations and present 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. Effective January 1, 2006, JPMorgan Chase's presentation of operating earnings that excluded merger costs and material litigation reserve charges and recoveries from reported results has been eliminated. These items had been previously excluded from operating results because they were deemed non-recurring; they are now included in the Corporate business segment's results. In addition, Trading-related net interest income is no longer reclassified from net interest income to trading revenue.

Card Services' managed results excludes the impact of credit card securitizations on Total net revenue, the provision for credit losses, net charge-offs and loan receivables. This presentation is provided to facilitate the comparability to competitors. Through securitization, the Firm transforms a portion of its credit card receivables into securities, which are sold to investors. The credit card receivables are removed from the consolidated balance sheets through the transfer of the receivables to a trust, and the sale of undivided interests to investors that entitle the investors to specific cash flows generated from the credit card receivables. The Firm retains the remaining undivided interests as seller's interests, which are recorded in Loans on the Consolidated balance sheets. A gain or loss on the sale of credit card receivables to investors is recorded in Other income. Securitization also affects the Firm's Consolidated statements of income as the aggregate amount of interest income, certain fee revenue and recoveries that is in excess of the aggregate amount of interest paid to investors, gross credit losses and other trust expenses related to the securitized receivables are reclassified into credit card income. For a reconciliation of reported to managed basis of Card Services results, see page 30 of this Form 10-Q. For information regarding loans and residual interests sold and securitized, see Note 13 on pages 82-85 of this Form 10-Q. JPMorgan Chase uses the concept of managed receivables to evaluate the credit performance and overall financial performance of the underlying credit card loans, both sold and not sold; as the same borrower is continuing to use the credit card for ongoing charges, a borrower's credit performance will affect both the loan receivables sold under SFAS 140 and those not sold. Thus, in its disclosures regarding managed loan receivables, JPMorgan Chase treats the sold receivables as if they were still on the balance sheet in order to disclose the credit performance (such as net charge-off rates) of the entire managed credit card portfolio. In addition, Card Services operations are funded, managed results are evaluated, and decisions are made about allocating resources such as employees and capital based upon managed financial information.

Total net revenue for each of the business segments and the Firm is presented on a tax-equivalent 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 uses certain non-GAAP financial measures at the segment level because it believes these non-GAAP financial measures provide information to investors in understanding the underlying operational performance and trends of the particular business segment and facilitate a comparison of the business segment with the performance of competitors.

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

| Three months ended June 30, | 2006 | | | |
|---|---------------------|-------------------------------|-------------------------------|------------------|
| (in millions, except per share and ratio data) | Reported results | Credit card ^(a) | Tax-equivalent adjustments | Managed basis |
| Revenue | | | | |
| Investment banking fees | \$ 1,370 | \$ | \$ | \$ 1,370 |
| Principal transactions | 2,628 | | | 2,628 |
| Lending & deposit related fees | 865 | | | 865 |
| Asset management, administration and commissions | 2,933 | | | 2,933 |
| Securities gains (losses) | (502) | | | (502) |
| Mortgage fees and related income | 213 | | | 213 |
| Credit card income | 1,791 | (937) | | 854 |
| Other income | 464 | | 170 | 634 |
| Noninterest revenue | 9,762 | (937) | 170 | 8,995 |
| Net interest income | 5,178 | 1,498 | 47 | 6,723 |
| Total net revenue | 14,940 | 561 | 217 | 15,718 |
| Provision for credit losses | 493 | 561 | | 1,054 |
| Noninterest expense | 9,236 | | | 9,236 |
| Income from continuing operations before income tax expense | 5,211 | | 217 | 5,428 |
| Income tax expense | 1,727 | | 217 | 1,944 |
| Income from continuing operations (after-tax) | 3,484 | | | 3,484 |
| Income from discontinued operations (after-tax) | 56 | | | 56 |
| Net income | \$ 3,540 | \$ | \$ | \$ 3,540 |
| Earnings per share - diluted | \$ 0.99 | \$ | \$ | \$ 0.99 |
| Return on common equity | 13% | % | % | 13% |
| Return on equity less goodwill(b) | 22 | | | 22 |
| Return on assets | 1.06 | NM | NM | 1.01 |
| Overhead ratio | 62 | NM | NM | 59 |

| Three months ended June 30, | 2005 | | | |
|--|---------------------|-------------------------------|-------------------------------|------------------|
| (in millions, except per share and ratio data) | Reported results | Credit card ^(a) | Tax-equivalent adjustments | Managed basis |
| Revenue | | | | |
| Investment banking fees | \$ 961 | \$ | \$ | \$ 961 |
| Principal transactions | 724 | | | 724 |

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| | | | | |
|---|---------------|--------------|------------|---------------|
| Lending & deposit related fees | 851 | | | 851 |
| Asset management, administration and commissions | 2,416 | | | 2,416 |
| Securities gains (losses) | 70 | | | 70 |
| Mortgage fees and related income | 336 | | | 336 |
| Credit card income | 1,763 | (728) | | 1,035 |
| Other income | 495 | | 143 | 638 |
| Noninterest revenue | 7,616 | (728) | 143 | 7,031 |
| Net interest income | 4,932 | 1,658 | 84 | 6,674 |
| Total net revenue | 12,548 | 930 | 227 | 13,705 |
| Provision for credit losses | 587 | 930 | | 1,517 |
| Noninterest expense | 10,798 | | | 10,798 |
| Income from continuing operations before income tax expense | 1,163 | | 227 | 1,390 |
| Income tax expense | 226 | | 227 | 453 |
| Income from continuing operations (after-tax) | 937 | | | 937 |
| Income from discontinued operations (after-tax) | 57 | | | 57 |
| Net income | \$ 994 | \$ | \$ | \$ 994 |
| Earnings per share diluted | \$ 0.28 | \$ | \$ | \$ 0.28 |
| Return on common equity | 4% | % | % | 4% |
| Return on equity less goodwill(b) | 6 | | | 6 |
| Return on assets | 0.34 | NM | NM | 0.32 |
| Overhead ratio | 86 | NM | NM | 79 |

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| Six months ended June 30, | 2006 | | | |
|---|---------------------|-------------------------------|-------------------------------|------------------|
| (in millions, except per share and ratio data) | Reported results | Credit card ^(a) | Tax-equivalent adjustments | Managed basis |
| Revenue | | | | |
| Investment banking fees | \$ 2,539 | \$ | \$ | \$ 2,539 |
| Principal transactions | 5,230 | | | 5,230 |
| Lending & deposit related fees | 1,706 | | | 1,706 |
| Asset management, administration and commissions | 5,782 | | | 5,782 |
| Securities gains (losses) | (618) | | | (618) |
| Mortgage fees and related income | 454 | | | 454 |
| Credit card income | 3,701 | (2,062) | | 1,639 |
| Other income | 1,018 | | 316 | 1,334 |
| Noninterest revenue | 19,812 | (2,062) | 316 | 18,066 |
| Net interest income | 10,171 | 3,072 | 118 | 13,361 |
| Total net revenue | 29,983 | 1,010 | 434 | 31,427 |
| Provision for credit losses | 1,324 | 1,010 | | 2,334 |
| Noninterest expense | 18,884 | | | 18,884 |
| Income from continuing operations before income tax expense | 9,775 | | 434 | 10,209 |
| Income tax expense | 3,264 | | 434 | 3,698 |
| Income from continuing operations (after-tax) | 6,511 | | | 6,511 |
| Income from discontinued operations (after-tax) | 110 | | | 110 |
| Net income | \$ 6,621 | \$ | \$ | \$ 6,621 |
| Earnings per share diluted | \$ 1.85 | \$ | \$ | \$ 1.85 |
| Return on common equity | 12% | | % | 12% |
| Return on equity less goodwill(b) | 21 | | | 21 |
| Return on assets | 1.03 | NM | NM | 0.98 |
| Overhead ratio | 63 | NM | NM | 60 |
| | | | | |
| Six months ended June 30, | 2005 | | | |
| (in millions, except per share and ratio data) | Reported results | Credit card ^(a) | Tax-equivalent adjustments | Managed basis |
| Revenue | | | | |
| Investment banking fees | \$ 1,954 | \$ | \$ | \$ 1,954 |
| Principal transactions | 3,360 | | | 3,360 |
| Lending & deposit related fees | 1,671 | | | 1,671 |

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| | | | | |
|---|-----------------|----------------|------------|-----------------|
| Asset management, administration and commissions | 4,786 | | | 4,786 |
| Securities gains (losses) | (752) | | | (752) |
| Mortgage fees and related income | 698 | | | 698 |
| Credit card income | 3,497 | (1,543) | | 1,954 |
| Other income | 693 | | 258 | 951 |
| Noninterest revenue | 15,907 | (1,543) | 258 | 14,622 |
| Net interest income | 10,094 | 3,390 | 145 | 13,629 |
| Total net revenue | 26,001 | 1,847 | 403 | 28,251 |
| Provision for credit losses | 1,014 | 1,847 | | 2,861 |
| Noninterest expense | 20,637 | | | 20,637 |
| Income from continuing operations before income tax expense | 4,350 | | 403 | 4,753 |
| Income tax expense | 1,207 | | 403 | 1,610 |
| Income from continuing operations (after-tax) | 3,143 | | | 3,143 |
| Income from discontinued operations (after-tax) | 115 | | | 115 |
| Net income | \$ 3,258 | \$ | \$ | \$ 3,258 |
| Earnings per share diluted | \$ 0.91 | \$ | \$ | \$ 0.91 |
| Return on common equity | 6% | % | % | 6% |
| Return on equity less goodwill(b) | 11 | | | 11 |
| Return on assets | 0.56 | NM | NM | 0.53 |
| Overhead ratio | 79 | NM | NM | 73 |

(a) *The impact of credit card securitizations affects Card Services. See pages 27-30 of this Form 10-Q for further information.*

(b) *Represents net income applicable to common stock divided by total average common equity (net of goodwill). The Firm uses return on equity*

less goodwill, a non-GAAP financial measure, to evaluate the operating performance of the Firm. The Firm also utilizes this measure to facilitate comparisons to other competitors.

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| Three months ended June 30, (in millions) | 2006 | | | 2005 | | |
|--|------------|-------------|------------|------------|-------------|------------|
| | Reported | Securitized | Managed | Reported | Securitized | Managed |
| Loans Period-end | \$ 455,104 | \$ 66,349 | \$ 521,453 | \$ 416,025 | \$ 68,808 | \$ 484,833 |
| Total assets average | 1,333,869 | 66,913 | 1,400,782 | 1,176,033 | 66,226 | 1,242,259 |

| Six months ended June 30, (in millions) | 2006 | | | 2005 | | |
|--|------------|-------------|------------|------------|-------------|------------|
| | Reported | Securitized | Managed | Reported | Securitized | Managed |
| Loans Period-end | \$ 455,104 | \$ 66,349 | \$ 521,453 | \$ 416,025 | \$ 68,808 | \$ 484,833 |
| Total assets average | 1,291,349 | 67,233 | 1,358,582 | 1,169,462 | 66,864 | 1,236,326 |

BUSINESS SEGMENT RESULTS

The Firm is managed on a line-of-business basis. The business segment financial results presented reflect the organization of JPMorgan Chase. Currently, there are six major reportable business segments: the Investment Bank, Retail Financial Services, Card Services, Commercial Banking, Treasury & Securities Services and Asset & Wealth Management, as well as a Corporate segment. The segments are based upon the products and services provided, or the type of customer served, and they reflect the manner in which financial information is currently evaluated by management. Results of these lines of business are presented on a managed basis. For a further discussion of Business segment results, see pages 34-35 of JPMorgan Chase's 2005 Annual Report.

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. The management reporting process that derives these results generally allocates income and expense using market-based methodologies. For a further discussion of those methodologies, see page 35 of JPMorgan Chase's 2005 Annual Report. The Firm continues to assess the assumptions, methodologies and reporting reclassifications used for segment reporting, and further refinements may be implemented in future periods.

Business segment financial disclosures

Effective January 1, 2006, JPMorgan Chase modified certain of its financial disclosures to reflect more closely the manner in which the Firm's business segments are managed and to provide improved comparability with competitors. These financial disclosure revisions are reflected in this Form 10-Q, and the financial information for prior periods has been revised to reflect the disclosure changes as if they had been in effect throughout 2005. A summary of the changes are described below.

Reported versus Operating Basis Changes

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

Business Segment Disclosures

RFS has been reorganized into the following business segments: Regional Banking, Mortgage Banking and Auto Finance. For more detailed information on the RFS reorganization, see the RFS business segment discussion on page 19 of this Form 10-Q.

TSS firmwide disclosures have been adjusted to reflect a refined set of TSS products and a revised allocation of liability balances and lending-related revenue related to certain client transfers.

Various wholesale banking clients, together with the related revenue and expense, have been transferred among CB, the IB and TSS. In the first quarter of 2006, the primary client transfer was corporate mortgage finance from CB to the IB.

CB's business metrics now include gross investment banking revenue, which reflects revenue recorded in both CB and the IB.

Corporate's disclosure has been expanded to include Total net revenue and Net income for Treasury and Other Corporate segments.

Certain expenses that are managed by the business segments, but that had been previously recorded in Corporate and allocated to the businesses, are now recorded as direct expenses within the businesses.

Capital allocation changes

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 presentation. For a further discussion of the changes, see Capital Management - Line of business equity on pages 45 - 46 of this Form 10-Q.

Discontinued operations

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

Table of Contents**Segment results Managed basis^(a)**

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

| Three months ended June 30, (in millions, except ratios) | Total net revenue | | | Noninterest expense | | | Net income (loss) | | | Return on equity | |
|--|-------------------|-----------|--------|---------------------|-----------|--------|-------------------|---------|--------|------------------|------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change | 2006 | 2005 | Change | 2006 | 2005 |
| Investment Bank | \$ 4,184 | \$ 2,760 | 52% | \$ 2,946 | \$ 2,181 | 35% | \$ 839 | \$ 611 | 37% | 16% | 12% |
| Retail Financial Services | 3,779 | 3,799 | (1) | 2,259 | 2,126 | 6 | 868 | 980 | (11) | 24 | 30 |
| Card Services | 3,664 | 3,886 | (6) | 1,249 | 1,383 | (10) | 875 | 542 | 61 | 25 | 18 |
| Commercial Banking | 949 | 868 | 9 | 496 | 469 | 6 | 283 | 157 | 80 | 21 | 19 |
| Treasury & Securities Services | 1,588 | 1,417 | 12 | 1,050 | 1,090 | (4) | 316 | 188 | 68 | 58 | 49 |
| Asset & Wealth Management | 1,620 | 1,343 | 21 | 1,081 | 917 | 18 | 343 | 283 | 21 | 39 | 47 |
| Corporate ^(b) | (66) | (368) | 82 | 155 | 2,632 | (94) | 16 | (1,767) | NM | NM | NM |
| Total ^(b) | \$ 15,718 | \$ 13,705 | 15% | \$ 9,236 | \$ 10,798 | (14)% | \$ 3,540 | \$ 994 | 256% | 13% | 4% |

| Six months ended June 30, (in millions, except ratios) | Total net revenue | | | Noninterest expense | | | Net income (loss) | | | Return on equity | |
|--|-------------------|-----------|--------|---------------------|-----------|--------|-------------------|----------|--------|------------------|------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change | 2006 | 2005 | Change | 2006 | 2005 |
| Investment Bank | \$ 8,883 | \$ 6,947 | 28% | \$ 6,137 | \$ 4,708 | 30% | \$ 1,689 | \$ 1,939 | (13)% | 17% | 20% |
| Retail Financial Services | 7,542 | 7,646 | (1) | 4,497 | 4,288 | 5 | 1,749 | 1,968 | (11) | 25 | 30 |
| Card Services | 7,349 | 7,665 | (4) | 2,492 | 2,696 | (8) | 1,776 | 1,064 | 67 | 25 | 18 |
| Commercial Banking | 1,849 | 1,695 | 9 | 994 | 923 | 8 | 523 | 388 | 35 | 19 | 23 |
| Treasury & Securities Services | 3,073 | 2,723 | 13 | 2,098 | 2,054 | 2 | 578 | 387 | 49 | 49 | 51 |
| Asset & Wealth Management | 3,204 | 2,704 | 18 | 2,179 | 1,851 | 18 | 656 | 559 | 17 | 38 | 47 |
| Corporate ^(b) | (473) | (1,129) | 58 | 487 | 4,117 | (88) | (350) | (3,047) | 89 | NM | NM |
| Total ^(b) | \$ 31,427 | \$ 28,251 | 11% | \$ 18,884 | \$ 20,637 | (8)% | \$ 6,621 | \$ 3,258 | 103% | 12% | 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

*\$56 million and
\$57 million for
the three months
ended June 30,
2006 and 2005,
respectively,
and
\$110 million
and
\$115 million for
the six months
ended June 30,
2006 and 2005,
respectively.*

Table of Contents**INVESTMENT BANK**

For a discussion of the business profile of the IB, see pages 36–38 of JPMorgan Chase's 2005 Annual Report.

| Selected income statement data (in millions, except ratios) | Three months ended June 30, | | | Six months ended June 30, | | |
|---|-----------------------------|--------|--------|---------------------------|----------|--------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Revenue | | | | | | |
| Investment banking fees | \$ 1,368 | \$ 965 | 42% | \$ 2,538 | \$ 1,950 | 30% |
| Principal transactions | 2,045 | 427 | 379 | 4,420 | 2,302 | 92 |
| Lending & deposit related fees | 134 | 146 | (8) | 271 | 303 | (11) |
| Asset management, administration and commissions | 550 | 413 | 33 | 1,102 | 822 | 34 |
| All other income | 3 | 252 | (99) | 278 | 379 | (27) |
| Noninterest revenue | 4,100 | 2,203 | 86 | 8,609 | 5,756 | 50 |
| Net interest income | 84 | 557 | (85) | 274 | 1,191 | (77) |
| Total net revenue^(a) | 4,184 | 2,760 | 52 | 8,883 | 6,947 | 28 |
| Provision for credit losses | (62) | (343) | 82 | 121 | (709) | NM |
| Credit reimbursement from TSS ^(b) | 30 | 38 | (21) | 60 | 76 | (21) |
| Noninterest expense | | | | | | |
| Compensation expense | 1,961 | 1,193 | 64 | 4,217 | 2,811 | 50 |
| Noncompensation expense | 985 | 988 | | 1,920 | 1,897 | 1 |
| Total noninterest expense | 2,946 | 2,181 | 35 | 6,137 | 4,708 | 30 |
| Income before income tax expense | 1,330 | 960 | 39 | 2,685 | 3,024 | (11) |
| Income tax expense | 491 | 349 | 41 | 996 | 1,085 | (8) |
| Net income | \$ 839 | \$ 611 | 37 | \$ 1,689 | \$ 1,939 | (13) |
| Financial ratios | | | | | | |
| ROE | 16% | 12% | | 17% | 20% | |
| ROA | 0.50 | 0.41 | | 0.52 | 0.67 | |
| Overhead ratio | 70 | 79 | | 69 | 68 | |
| Compensation expense as % of total net revenue ^(c) | 45 | 43 | | 44 | 40 | |
| Revenue by business | | | | | | |
| Investment banking fees: | | | | | | |
| Advisory | \$ 352 | \$ 359 | (2) | \$ 741 | \$ 622 | 19 |

| | | | | | | |
|--------------------------------------|-----------------|----------|------|-----------------|----------|------|
| Equity underwriting | 364 | 104 | 250 | 576 | 343 | 68 |
| Debt underwriting | 652 | 502 | 30 | 1,221 | 985 | 24 |
| Total investment banking fees | 1,368 | 965 | 42 | 2,538 | 1,950 | 30 |
| Fixed income markets | 2,037 | 1,428 | 43 | 4,030 | 3,724 | 8 |
| Equity markets | 528 | 72 | NM | 1,743 | 628 | 178 |
| Credit portfolio | 251 | 295 | (15) | 572 | 645 | (11) |
| Total net revenue | \$ 4,184 | \$ 2,760 | 52 | \$ 8,883 | \$ 6,947 | 28 |
| Revenue by region | | | | | | |
| Americas | \$ 2,010 | \$ 1,843 | 9 | \$ 4,077 | \$ 4,074 | |
| Europe/Middle East/Africa | 1,747 | 554 | 215 | 3,794 | 2,089 | 82 |
| Asia/Pacific | 427 | 363 | 18 | 1,012 | 784 | 29 |
| Total net revenue | \$ 4,184 | \$ 2,760 | 52 | \$ 8,883 | \$ 6,947 | 28 |

(a) *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 \$193 million and \$206 million for the quarters ended June 30, 2006 and 2005, respectively, and \$387 million and \$361 million year-to-date 2006 and 2005, respectively.*

(b) *TSS is charged a credit reimbursement related to*

*certain
exposures
managed within
the IB credit
portfolio on
behalf of clients
shared with
TSS.*

- (c) *Beginning in the
quarter ended
March 31, 2006,
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.*

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Quarterly results

Net income of \$839 million increased by \$228 million, or 37%, compared with the prior year. Earnings growth reflected strong Fixed Income Markets results and record Investment banking fees, partially offset by higher performance-based compensation and a reduced benefit from the provision for credit losses.

Net revenue was \$4.2 billion, up by \$1.4 billion, or 52%, from the prior year. Investment banking fees of \$1.4 billion were a record, up 42% from the prior year, driven by record fees in both equity and debt underwriting. Advisory fees of \$352 million were flat compared with strong performance in the prior year. Debt underwriting fees of \$652 million were up 30% driven by record bond underwriting fees, partially offset by lower loan syndication fees. Equity underwriting fees of \$364 million were up by \$260 million, reflecting strong performance across all regions. Fixed Income Markets revenue of \$2.0 billion was up 43% due to stronger performance across essentially all products. Equity Markets revenue of \$528 million improved from a weak prior-year quarter, reflecting strength in equity commissions. Credit Portfolio revenue of \$251 million was down 15%, primarily reflecting lower gains from loan workouts and loan sales.

The provision for credit losses was a benefit of \$62 million, as compared with a benefit of \$343 million in the prior year. The \$62 million benefit reflects portfolio activity and stable credit quality.

Noninterest expense was \$2.9 billion, up 35% from the prior year, primarily due to higher performance-based compensation.

Return on equity was 16% on \$21.0 billion of allocated capital.

Year-to-date results

Net income of \$1.7 billion decreased by \$250 million, or 13%, compared with the prior year. The earnings decline was primarily driven by an increased provision for credit losses compared with a benefit in the first half of 2005. Revenues increased significantly from the prior period, offset partially by higher expenses reflecting performance-based compensation and incremental expense from the adoption of SFAS 123R.

Record net revenue was \$8.9 billion, up by \$1.9 billion, or 28%, from the prior year driven by record results in both Equity Markets and Investment banking fees. Investment banking fees of \$2.5 billion were up 30% from the prior year driven by record fees in both equity and debt underwriting. Advisory fees of \$741 million were the highest since 2000, up 19% from last year. Debt underwriting fees of \$1.2 billion were up 24% driven by record fees in both bond underwriting and loan syndications. Equity underwriting fees of \$576 million were up by \$233 million, or 68%. Fixed Income Markets revenue of \$4.0 billion was up 8% due to stronger performance in currencies, securitized products, emerging markets and credit markets. Equity Markets revenue of \$1.7 billion was driven by strong equity commissions as well as improved trading performance compared with a weak prior year. Credit Portfolio revenue of \$572 million was down 11%, primarily driven by lower results from credit risk management activities.

The provision for credit losses was a charge of \$121 million, as compared with a benefit of \$709 million in the prior year. The \$121 million charge reflects portfolio activity and stable credit quality.

Noninterest expense was \$6.1 billion, up 30% from the prior year, primarily due to higher performance-based compensation and incremental expense from the adoption of SFAS 123R.

Return on equity was 17% on \$20.5 billion of allocated capital.

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| Selected metrics (in millions, except headcount and ratio data) | Three months ended June 30, | | | Six months ended June 30, | | |
|---|-----------------------------|------------|--------|---------------------------|------------|--------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Selected average balances | | | | | | |
| Total assets | \$ 672,056 | \$ 594,186 | 13% | \$ 659,209 | \$ 581,276 | 13% |
| Trading assets debt and equity instruments | 268,091 | 232,980 | 15 | 260,296 | 229,194 | 14 |
| Trading assets derivatives receivables | 55,692 | 56,436 | (1) | 52,557 | 59,985 | (12) |
| Loans: | | | | | | |
| Loans retained ^(a) | 59,026 | 42,060 | 40 | 56,367 | 41,728 | 35 |
| Loans held-for-sale ^(b) | 19,920 | 11,138 | 79 | 19,568 | 9,337 | 110 |
| Total loans | 78,946 | 53,198 | 48 | 75,935 | 51,065 | 49 |
| Adjusted assets ^(c) | 530,057 | 453,895 | 17 | 511,285 | 449,845 | 14 |
| Equity | 21,000 | 20,000 | 5 | 20,503 | 20,000 | 3 |
| Headcount | 22,914 | 19,297 | 19 | 22,914 | 19,297 | 19 |
| Credit data and quality statistics | | | | | | |
| Net charge-offs (recoveries) | \$ (12) | \$ (47) | 74 | \$ (33) | \$ (52) | 37 |
| Nonperforming assets: | | | | | | |
| Nonperforming loans ^(d) | 488 | 711 | (31) | 488 | 711 | (31) |
| Other nonperforming assets | 37 | 235 | (84) | 37 | 235 | (84) |
| Allowance for loan losses | 1,038 | 971 | 7 | 1,038 | 971 | 7 |
| Allowance for lending related commitments | 249 | 225 | 11 | 249 | 225 | 11 |
| Net charge-off (recovery) rate ^(b) | (0.08)% | (0.45)% | | (0.12)% | (0.25)% | |
| Allowance for loan losses to average loans ^(b) | 1.76 | 2.31 | | 1.84 | 2.33 | |
| Allowance for loan losses to nonperforming loans ^(d) | 248 | 137 | | 248 | 137 | |
| Nonperforming loans to average loans | 0.62 | 1.34 | | 0.64 | 1.39 | |
| Market risk average trading and credit portfolio VAR | | | | | | |
| By risk type: | | | | | | |
| Fixed income | \$ 52 | \$ 82 | (37) | \$ 56 | \$ 70 | (20) |
| Foreign exchange | 25 | 21 | 19 | 22 | 22 | |
| Equities | 24 | 45 | (47) | 28 | 32 | (13) |
| Commodities and other | 52 | 15 | 247 | 50 | 12 | 317 |
| Less: portfolio diversification ^(e) | (74) | (61) | (21) | (71) | (52) | (37) |
| Trading VAR^(f) | 79 | 102 | (23) | 85 | 84 | 1 |
| Credit portfolio VAR ^(g) | 14 | 13 | 8 | 14 | 13 | 8 |
| Less: portfolio diversification ^(e) | (9) | (13) | 31 | (10) | (11) | 9 |
| Total trading and credit portfolio VAR | \$ 84 | \$ 102 | (18) | \$ 89 | \$ 86 | 3 |

(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 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 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, which excludes certain assets 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 \$70 million and \$2 million as of June 30, 2006 and 2005, respectively. These amounts are not included in the allowance coverage ratios.*
- (e) Average VARs are less than the sum of the VARs of its market risk components due to risk offsets resulting from portfolio diversification. The diversification effect reflects the*

fact that the risks are not perfectly correlated. The risk of a portfolio of positions is therefore usually less than the sum of the risks of the positions themselves.

- (f) *Includes substantially all trading activities; however, particular risk parameters of certain products are not fully captured, for example, correlation risk.*

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

According to Thomson Financial, the Firm was ranked #1 in Global Syndicated Loans, #2 in Global Debt, Equity and Equity-Related and #3 in Global Announced M&A, year-to-date June 30, 2006, based on volume.

| Market shares and rankings^(a) | Six months ended June 30, 2006 | | Full Year 2005 | |
|---|---|-----------------|-----------------------|-----------------|
| | Market Share | Rankings | Market Share | Rankings |
| Global debt, equity and equity-related | 7% | #2 | 7% | #2 |
| Global syndicated loans | 16 | #1 | 15 | #1 |
| Global long-term debt | 7 | #2 | 6 | #4 |
| Global equity and equity-related | 6 | #6 | 7 | #6 |
| Global announced M&A | 27 | #3 | 23 | #3 |
| U.S. debt, equity and equity-related | 9 | #2 | 8 | #3 |
| U.S. syndicated loans | 29 | #1 | 28 | #1 |
| U.S. long-term debt | 13 | #1 | 11 | #2 |
| U.S. equity and equity-related | 7 | #5 | 9 | #6 |
| U.S. announced M&A | 24 | #4 | 25 | #3 |

(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%.*

RETAIL FINANCIAL SERVICES

Retail Financial Services (RFS) realigned its business reporting segments on January 1, 2006, into Regional Banking, Mortgage Banking and Auto Finance. Regional Banking offers one of the largest branch networks in the United States, covering 17 states with 2,660 branches and 7,753 automated teller machines (ATMs). Regional Banking distributes, through its network, a variety of products including checking, savings and time deposit accounts; home equity, residential mortgage, small business banking, and education loans; mutual fund and annuity investments; and on-line banking services. Mortgage Banking is a leading provider of mortgage loan products and is one of the largest originators and servicers of home mortgages. Auto Finance is one of the largest noncaptive originators of automobile loans, primarily through a network of automotive dealers across the United States.

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. In the first quarter, RFS agreed to sell its life insurance and annuity underwriting businesses to Protective Life Corporation; the sale closed on July 3, 2006. As a result of the pending transaction with The Bank of New York, RFS will add 338 branches and 400 ATMs in the New York City / Tri-State area.

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| Selected income statement data (in millions, except ratios) | Three months ended June 30, | | | Six months ended June 30, | | |
|---|-----------------------------|--------|--------|---------------------------|----------|--------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Revenue | | | | | | |
| Lending & deposit related fees | \$ 390 | \$ 358 | 9% | \$ 761 | \$ 698 | 9% |
| Asset management, administration and commissions | 366 | 369 | (1) | 803 | 763 | 5 |
| Securities gains (losses) | (39) | | NM | (45) | 10 | NM |
| Mortgage fees and related income | 204 | 341 | (40) | 440 | 709 | (38) |
| Credit card income | 129 | 105 | 23 | 244 | 199 | 23 |
| Other income | 163 | 68 | 140 | 211 | 56 | 277 |
| Noninterest revenue | 1,213 | 1,241 | (2) | 2,414 | 2,435 | (1) |
| Net interest income | 2,566 | 2,558 | | 5,128 | 5,211 | (2) |
| Total net revenue | 3,779 | 3,799 | (1) | 7,542 | 7,646 | (1) |
| Provision for credit losses | 100 | 94 | 6 | 185 | 188 | (2) |
| Noninterest expense | | | | | | |
| Compensation expense | 901 | 820 | 10 | 1,821 | 1,642 | 11 |
| Noncompensation expense | 1,246 | 1,181 | 6 | 2,453 | 2,396 | 2 |
| Amortization of intangibles | 112 | 125 | (10) | 223 | 250 | (11) |
| Total noninterest expense | 2,259 | 2,126 | 6 | 4,497 | 4,288 | 5 |
| Income before income tax expense | 1,420 | 1,579 | (10) | 2,860 | 3,170 | (10) |
| Income tax expense | 552 | 599 | (8) | 1,111 | 1,202 | (8) |
| Net income | \$ 868 | \$ 980 | (11) | \$ 1,749 | \$ 1,968 | (11) |
| Financial ratios | | | | | | |
| ROE | 24% | 30% | | 25% | 30% | |
| ROA | 1.49 | 1.74 | | 1.51 | 1.76 | |
| Overhead ratio | 60 | 56 | | 60 | 56 | |
| Overhead ratio excluding core deposit intangibles ^(a) | 57 | 53 | | 57 | 53 | |

(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 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 One merger of \$110 million and \$124 million for the quarters ended June 30, 2006 and 2005, respectively, and \$219 million and \$248 million year-to-date 2006 and 2005, respectively.

Quarterly results

Net income of \$868 million was down by \$112 million, or 11%, from the prior year. The decrease reflected a \$131 million reduction in Mortgage Banking offset partially by growth in Regional Banking and in Auto Finance.

Net revenue decreased slightly to \$3.8 billion compared with the prior year. Net interest income of \$2.6 billion was flat, as the benefit of higher deposit and loan balances in Regional Banking was offset by narrower spreads earned on loans and deposits in Regional Banking and Mortgage Banking, as well as by lower auto loan and lease balances. Noninterest revenue of \$1.2 billion was down by \$28 million, or 2%, driven by lower MSR risk management results in Mortgage Banking, which were down by \$222 million compared with the prior year. This decrease was offset primarily by increases in Regional Banking fee income, mortgage production revenue and automobile operating lease income.

The provision for credit losses totaled \$100 million, up by \$6 million from the prior year, reflecting higher loan balances in Regional Banking. Credit trends were stable across all businesses.

Noninterest expense of \$2.3 billion increased by \$133 million, or 6%, a result of ongoing investments in the retail distribution network, the acquisition of Collegiate Funding Services late in the first quarter of 2006, and higher depreciation expense on owned automobiles subject to operating leases. These increases were partially offset by merger-related and other operating efficiencies.

Table of Contents**Year-to-date results**

Net income of \$1.7 billion was down by \$219 million, or 11%, from the prior year. The decrease reflected weakness in Mortgage Banking offset partially by better results in Auto Finance.

Net revenue of \$7.5 billion was down by \$104 million. Net interest income of \$5.1 billion decreased by \$83 million, or 2%, reflecting narrower spreads on deposits and loans in Regional Banking and Mortgage Banking, as well as lower auto loan and lease balances. These decreases were offset by growth in deposit and loan balances in Regional Banking. Noninterest revenue of \$2.4 billion was down by \$21 million from the prior year-to-date period, driven by lower Mortgage Banking risk management results. This decrease was offset by increased fee income in Regional Banking, improved mortgage production revenue and higher automobile operating lease income.

The provision for credit losses totaled \$185 million, down by \$3 million from the prior year. Credit trends were stable across all businesses.

Noninterest expense of \$4.5 billion was up by \$209 million, or 5%, as a result of ongoing investments in the retail distribution network, the acquisition of Collegiate Funding Services in the first quarter of 2006 and higher depreciation expense on owned automobiles subject to operating leases. These increases were partially offset by merger-related and other operating efficiencies.

| Selected metrics (in millions, except headcount and ratios) | Three months ended June 30, | | | Six months ended June 30, | | |
|---|-----------------------------|------------|--------|---------------------------|------------|--------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Selected ending balances | | | | | | |
| Assets | \$ 233,748 | \$ 223,391 | 5% | \$ 233,748 | \$ 223,391 | 5% |
| Loans ^(a) | 203,928 | 197,927 | 3 | 203,928 | 197,927 | 3 |
| Deposits | 198,273 | 185,558 | 7 | 198,273 | 185,558 | 7 |
| Selected average balances | | | | | | |
| Assets | \$ 234,097 | \$ 225,574 | 4 | \$ 232,849 | \$ 225,348 | 3 |
| Loans ^(b) | 201,635 | 197,707 | 2 | 200,224 | 198,098 | 1 |
| Deposits | 199,075 | 186,523 | 7 | 196,741 | 185,435 | 6 |
| Equity | 14,300 | 13,250 | 8 | 14,099 | 13,175 | 7 |
| Headcount | 62,450 | 59,631 | 5 | 62,450 | 59,631 | 5 |
| Credit data and quality statistics | | | | | | |
| Net charge-offs | \$ 113 | \$ 114 | (1) | \$ 234 | \$ 266 | (12) |
| Nonperforming loans ^(c) | 1,339 | 1,132 | 18 | 1,339 | 1,132 | 18 |
| Nonperforming assets | 1,520 | 1,319 | 15 | 1,520 | 1,319 | 15 |
| Allowance for loan losses | 1,321 | 1,135 | 16 | 1,321 | 1,135 | 16 |
| Net charge-off rate ^(b) | 0.24% | 0.25% | | 0.25% | 0.29% | |
| Allowance for loan losses to ending loans ^(a) | 0.69 | 0.61 | | 0.69 | 0.61 | |
| Allowance for loan losses to nonperforming loans ^(c) | 99 | 103 | | 99 | 103 | |
| Nonperforming loans to total loans | 0.66 | 0.57 | | 0.66 | 0.57 | |

(a)

Includes loans held-for-sale of \$11,834 million and \$13,112 million at June 30, 2006 and 2005, respectively.

These amounts are not included in the allowance coverage ratios.

(b) Average loans include loans held-for-sale of \$12,903 million and \$14,620 million for the quarter ended June 30, 2006 and 2005, respectively, and

\$14,623 million and \$15,237 million for year-to-date 2006 and 2005, respectively.

These amounts are not included in the net charge-off rate.

(c) Nonperforming loans include loans held-for-sale of \$9 million and \$26 million at June 30, 2006 and 2005, respectively.

These amounts are not included in the allowance coverage ratios.

Table of Contents**REGIONAL BANKING**

| Selected income statement data (in millions, except ratios) | Three months ended June 30, | | | Six months ended June 30, | | |
|--|-----------------------------|--------|--------|---------------------------|----------|--------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Noninterest revenue | \$ 851 | \$ 821 | 4% | \$ 1,671 | \$ 1,648 | 1% |
| Net interest income | 2,212 | 2,131 | 4 | 4,432 | 4,341 | 2 |
| Total Net revenue | 3,063 | 2,952 | 4 | 6,103 | 5,989 | 2 |
| Provision for credit losses | 70 | 63 | 11 | 136 | 128 | 6 |
| Noninterest expense | 1,746 | 1,661 | 5 | 3,484 | 3,366 | 4 |
| Income before income tax expense | 1,247 | 1,228 | 2 | 2,483 | 2,495 | |
| Net income | 764 | 762 | | 1,521 | 1,548 | (2) |
| ROE | 30% | 34% | | 31% | 35% | |
| ROA | 1.86 | 2.04 | | 1.91 | 2.10 | |
| Overhead ratio | 57 | 56 | | 57 | 56 | |
| Overhead ratio excluding core deposit intangibles ^(a) | 53 | 52 | | 53 | 52 | |

(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 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 One
merger of
\$110 million
and
\$124 million for
the quarters
ended June 30,
2006 and 2005,
respectively,
and
\$219 million
and
\$248 million
year-to-date
June 30, 2006
and 2005,
respectively.*

Quarterly results

Regional Banking net income totaled \$764 million, up by \$2 million from the prior year. Net revenue of \$3.1 billion increased by \$111 million, or 4%. Results reflected growth in deposits, home equity and mortgage loans, as well as higher deposit-related fees and credit card sales. These increases were offset partially by narrower spreads earned on loans and deposits. While credit trends were stable, the provision for credit losses of \$70 million increased by \$7 million, or 11%, due to higher loan balances. Expenses of \$1.7 billion were up by \$85 million, or 5%, from the prior year. The increase was due to investments in the retail distribution network and the acquisition of Collegiate Funding Services in the first quarter, partially offset by merger savings and operating efficiencies.

Year-to-date results

Regional Banking net income totaled \$1.5 billion, down by \$27 million, or 2%, from the prior year. Net revenue of \$6.1 billion increased by \$114 million, or 2%. Results reflected higher deposit balances, growth in home equity and mortgage loan balances, increased deposit-related fees and higher credit card sales. These increases in revenue were partially offset by narrower spreads on loans and deposits. Although credit trends were stable, the provision for credit losses increased due to higher loan balances. Expenses of \$3.5 billion were up by \$118 million, or 4%, from the prior year. Expenses increased due to investments in the retail distribution network and the acquisition of Collegiate Funding Services in the first quarter of 2006, partially offset by merger savings and other operating efficiencies.

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| Business metrics (in billions, except ratios) | Three months ended June 30, | | | Six months ended June 30, | | |
|---|-----------------------------|---------|--------|---------------------------|---------|--------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Home equity origination volume | \$ 14.0 | \$ 15.8 | (11)% | \$ 25.7 | \$ 27.7 | (7)% |
| End-of-period loans owned | | | | | | |
| Home equity | \$ 77.8 | \$ 71.2 | 9 | \$ 77.8 | \$ 71.2 | 9 |
| Mortgage | 48.6 | 47.7 | 2 | 48.6 | 47.7 | 2 |
| Business banking | 13.0 | 12.6 | 3 | 13.0 | 12.6 | 3 |
| Education | 8.3 | 2.0 | 315 | 8.3 | 2.0 | 315 |
| Other loans ^(a) | 2.6 | 2.8 | (7) | 2.6 | 2.8 | (7) |
| Total end of period loans | 150.3 | 136.3 | 10 | 150.3 | 136.3 | 10 |
| End-of-period deposits | | | | | | |
| Checking | 62.3 | 61.6 | 1 | 62.3 | 61.6 | 1 |
| Savings | 89.1 | 86.5 | 3 | 89.1 | 86.5 | 3 |
| Time and other | 36.5 | 25.8 | 41 | 36.5 | 25.8 | 41 |
| Total end of period deposits | 187.9 | 173.9 | 8 | 187.9 | 173.9 | 8 |
| Average loans owned | | | | | | |
| Home equity | \$ 76.2 | \$ 69.0 | 10 | \$ 75.2 | \$ 67.6 | 11 |
| Mortgage | 47.1 | 46.0 | 2 | 45.9 | 44.7 | 3 |
| Business banking | 13.0 | 12.5 | 4 | 12.8 | 12.5 | 2 |
| Education | 8.7 | 2.8 | 211 | 7.1 | 3.7 | 92 |
| Other loans ^(a) | 2.6 | 2.7 | (4) | 2.8 | 3.1 | (10) |
| Total average loans^(b) | 147.6 | 133.0 | 11 | 143.8 | 131.6 | 9 |
| Average deposits | | | | | | |
| Checking | 62.6 | 62.3 | | 62.8 | 62.1 | 1 |
| Savings | 89.8 | 87.3 | 3 | 89.6 | 87.5 | 2 |
| Time and other | 35.4 | 25.4 | 39 | 33.9 | 25.0 | 36 |
| Total average deposits | 187.8 | 175.0 | 7 | 186.3 | 174.6 | 7 |
| Average assets | 164.6 | 150.0 | 10 | 160.9 | 148.5 | 8 |
| Average equity | 10.2 | 9.0 | 13 | 10.0 | 8.9 | 12 |
| Credit data and quality statistics | | | | | | |
| 30+ day delinquency rate ^{(c)(d)} | 1.48% | 1.32% | | 1.48% | 1.32% | |
| Net charge-offs | | | | | | |
| Home equity | \$ 30 | \$ 32 | (6) | \$ 63 | \$ 67 | (6) |
| Mortgage | 9 | 8 | 13 | 21 | 14 | 50 |
| Business banking | 16 | 25 | (36) | 34 | 44 | (23) |
| Other loans ^(e) | 13 | 2 | NM | 20 | 11 | 82 |
| Total net charge-offs | 68 | 67 | 1 | 138 | 136 | 1 |
| Net charge-off rate | | | | | | |

| | | | | | | |
|---|-----------------|----------|----|-----------------|----------|----|
| Home equity | 0.16% | 0.19% | | 0.17% | 0.20% | |
| Mortgage | 0.08 | 0.07 | | 0.09 | 0.06 | |
| Business banking | 0.49 | 0.80 | | 0.54 | 0.71 | |
| Other loans ^{(b)(e)} | 0.55 | 0.23 | | 0.55 | 0.62 | |
| Total net charge-off rate ^(b) | 0.19 | 0.21 | | 0.20 | 0.21 | |
| Nonperforming assets ^{(f)(g)(h)} | \$ 1,349 | \$ 1,084 | 24 | \$ 1,349 | \$ 1,084 | 24 |

(a) *Includes commercial loans derived from community development activities and insurance policy loans.*

(b) *Average loans include loans held-for-sale of \$1.9 billion and \$2.0 billion for the three months ended June 30, 2006 and 2005, respectively, and \$2.6 billion and \$3.2 billion for the six months ended June 30, 2006 and 2005, 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 GNMA pools that are insured by government agencies of \$0.8 billion and \$0.7 billion at June 30, 2006*

and 2005, respectively. These amounts are excluded as reimbursement is proceeding normally.

(d) Excludes delinquencies that are insured by government agencies under the Federal Family Education Loan Program of \$0.4 billion at June 30, 2006. Delinquencies were insignificant at June 30, 2005. These amounts are excluded as reimbursement is proceeding normally.

(e) Includes insignificant amounts of Education net charge-offs.

(f) Excludes nonperforming assets related to loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by government agencies of \$1.1 billion and \$1.0 billion at June 30, 2006 and 2005, respectively. These amounts are excluded as

*reimbursement
is proceeding
normally.*

*(g) 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
June 30, 2006.
The Education
loans past due
90 days were
insignificant at
June 30, 2005.
These amounts
are excluded as
reimbursement
is proceeding
normally.*

*(h) Includes
nonperforming
loans
held-for-sale
related to
mortgage
banking
activities of
\$9 million and
\$26 million at
June 30, 2006
and 2005,
respectively.*

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| Retail branch business metrics (in millions, except ratios and where otherwise noted) | Three months ended June 30, | | | Six months ended June 30, | | |
|---|-----------------------------|----------|--------|---------------------------|----------|--------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Investment sales volume | \$ 3,692 | \$ 2,907 | 27% | \$ 7,245 | \$ 5,777 | 25% |
| Number of: | | | | | | |
| Branches | 2,660 | 2,539 | 121# | 2,660 | 2,539 | 121# |
| ATMs | 7,753 | 6,961 | 792 | 7,753 | 6,961 | 792 |
| Personal bankers | 7,260 | 6,258 | 1,002 | 7,260 | 6,258 | 1,002 |
| Sales specialists | 3,376 | 2,987 | 389 | 3,376 | 2,987 | 389 |
| Active online customers (in thousands) | 5,072 | 4,053 | 1,019 | 5,072 | 4,053 | 1,019 |
| Checking accounts (in thousands) | 9,072 | 8,504 | 568 | 9,072 | 8,504 | 568 |
| MORTGAGE BANKING | | | | | | |
| Selected income statement data (in millions, except ratios and where otherwise noted) | Three months ended June 30, | | | Six months ended June 30, | | |
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Production revenue | \$ 202 | \$ 144 | 40% | \$ 421 | \$ 381 | 10% |
| Net mortgage servicing revenue: | | | | | | |
| Servicing revenue | 563 | 517 | 9 | 1,123 | 1,036 | 8 |
| Changes in MSR asset fair value: | | | | | | |
| Due to inputs or assumptions in model ^(a) | 491 | (702) | NM | 1,202 | (154) | NM |
| Other changes in fair value ^(b) | (392) | (324) | (21) | (741) | (663) | (12) |
| Derivative valuation adjustments and other | (546) | 869 | NM | (1,299) | 424 | NM |
| Total net mortgage servicing revenue | 116 | 360 | (68) | 285 | 643 | (56) |
| Total net revenue | 318 | 504 | (37) | 706 | 1,024 | (31) |
| Noninterest expense | 329 | 306 | 8 | 653 | 605 | 8 |
| Income (loss) before income tax expense | (11) | 198 | NM | 53 | 419 | (87) |
| Net income (loss) | \$ (7) | \$ 124 | NM | \$ 32 | \$ 263 | (88) |
| ROE | NM | 31% | | 4% | 33% | |
| ROA | NM | 2.40 | | 0.25 | 2.56 | |

Business metrics (in billions)

| | | | | | | |
|--|----------|----------|-----|----------|----------|----|
| Third-party mortgage loans serviced (ending) | \$ 497.4 | \$ 438.1 | 14 | \$ 497.4 | \$ 438.1 | 14 |
| MSR net carrying value (ending) | 8.2 | 5.0 | 64 | 8.2 | 5.0 | 64 |
| Average mortgage loans held-for-sale | 9.8 | 10.5 | (7) | 11.4 | 10.9 | 5 |
| Average assets | 23.9 | 20.7 | 15 | 25.5 | 20.7 | 23 |
| Average equity | 1.7 | 1.6 | 6 | 1.7 | 1.6 | 6 |

Mortgage origination volume by channel (in billions)

| | | | | | | |
|--|---------|---------|-----|---------|---------|-----|
| Retail | \$ 10.8 | \$ 11.7 | (8) | \$ 19.9 | \$ 21.7 | (8) |
| Wholesale | 8.7 | 8.7 | | 16.1 | 15.9 | 1 |
| Correspondent (including negotiated transactions) ^(c) | 17.0 | 10.7 | 59 | 29.4 | 20.2 | 46 |
| Total | \$ 36.5 | \$ 31.1 | 17 | \$ 65.4 | \$ 57.8 | 13 |

(a) Represents MSR asset fair value adjustments due to changes in inputs, such as interest rates and volatility, as well as updates to assumptions used in the valuation model.

(b) Includes changes in the MSR value due to servicing portfolio runoff (or time decay). Effective January 1, 2006, the Firm implemented SFAS 156, adopting fair value accounting for the MSR asset. For the period ending June 30, 2005, this amount represents MSR asset amortization expense

*calculated in
accordance with
SFAS 140.*

- (c) Includes
\$5.0 billion and
\$5.7 billion of
purchased
correspondent
bulk servicing
for the three and
six months
ended June 30,
2006,
respectively.
Purchased
correspondent
bulk servicing
for 2005 was
not significant.*

Table of Contents**Quarterly results**

Mortgage Banking net loss was \$7 million, compared with net income of \$124 million in the prior year. Net revenue was \$318 million, down by \$186 million from the prior year. Revenue comprises production revenue and net mortgage servicing revenue. Production revenue was \$202 million, up by \$58 million, reflecting higher gain-on-sale margins. Net mortgage servicing revenue was \$116 million, down by \$244 million from the prior year. This decline was primarily related to: MSR risk management revenue of negative \$55 million (including \$38 million in losses on the sale of available-for-sale securities), down by \$222 million from the prior year, reflecting a fully hedged position during the current quarter; a decline of \$68 million in other changes in MSR fair value; and an increase in loan servicing revenue of \$46 million on a 14% increase in third-party loans serviced. Noninterest expense was \$329 million, up by \$23 million, or 8%.

Year-to-date results

Mortgage Banking net income was \$32 million, compared with net income of \$263 million in the prior year. Net revenue was \$706 million, down by \$318 million from the prior year. Revenue comprises production revenue and net mortgage servicing revenue. Production revenue was \$421 million, up by \$40 million, reflecting higher gain-on-sale margins on slightly higher originations. Net mortgage servicing revenue was \$285 million, down by \$358 million from the prior year. This decline was primarily related to a \$367 million decrease in MSR risk management revenue from the prior year. Noninterest expense was \$653 million, up by \$48 million, or 8%.

AUTO FINANCE

| Selected income statement data (in millions, except ratios and where otherwise noted) | Three months ended June 30, | | | Six months ended June 30, | | |
|---|-----------------------------|---------|--------|---------------------------|---------|--------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Noninterest revenue | \$ 90 | \$ 32 | 181% | \$ 134 | \$ (3) | NM |
| Net interest income | 308 | 311 | (1) | 599 | 636 | (6)% |
| Total net revenue | 398 | 343 | 16 | 733 | 633 | 16 |
| Provision for credit losses | 30 | 31 | (3) | 49 | 60 | (18) |
| Noninterest expense | 184 | 159 | 16 | 360 | 317 | 14 |
| Income before income tax expense | 184 | 153 | 20 | 324 | 256 | 27 |
| Net income | 111 | 94 | 18 | 196 | 157 | 25 |
| ROE | 19% | 14% | | 16% | 12% | |
| ROA | 0.98 | 0.69 | | 0.85 | 0.56 | |
| Business metrics (in billions) | | | | | | |
| Auto origination volume | \$ 4.5 | \$ 4.1 | 10 | \$ 8.8 | \$ 8.9 | (1) |
| End-of-period loans and lease related assets | | | | | | |
| Loans outstanding | \$ 39.4 | \$ 44.3 | (11) | \$ 39.4 | \$ 44.3 | (11) |
| Lease financing receivables | 2.8 | 6.1 | (54) | 2.8 | 6.1 | (54) |
| Operating lease assets | 1.3 | 0.4 | 225 | 1.3 | 0.4 | 225 |
| Total end-of-period loans and lease related assets | 43.5 | 50.8 | (14) | 43.5 | 50.8 | (14) |

| | | | | | | |
|--|----------------|---------|------|----------------|---------|------|
| Average loans and lease related assets | | | | | | |
| Loans outstanding ^(a) | \$ 40.3 | \$ 47.0 | (14) | \$ 40.7 | \$ 47.9 | (15) |
| Lease financing receivables | 3.2 | 6.6 | (52) | 3.6 | 7.1 | (49) |
| Operating lease assets | 1.2 | 0.3 | 300 | 1.1 | 0.2 | 450 |
| | | | | | | |
| Total average loans and lease related assets | 44.7 | 53.9 | (17) | 45.4 | 55.2 | (18) |
| Average assets | 45.6 | 54.9 | (17) | 46.4 | 56.1 | (17) |
| Average equity | 2.4 | 2.7 | (11) | 2.4 | 2.7 | (11) |

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Table of Contents**Credit quality statistics**

| | | | | | | |
|--|---------------|--------|------|---------------|--------|------|
| 30+ day delinquency rate | 1.37% | 1.45% | | 1.37% | 1.45% | |
| Net charge-offs | | | | | | |
| Loans | \$ 44 | \$ 45 | (2) | \$ 92 | \$ 119 | (23) |
| Lease receivables | 1 | 2 | (50) | 4 | 11 | (64) |
| Total net charge-offs | 45 | 47 | (4) | 96 | 130 | (26) |
| Net charge-off rate | | | | | | |
| Loans ^(a) | 0.45% | 0.40% | | 0.46% | 0.51% | |
| Lease receivables | 0.13 | 0.12 | | 0.22 | 0.31 | |
| Total net charge-off rate ^(a) | 0.43 | 0.37 | | 0.44 | 0.49 | |
| Nonperforming assets | \$ 171 | \$ 235 | (27) | \$ 171 | \$ 235 | (27) |

(a) Average loans include loans held-for-sale of \$1.2 billion and \$2.1 billion for the quarters ended June 30, 2006 and 2005, and \$0.6 billion and \$1.1 billion for year-to-date 2006 and 2005, respectively. These amounts are not included in the net charge-off rate.

Quarterly results

Auto Finance net income of \$111 million was up by \$17 million, or 18%, from the prior year. Revenue increased due to wider loan spreads on lower loan and lease balances. After adjusting for the impact of increased depreciation expense on owned automobiles subject to operating leases, expenses were down slightly as operating efficiencies offset increased costs related to higher production volumes.

Year-to-date results

Auto Finance net income of \$196 million was up by \$39 million, or 25%, from the prior year. Revenue benefited from wider loan spreads, partially offset by a decline in loan and lease balances. The provision for credit losses declined, benefiting from stable credit trends. After adjusting for the impact of increased depreciation expense on owned automobiles subject to operating leases, expenses declined reflecting lower production volumes and operating efficiencies.

Table of Contents**CARD SERVICES**

For a discussion of the business profile of CS, see pages 45-46 of JPMorgan Chase's 2005 Annual Report. JPMorgan Chase uses the concept of "managed receivables" to evaluate the credit performance of its credit card loans, both sold and not sold. For further information, see Explanation and reconciliation of the Firm's use of non-GAAP financial measures on pages 11-14 of this Form 10-Q. 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.

Selected income statement data

| managed basis (in millions, except ratios) | Three months ended June 30, | | | Six months ended June 30, | | |
|---|-----------------------------|--------|--------|---------------------------|----------|--------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Revenue | | | | | | |
| Credit card income | \$ 653 | \$ 868 | (25)% | \$ 1,254 | \$ 1,629 | (23)% |
| All other income | 49 | 42 | 17 | 120 | 53 | 126 |
| Noninterest revenue | 702 | 910 | (23) | 1,374 | 1,682 | (18) |
| Net interest income | 2,962 | 2,976 | | 5,975 | 5,983 | |
| Total net revenue^(a) | 3,664 | 3,886 | (6) | 7,349 | 7,665 | (4) |
| Provision for credit losses ^(b) | 1,031 | 1,641 | (37) | 2,047 | 3,277 | (38) |
| Noninterest expense | | | | | | |
| Compensation expense | 251 | 291 | (14) | 510 | 576 | (11) |
| Noncompensation expense | 810 | 904 | (10) | 1,606 | 1,743 | (8) |
| Amortization of intangibles | 188 | 188 | | 376 | 377 | |
| Total noninterest expense^(a) | 1,249 | 1,383 | (10) | 2,492 | 2,696 | (8) |
| Income before income tax expense^(a) | 1,384 | 862 | 61 | 2,810 | 1,692 | 66 |
| Income tax expense | 509 | 320 | 59 | 1,034 | 628 | 65 |
| Net income | \$ 875 | \$ 542 | 61 | \$ 1,776 | \$ 1,064 | 67 |
| Memo: Net securitization gains (amortization) | \$ (6) | \$ 15 | NM | \$ 2 | \$ 3 | (33) |
| Financial metrics | | | | | | |
| ROE | 25% | 18% | | 25% | 18% | |
| Overhead ratio | 34 | 36 | | 34 | 35 | |

(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 is no impact to Net income.*

(b) *Second quarter 2006 includes a \$90 million release of Allowance for loan losses related to Hurricane Katrina.*

To illustrate underlying business trends, the following discussion of Card Services performance assumes for all relevant 2005 periods that the deconsolidation of Paymentech had occurred as of the beginning of the year. The effect of the deconsolidation would have reduced Total net revenue, primarily in Noninterest revenue, and Total noninterest expense, but would not have any impact on Net income for such periods. For a reconciliation of Card Services managed basis to an adjusted basis to disclose the effect of the deconsolidation of Paymentech, see page 30 of this Form 10-Q.

Quarterly results

Net income of \$875 million was up by \$333 million, or 61%, from the prior year. Results were driven by a lower provision for credit losses, due to significantly lower bankruptcy filings and the release of \$90 million of Allowance for loan losses related to Hurricane Katrina.

End-of-period managed loans of \$139.3 billion increased by \$2.0 billion, or 1%, from the prior year. Average managed loans of \$137.2 billion increased by \$2.0 billion, or 1%, from the prior year. The current quarter included average managed and end-of-period managed loans of \$2.1 billion from the acquisition of the Sears Canada credit card business (acquired in the fourth quarter of 2005), as well as \$1.2 billion of average managed loans and \$1.6 billion of end-of-period managed loans from the acquisition, in the current quarter, of the Kohl's private label

portfolio. Compared with the prior year, both average managed and end-of-period managed loans were negatively affected 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.

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Total net revenue was \$3.7 billion, down by \$76 million, or 2%, from the prior year. Net interest income of \$3.0 billion was down slightly from the prior year. The primary driver was narrower spreads on loans as the managed net interest margin of 8.66% was down from 8.83% in the prior year, offset partially by a 1% increase in average managed loan balances from the prior year. Noninterest revenue of \$702 million was down by \$66 million, or 9%, due to higher volume-driven payments to partners, higher expense related to reward programs and lower securitization gains, partially offset by increased interchange income related to a 12% increase in charge volume.

The managed provision for credit losses was \$1.0 billion, down by \$610 million, or 37%, from the prior year. This decrease was due to lower bankruptcy-related losses, strong underlying credit quality, and the release of \$90 million of Allowance for loan losses relating to Hurricane Katrina. The managed net charge-off rate for the quarter decreased to 3.28%, down from 4.87% in the prior year. The 30-day managed delinquency rate was 3.14%, down from 3.34% in the prior year.

Noninterest expense of \$1.2 billion was flat from the prior year. Merger savings, other efficiencies and the absence of a litigation charge incurred in the prior year were offset by the acquisition of the Sears Canada credit card business and Kohl's private label portfolio, higher marketing spending and by increased fraud-related losses.

Year-to-date results

Net income of \$1.8 billion was up by \$712 million, or 67%, from the prior year. Results were driven by a lower provision for credit losses due to significantly lower bankruptcy filings and the release of \$90 million of Allowance for loan losses related to Hurricane Katrina.

End-of-period managed loans of \$139.3 billion increased by \$2.0 billion, or 1%, from the prior year. Average managed loans of \$137.6 billion increased by \$3.2 billion, or 2%, from the prior year. The current period included \$2.1 billion of average and end-of-period loans from the acquisition of the Sears Canada credit card business (acquired in the fourth quarter of 2005), as well as approximately \$600 million of average loans and \$1.6 billion of end-of-period loans from the acquisition, in the current period, of the Kohl's private label portfolio. Compared with the prior year, both average and end-of-period loans were negatively affected 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.

Total net revenue of \$7.3 billion was flat to the prior year. Net interest income of \$6.0 billion was flat to the prior year. The primary driver was narrower spreads on loans as the managed net interest margin of 8.76% was down from 8.98% in the prior year, which were offset by a 2% increase in average managed loan balances from the prior year. Noninterest revenue of \$1.4 billion was down \$31 million, or 2%, due to higher volume-driven payments to partners and higher expense related to reward programs partially offset by increased interchange income related to a 9% increase in charge volume.

The managed provision for credit losses was \$2.0 billion, down by \$1.2 billion, or 38%, from the prior year. This decrease was due to lower bankruptcy-related losses, strong underlying credit quality and the release of \$90 million of Allowance for loan losses relating to Hurricane Katrina. The managed net charge-off rate decreased to 3.13%, down from 4.85% in the prior year. The 30-day managed delinquency rate was 3.14%, down from 3.34% in the prior year.

Noninterest expense of \$2.5 billion was up \$51 million, or 2%. The increase was related to the acquisition of the Sears Canada credit card business and Kohl's private label portfolio, increased marketing spend and higher fraud-related losses, partially offset by merger savings, other efficiencies and the absence of a litigation charge.

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| Selected metrics (in millions, except headcount, ratios and where otherwise noted) | Three months ended June 30, | | | Six months ended June 30, | | |
|---|-----------------------------|------------|--------|---------------------------|------------|--------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| % of average managed outstandings: | | | | | | |
| Net interest income | 8.66% | 8.83% | | 8.76% | 8.98% | |
| Provision for credit losses | 3.01 | 4.87 | | 3.00 | 4.92 | |
| Noninterest revenue | 2.05 | 2.70 | | 2.01 | 2.52 | |
| Risk adjusted margin ^(a) | 7.70 | 6.66 | | 7.77 | 6.58 | |
| Noninterest expense | 3.65 | 4.10 | | 3.65 | 4.05 | |
| Pre-tax income (ROO) | 4.05 | 2.56 | | 4.12 | 2.54 | |
| Net income | 2.56 | 1.61 | | 2.60 | 1.60 | |
| Business metrics | | | | | | |
| Charge volume (in billions) | \$ 84.4 | \$ 75.6 | 12% | \$ 158.7 | \$ 145.9 | 9% |
| Net accounts opened (in thousands) ^(b) | 24,573 | 2,789 | NM | 27,291 | 5,533 | 393 |
| Credit cards issued (in thousands) | 136,685 | 95,465 | 43 | 136,685 | 95,465 | 43 |
| Number of registered Internet customers (in millions) | 19.1 | 12.0 | 59 | 19.1 | 12.0 | 59 |
| Merchant acquiring business ^(c) | | | | | | |
| Bank card volume (in billions) | \$ 166.3 | \$ 141.2 | 18 | \$ 314.0 | \$ 266.3 | 18 |
| Total transactions (in millions) ^(d) | 4,476 | 3,804 | 18 | 8,606 | 7,263 | 18 |
| Selected ending balances | | | | | | |
| Loans: | | | | | | |
| Loans on balance sheets | \$ 72,961 | \$ 68,510 | 6 | \$ 72,961 | \$ 68,510 | 6 |
| Securitized loans | 66,349 | 68,808 | (4) | 66,349 | 68,808 | (4) |
| Managed loans | \$ 139,310 | \$ 137,318 | 1 | \$ 139,310 | \$ 137,318 | 1 |
| Selected average balances | | | | | | |
| Managed assets | \$ 144,284 | \$ 140,741 | 3 | \$ 145,134 | \$ 139,632 | 4 |
| Loans: | | | | | | |
| Loans on balance sheets | \$ 68,185 | \$ 67,131 | 2 | \$ 68,319 | \$ 65,683 | 4 |
| Securitized loans | 69,005 | 68,075 | 1 | 69,287 | 68,718 | 1 |
| Managed loans | \$ 137,190 | \$ 135,206 | 1 | \$ 137,606 | \$ 134,401 | 2 |
| Equity | 14,100 | 11,800 | 19 | 14,100 | 11,800 | 19 |
| Headcount | 18,753 | 20,647 | (9) | 18,753 | 20,647 | (9) |
| Credit quality statistics | | | | | | |
| Net charge-offs | \$ 1,121 | \$ 1,641 | (32) | \$ 2,137 | \$ 3,231 | (34) |
| Net charge-off rate | 3.28% | 4.87% | | 3.13% | 4.85% | |

Delinquency ratios

| | | | | | | |
|---|-----------------|----------|---|-----------------|----------|---|
| 30+ days | 3.14% | 3.34% | | 3.14% | 3.34% | |
| 90+ days | 1.52 | 1.54 | | 1.52 | 1.54 | |
| Allowance for loan losses | \$ 3,186 | \$ 3,055 | 4 | \$ 3,186 | \$ 3,055 | 4 |
| Allowance for loan losses to period-end loans | 4.37% | 4.46% | | 4.37% | 4.46% | |

- (a) *Represents Total net revenue less Provision for credit losses.*
- (b) *Second quarter 2006 includes 21 million accounts from the acquisition of the Kohl's private label portfolio.*
- (c) *Represents 100% of the merchant acquiring business.*
- (d) *Periods prior to the fourth quarter of 2005 have been restated to conform methodologies following the integration of Chase Merchant Services and Paymentech merchant processing businesses.*

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

| (in millions) | Three months ended June 30, | | | Six months ended June 30, | | |
|---|-----------------------------|-----------|--------|---------------------------|-----------|--------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Income statement data^(a) | | | | | | |
| Credit card income | | | | | | |
| Reported data for the period | \$ 1,590 | \$ 1,596 | % | \$ 3,316 | \$ 3,172 | 5% |
| Securitization adjustments | (937) | (728) | (29) | (2,062) | (1,543) | (34) |
| Managed credit card income | \$ 653 | \$ 868 | (25) | \$ 1,254 | \$ 1,629 | (23) |
| Net interest income | | | | | | |
| Reported data for the period | \$ 1,464 | \$ 1,318 | 11 | \$ 2,903 | \$ 2,593 | 12 |
| Securitization adjustments | 1,498 | 1,658 | (10) | 3,072 | 3,390 | (9) |
| Managed net interest income | \$ 2,962 | \$ 2,976 | | \$ 5,975 | \$ 5,983 | |
| Total net revenue | | | | | | |
| Reported data for the period | \$ 3,103 | \$ 2,956 | 5 | \$ 6,339 | \$ 5,818 | 9 |
| Securitization adjustments | 561 | 930 | (40) | 1,010 | 1,847 | (45) |
| Managed total net revenue | \$ 3,664 | \$ 3,886 | (6) | \$ 7,349 | \$ 7,665 | (4) |
| Provision for credit losses | | | | | | |
| Reported data for the period ^(b) | \$ 470 | \$ 711 | (34) | \$ 1,037 | \$ 1,430 | (27) |
| Securitization adjustments | 561 | 930 | (40) | 1,010 | 1,847 | (45) |
| Managed provision for credit losses ^(b) | \$ 1,031 | \$ 1,641 | (37) | \$ 2,047 | \$ 3,277 | (38) |
| Balance sheet average balances^(a) | | | | | | |
| Total average assets | | | | | | |
| Reported data for the period | \$ 77,371 | \$ 74,515 | 4 | \$ 77,901 | \$ 72,768 | 7 |
| Securitization adjustments | 66,913 | 66,226 | 1 | 67,233 | 66,864 | 1 |

| | | | | | | |
|--|-------------------|------------|------|-------------------|------------|------|
| Managed average assets | \$ 144,284 | \$ 140,741 | 3 | \$ 145,134 | \$ 139,632 | 4 |
| Credit quality statistics^(a) | | | | | | |
| Net charge-offs | | | | | | |
| Reported net charge-offs data for the period | \$ 560 | \$ 711 | (21) | \$ 1,127 | \$ 1,384 | (19) |
| Securitization adjustments | 561 | 930 | (40) | 1,010 | 1,847 | (45) |
| Managed net charge-offs | \$ 1,121 | \$ 1,641 | (32) | \$ 2,137 | \$ 3,231 | (34) |

(a) *JPMorgan Chase uses the concept of managed receivables to evaluate the credit performance and overall performance of the underlying credit card loans, both sold and not sold; as the same borrower is continuing to use the credit card for ongoing charges, a borrower's credit performance will affect both the receivables sold under SFAS 140 and those not sold. Thus, in its disclosures regarding managed receivables, JPMorgan Chase treats the sold receivables as if they were still on the*

balance sheet in order to disclose the credit performance (such as net charge-off rates) of the entire managed credit card portfolio.

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 versus managed earnings; however, it does affect the classification of items on the Consolidated statements of income.

(b) Second quarter 2006 includes a \$90 million release of Allowance for loan losses related to Hurricane Katrina.

Reconciliation from managed basis to adjusted basis

The financial information presented below reconciles Card Services managed basis presentation to this adjusted basis to disclose the effect of the deconsolidation of Paymentech.

| (in millions) | Three months ended June 30, | | | Six months ended June 30, | | |
|---------------|-----------------------------|------|--------|---------------------------|------|--------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |

Noninterest revenue

| | | | | | | |
|------------------------------|--------|--------|-------|----------|----------|-------|
| Reported for the period | \$ 702 | \$ 910 | (23)% | \$ 1,374 | \$ 1,682 | (18)% |
| Adjustment for Paymentech | | (142) | NM | | (277) | NM |
| Adjusted Noninterest revenue | \$ 702 | \$ 768 | (9) | \$ 1,374 | \$ 1,405 | (2) |

Total net revenue

| | | | | | | |
|----------------------------|----------|----------|-----|----------|----------|-----|
| Reported for the period | \$ 3,664 | \$ 3,886 | (6) | \$ 7,349 | \$ 7,665 | (4) |
| Adjustment for Paymentech | | (146) | NM | | (284) | NM |
| Adjusted Total net revenue | \$ 3,664 | \$ 3,740 | (2) | \$ 7,349 | \$ 7,381 | |

Noninterest expense

| | | | | | | |
|------------------------------------|----------|----------|------|----------|----------|-----|
| Reported for the period | \$ 1,249 | \$ 1,383 | (10) | \$ 2,492 | \$ 2,696 | (8) |
| Adjustment for Paymentech | | (131) | NM | | (255) | NM |
| Adjusted Total noninterest expense | \$ 1,249 | \$ 1,252 | | \$ 2,492 | \$ 2,441 | 2 |

Table of Contents**COMMERCIAL BANKING**

For a discussion of the business profile of CB, see page 4 of this Form 10 Q. For additional information on the transfers of various wholesale banking clients among CB, the IB and TSS, see page 14 of this Form 10 Q.

The agreement to acquire The Bank of New York's middle-market banking business will add approximately 2,000 clients, \$2.9 billion of loans and \$1.6 billion in deposits.

| Selected income statement data (in millions, except ratios) | Three months ended June 30, | | | Six months ended June 30, | | |
|---|-----------------------------|--------|--------|---------------------------|--------|--------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Revenue | | | | | | |
| Lending & deposit related fees | \$ 147 | \$ 142 | 4% | \$ 289 | \$ 284 | 2% |
| Asset management, administration and commissions | 16 | 14 | 14 | 31 | 28 | 11 |
| All other income ^(a) | 111 | 96 | 16 | 187 | 167 | 12 |
| Noninterest revenue | 274 | 252 | 9 | 507 | 479 | 6 |
| Net interest income | 675 | 616 | 10 | 1,342 | 1,216 | 10 |
| Total net revenue | 949 | 868 | 9 | 1,849 | 1,695 | 9 |
| Provision for credit losses | (12) | 142 | NM | (5) | 136 | NM |
| Noninterest expense | | | | | | |
| Compensation expense | 179 | 159 | 13 | 376 | 320 | 18 |
| Noncompensation expense | 302 | 293 | 3 | 587 | 569 | 3 |
| Amortization of intangibles | 15 | 17 | (12) | 31 | 34 | (9) |
| Total noninterest expense | 496 | 469 | 6 | 994 | 923 | 8 |
| Income before income tax expense | | | | | | |
| | 465 | 257 | 81 | 860 | 636 | 35 |
| Income tax expense | 182 | 100 | 82 | 337 | 248 | 36 |
| Net income | \$ 283 | \$ 157 | 80 | \$ 523 | \$ 388 | 35 |
| Financial ratios | | | | | | |
| ROE | 21% | 19% | | 19% | 23% | |
| ROA | 2.01 | 1.21 | | 1.89 | 1.52 | |
| Overhead ratio | 52 | 54 | | 54 | 54 | |

(a) *IB-related and commercial card revenues are included in All other income.*

Quarterly results

Net income was \$283 million, up by \$126 million, or 80%, from the prior year. The increase was driven by a lower provision for credit losses and higher revenue.

Net revenue was \$949 million, up by \$81 million, or 9%, from the prior year. Net interest income was \$675 million, up by \$59 million, or 10%, due to wider spreads on higher liability balances and increased loan balances, partially offset by narrower loan spreads. Noninterest revenue was \$274 million, up by \$22 million, or 9%, from the prior year due to higher other income.

Each business within Commercial Banking grew revenue over the prior year. Middle Market Banking revenue was \$634 million, an increase of \$43 million, or 7%, primarily due to higher treasury services and investment banking revenue. Mid-Corporate Banking and Real Estate revenues increased 16% and 14%, respectively, primarily due to increases in treasury services revenue.

Provision for credit losses was a benefit of \$12 million compared with a cost of \$142 million in the prior year. The provision for credit losses in the prior year was related primarily to refinements in the data used to estimate the allowance for credit losses.

Noninterest expense was \$496 million, up by \$27 million, or 6%, from the prior year, primarily due to higher compensation expense.

Table of Contents**Year-to-date results**

Earnings of \$523 million increased by \$135 million, or 35%, from the prior year due to higher revenues and lower provision, partially offset by higher expenses.

Net revenues of \$1.8 billion increased 9%, or \$154 million. Net interest income increased to \$1.3 billion due to wider spreads on higher liability balances and increased loan balances, partially offset by narrower loan spreads. Noninterest revenue was \$507 million, up \$28 million, or 6%, due to higher other income.

Provision for credit losses was a net benefit of \$5 million compared with a cost of \$136 million in the prior year. The provision for credit losses in the prior year was primarily related to refinements in the data used to estimate the allowance for credit losses.

Noninterest expenses of \$994 million increased by \$71 million, or 8%, from last year, primarily related to higher compensation expense resulting from the adoption of SFAS 123R.

Selected metrics

(in millions, except ratio and headcount data)

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|-----------------------------|---------------|-----------|---------------------------|---------------|-----------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Revenue by product: | | | | | | |
| Lending | \$ 331 | \$ 311 | 6% | \$ 650 | \$ 603 | 8% |
| Treasury services | 566 | 502 | 13 | 1,116 | 999 | 12 |
| Investment banking | 66 | 61 | 8 | 106 | 100 | 6 |
| Other | (14) | (6) | (133) | (23) | (7) | (229) |
| Total Commercial Banking revenue | 949 | 868 | 9 | 1,849 | 1,695 | 9 |
| IB revenues, gross^(a) | \$ 186 | \$ 150 | 24 | \$ 300 | \$ 257 | 17 |
| Revenue by business: | | | | | | |
| Middle Market Banking | \$ 634 | \$ 591 | 7 | \$ 1,257 | \$ 1,161 | 8 |
| Mid-Corporate Banking | 161 | 139 | 16 | 298 | 262 | 14 |
| Real Estate | 114 | 100 | 14 | 219 | 198 | 11 |
| Other | 40 | 38 | 5 | 75 | 74 | 1 |
| Total Commercial Banking revenue | 949 | 868 | 9 | 1,849 | 1,695 | 9 |
| Selected average balances | | | | | | |
| Total assets | \$ 56,561 | \$ 52,073 | 9 | \$ 55,671 | \$ 51,607 | 8 |
| Loans and leases ^(b) | 52,413 | 47,792 | 10 | 51,629 | 47,199 | 9 |
| Liability balances ^(c) | 72,556 | 65,150 | 11 | 71,664 | 65,264 | 10 |
| Equity | 5,500 | 3,400 | 62 | 5,500 | 3,400 | 62 |
| Average loans by business: | | | | | | |
| Middle Market Banking | \$ 32,492 | \$ 31,092 | 5 | \$ 32,178 | \$ 30,670 | 5 |
| Mid-Corporate Banking | 8,269 | 6,250 | 32 | 7,925 | 6,026 | 32 |
| Real Estate | 7,515 | 6,724 | 12 | 7,476 | 6,830 | 9 |
| Other | 4,137 | 3,726 | 11 | 4,050 | 3,673 | 10 |
| Total Commercial Banking loans | 52,413 | 47,792 | 10 | 51,629 | 47,199 | 9 |

| | | | | | | |
|---|----------------|---------|------|----------------|--------|------|
| Headcount | 4,320 | 4,442 | (3) | 4,320 | 4,442 | (3) |
| Credit data and quality statistics: | | | | | | |
| Net charge-offs (recoveries) | \$ (3) | \$ (3) | | \$ (10) | \$ (1) | NM |
| Nonperforming loans | 225 | 434 | (48) | 225 | 434 | (48) |
| Allowance for loan losses | 1,394 | 1,431 | (3) | 1,394 | 1,431 | (3) |
| Allowance for lending-related commitments | 157 | 196 | (20) | 157 | 196 | (20) |
| Net charge-off (recovery) rate ^(b) | (0.02)% | (0.03)% | | (0.04)% | | % |
| Allowance for loan losses to average loans ^(b) | 2.68 | 3.02 | | 2.72 | 3.05 | |
| Allowance for loan losses to nonperforming loans | 620 | 330 | | 620 | 330 | |
| Nonperforming loans to average loans | 0.43 | 0.91 | | 0.44 | 0.92 | |

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- (a) *Represents 100% of the revenue related to investment banking products for which there is a sharing agreement between Commercial Banking and the Investment Bank and for the investment banking products that are sold through Commercial Banking.*
- (b) *Average loans include loans held-for-sale of \$334 million and \$463 million for the three months ended June 30, 2006 and 2005, respectively, and \$301 million and \$311 million for the six months ended June 30, 2006 and 2005, respectively. These 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.*

TREASURY & SECURITIES SERVICES

For a discussion of the business profile of TSS, see page 5 of this Form 10 Q. In 2006, various wholesale banking clients, and the related revenue and expense, have been transferred among CB, IB and TSS. As a result, prior period amounts have been reclassified to conform to the current year presentation. TSS firmwide disclosures have also been adjusted to reflect a refined set of TSS products and a revised split of liability balances and lending-related revenue related to the client transfers described on page 14 of this Form 10 Q.

The Firm has announced the exchange of select corporate trust businesses including trustee, paying agent, loan agency services and document management for the consumer, small business and middle market banking businesses of The Bank of New York. These corporate trust businesses, which were previously reported in TSS, have been deemed discontinued operations. The related balance sheet, income statement and assets under custody activity have been transferred to the Corporate segment during the second quarter of 2006, and all prior periods have been revised to reflect this transfer.

| Selected income statement data (in millions, except ratios) | Three months ended June 30, | | | Six months ended June 30, | | |
|--|-----------------------------|--------|--------|---------------------------|--------|--------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Revenue | | | | | | |
| Lending & deposit related fees | \$ 184 | \$ 198 | (7)% | \$ 366 | \$ 368 | (1)% |
| Asset management, administration and commissions | 683 | 611 | 12 | 1,333 | 1,175 | 13 |
| All other income | 178 | 140 | 27 | 324 | 258 | 26 |
| Noninterest revenue | 1,045 | 949 | 10 | 2,023 | 1,801 | 12 |
| Net interest income | 543 | 468 | 16 | 1,050 | 922 | 14 |
| Total net revenue | 1,588 | 1,417 | 12 | 3,073 | 2,723 | 13 |
| Provision for credit losses | 4 | 2 | 100 | | (1) | NM |
| Credit reimbursement to IB ^(a) | (30) | (38) | 21 | (60) | (76) | 21 |
| Noninterest expense | | | | | | |
| Compensation expense | 537 | 476 | 13 | 1,086 | 933 | 16 |
| Noncompensation expense | 493 | 593 | (17) | 973 | 1,079 | (10) |
| Amortization of intangibles | 20 | 21 | (5) | 39 | 42 | (7) |
| Total noninterest expense | 1,050 | 1,090 | (4) | 2,098 | 2,054 | 2 |
| Income before income tax expense | | | | | | |
| | 504 | 287 | 76 | 915 | 594 | 54 |
| Income tax expense | 188 | 99 | 90 | 337 | 207 | 63 |
| Net income | \$ 316 | \$ 188 | 68 | \$ 578 | \$ 387 | 49 |
| Financial ratios | | | | | | |
| ROE | 58% | 49% | | 49% | 51% | |

| | | | | |
|-------------------------------------|-----------|----|-----------|----|
| Overhead ratio | 66 | 77 | 68 | 75 |
| Pre-tax margin ratio ^(b) | 32 | 20 | 30 | 22 |

- (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 JPMorgan Chase's 2005 Annual Report.*
- (b) *Pre-tax margin represents Income before income tax expense divided by Total net revenue, which is a comprehensive measure of pre-tax performance and is another basis by which TSS management evaluates its performance and that of its competitors. Pre-tax margin is an effective measure of TSS earnings, after all operating costs are taken into consideration.*

Table of Contents**Quarterly results**

Net income was a record \$316 million, up by \$128 million, or 68%, from the prior year. Earnings benefited from higher revenue due to wider spreads on higher average liability balances, fee income and the absence of prior-year charges of \$58 million (after-tax) related to the termination of a client contract.

Net revenue was a record \$1.6 billion, up by \$171 million, or 12%, from the prior year. Noninterest revenue was \$1.0 billion, up by \$96 million, or 10%. The improvement was due primarily to an increase in assets under custody to \$11.5 trillion, which was driven by market value appreciation and new business. Also contributing to the improvement was growth in foreign exchange, securities lending and ADRs, all of which were driven by a combination of increased product usage by existing clients and new business. Net interest income was \$543 million, up by \$75 million, or 16%, primarily resulting from wider spreads on higher average liability balances.

Treasury Services net revenue of \$702 million was flat. Worldwide Securities Services net revenue of \$886 million grew by \$173 million, or 24%. TSS firmwide net revenue, which includes Treasury Services net revenue recorded in other lines of business, grew to \$2.2 billion, up by \$241 million, or 12%. Treasury Services firmwide net revenue grew to \$1.3 billion, up by \$68 million, or 5%.

Noninterest expense was \$1.1 billion, down by \$40 million, or 4%. The decrease was due to the absence of \$93 million in charges taken in the second quarter of 2005 related to the termination of a client contract, partially offset by higher compensation expense related to higher headcount supporting increased client activity and business growth.

Year-to-date results

Net income was \$578 million, up by \$191 million, or 49%, from the prior year. Earnings benefited from higher revenue due to wider spreads on higher average liability balances, fee income and the absence of prior year charges of \$58 million (after-tax) related to the termination of a client contract.

Net revenue was \$3.1 billion, up by \$350 million, or 13%, from the prior year. Noninterest revenue was \$2.0 billion, up by \$222 million, or 12%. The improvement was due primarily to an increase in assets under custody to \$11.5 trillion, which was driven by market value appreciation and new business. Also contributing to the improvement was growth in foreign exchange, securities lending and ADRs, all of which were driven by a combination of increased product usage by existing clients and new business. Net interest income was \$1.1 billion, up by \$128 million, or 14%, primarily resulting from wider spreads on higher average liability balances.

Treasury Services net revenue of \$1.4 billion was up 4%. Worldwide Securities Services net revenue of \$1.7 billion grew by \$294 million, or 21%. TSS firmwide net revenue, which includes Treasury Services net revenue recorded in other lines of business, grew to \$4.3 billion, up by \$478 million, or 13%. Treasury Services firmwide net revenue grew to \$2.6 billion, up by \$184 million, or 8%.

Noninterest expense was \$2.1 billion, up by \$44 million, or 2%. The increase was due to higher compensation expense related to higher headcount supporting increased client activity and business growth and the impact of the adoption of SFAS 123R, partially offset by the absence of prior year charges of \$93 million related to the termination of a client contract.

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| Selected metrics (in millions, except headcount, ratio data and where otherwise noted) | Three months ended June 30, | | | Six months ended June 30, | | |
|--|-----------------------------|-----------------|-----------|---------------------------|-----------------|-----------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Revenue by business | | | | | | |
| Treasury Services | \$ 702 | \$ 704 | % | \$ 1,395 | \$ 1,339 | 4% |
| Worldwide Securities Services | 886 | 713 | 24 | 1,678 | 1,384 | 21 |
| Total net revenue | \$ 1,588 | \$ 1,417 | 12 | \$ 3,073 | \$ 2,723 | 13 |
| Business metrics | | | | | | |
| Assets under custody (in billions) | \$ 11,536 | \$ 9,716 | 19 | \$ 11,536 | \$ 9,716 | 19 |
| Number of: | | | | | | |
| US\$ ACH transactions originated (in millions) | 848 | 727 | 17 | 1,686 | 1,426 | 18 |
| Total US\$ clearing volume (in thousands) | 26,506 | 24,200 | 10 | 51,688 | 45,905 | 13 |
| International electronic funds transfer volume (in thousands) ^(a) | 35,255 | 20,014 | 76 | 68,996 | 37,173 | 86 |
| Wholesale check volume (in millions) | 904 | 991 | (9) | 1,756 | 1,931 | (9) |
| Wholesale cards issued (in thousands) ^(b) | 16,271 | 12,075 | 35 | 16,271 | 12,075 | 35 |
| Selected balance sheets (average) | | | | | | |
| Total assets | \$ 31,774 | \$ 27,364 | 16 | \$ 30,509 | \$ 27,932 | 9 |
| Loans | 14,993 | 11,452 | 31 | 13,972 | 11,694 | 19 |
| Liability balances ^(c) | 194,181 | 154,530 | 26 | 186,201 | 149,643 | 24 |
| Equity | 2,200 | 1,525 | 44 | 2,372 | 1,525 | 56 |
| Headcount^(d) | 24,100 | 21,926 | 10 | 24,100 | 21,926 | 10 |
| TSS firmwide metrics | | | | | | |
| Treasury Services firmwide revenue ^(e) | \$ 1,318 | \$ 1,250 | 5 | \$ 2,609 | \$ 2,425 | 8 |
| Treasury & Securities Services firmwide revenue ^(e) | 2,204 | 1,963 | 12 | 4,287 | 3,809 | 13 |
| Treasury Services firmwide overhead ratio ^(f) | 56% | 57% | | 56% | 58% | |
| Treasury & Securities Services firmwide overhead ratio ^(f) | 59 | 68 | | 61 | 67 | |
| Treasury Services firmwide liability balances (average) ^(g) | \$ 161,866 | \$ 138,058 | 17 | \$ 158,662 | \$ 135,926 | 17 |
| Treasury & Securities Services firmwide liability balances (average) ^(g) | 265,398 | 219,680 | 21 | 256,910 | 214,908 | 20 |

(a) International electronic funds transfer includes

*non-US\$ ACH
and clearing
volume.*

*(b) Wholesale cards
issued include
domestic
commercial
card, stored
value card,
prepaid card,
and government
electronic
benefit card
products.*

*(c) Liability
balances
include deposits
and deposits
swept to
on-balance
sheet liabilities.*

*(d) Second quarter
2005 headcount
has been
restated to
reflect the
inclusion of
international
staff of Vastera.*

TSS firmwide metrics

TSS 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. In order to capture the firmwide impact of Treasury Services (TS) and TSS products and revenues, management reviews firmwide metrics such as liability balances, revenues and overhead ratios in assessing financial performance for TSS. Firmwide metrics are necessary in order to understand the aggregate TSS business. Prior periods have been restated to reflect the impact of the client transfers described on page 14 of this Form 10 Q.

(e) Firmwide revenue includes TS revenue recorded in the Commercial Banking (CB), Regional Banking and Asset & Wealth Management lines of business (see below) and excludes FX revenues recorded in the Investment Bank (IB) for TSS-related FX activity. TSS firmwide FX revenue, which includes FX revenue recorded in TSS and FX revenue associated with TSS customers who are FX customers of the IB, was \$146 million for the quarter ended June 30, 2006, and \$264 million for the six months ended June 30, 2006.

(f) Overhead ratios have been calculated based upon firmwide revenues and TSS and TS expenses, respectively, including those allocated to certain other lines of business. FX revenues and expenses recorded in the IB for TSS-related FX activity are not included in this ratio.

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(g) *Firmwide liability balances include TS liability balances recorded in certain other lines of business. Liability balances associated with TS customers who are also customers of the CB line of business are not included in TS liability balances.*

| (in millions) | Three months ended June 30, | | | Six months ended June 30, | | |
|---|-----------------------------|--------|--------|---------------------------|--------|--------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Treasury Services revenue reported in CB | \$ 566 | \$ 502 | 13% | \$ 1,116 | \$ 999 | 12% |
| Treasury Services revenue reported in other lines of business | 50 | 44 | 14 | 98 | 87 | 13 |

ASSET & WEALTH MANAGEMENT

For a discussion of the business profile of AWM, see pages 51-52 of JPMorgan Chase's 2005 Annual Report.

| Selected income statement data (in millions, except ratios) | Three months ended June 30, | | | Six months ended June 30, | | |
|--|-----------------------------|--------------|------------|---------------------------|--------------|-------------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Revenue | | | | | | |
| Asset management, administration and commissions | \$ 1,279 | \$ 994 | 29% | \$ 2,501 | \$ 1,969 | 27% |
| All other income | 93 | 75 | 24 | 209 | 179 | 17 |
| Noninterest revenue | 1,372 | 1,069 | 28 | 2,710 | 2,148 | 26 |
| Net interest income | 248 | 274 | (9) | 494 | 556 | (11) |
| Total net revenue | 1,620 | 1,343 | 21 | 3,204 | 2,704 | 18 |
| Provision for credit losses | (7) | (20) | 65 | (14) | (27) | 48 |
| Noninterest expense | | | | | | |
| Compensation expense | 669 | 509 | 31 | 1,351 | 1,047 | 29 |
| Noncompensation expense | 390 | 383 | 2 | 784 | 754 | 4 |
| Amortization of intangibles | 22 | 25 | (12) | 44 | 50 | (12) |
| Total noninterest expense | 1,081 | 917 | 18 | 2,179 | 1,851 | 18 |
| Income before income tax expense | 546 | 446 | 22 | 1,039 | 880 | 18 |
| Income tax expense | 203 | 163 | 25 | 383 | 321 | 19 |
| Net income | \$ 343 | \$ 283 | 21 | \$ 656 | \$ 559 | 17 |
| Financial ratios | | | | | | |
| ROE | 39% | 47% | | 38% | 47% | |

| | | | | |
|-------------------------------------|-----------|----|-----------|----|
| Overhead ratio | 67 | 68 | 68 | 68 |
| Pre-tax margin ratio ^(a) | 34 | 33 | 32 | 33 |

(a) *Pre-tax margin represents Income before income tax expense divided by Total net revenue, which is a comprehensive measure of pre-tax performance and is another basis by which AWM management evaluates its performance and that of its competitors. Pre-tax margin is an effective measure of AWM s earnings, after all costs are taken into consideration.*

Quarterly results

Net income was a record \$343 million, up by \$60 million, or 21%, from the prior year. Performance was driven by increased revenue offset partially by higher compensation expense.

Net revenue was a record \$1.6 billion, up by \$277 million, or 21%, from the prior year. Noninterest revenue, principally fees and commissions, of \$1.4 billion was up by \$303 million, or 28%. This increase was due primarily to increased assets under management and higher performance and placement fees. Net interest income was \$248 million, down by \$26 million, or 9%, from the prior year, primarily due to narrower deposit spreads and the sale of BrownCo in the fourth quarter of 2005, partially offset by higher deposit and loan balances.

Private Bank client segment revenue grew 15% from the prior year to \$469 million due to higher deposit balances, increased placement activity and management fees, partially offset by narrower deposit spreads. Institutional client segment revenue grew 43% to \$449 million due to net asset inflows and higher performance fees. Retail client segment revenue grew 23% to \$446 million, primarily due to net asset inflows, partially offset by the sale of BrownCo. Private Client Services client segment revenue decreased 1% to \$256 million, due to narrower deposit and loan spreads, partially offset by higher deposit and loan balances.

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Provision for credit losses was a \$7 million benefit compared with a benefit of \$20 million in the prior year. The prior year benefit in the provision for credit losses related primarily to refinements in the data used to estimate the allowance for credit losses.

Noninterest expense of \$1.1 billion was up by \$164 million, or 18%, from the prior year. The increase was due to higher performance-based compensation and increased salaries and benefits related to business growth and incremental expense related to SFAS 123R, partially offset by the sale of BrownCo.

Year-to-date results

Net income was \$656 million, up by \$97 million, or 17%, from the prior year. Performance was driven by increased revenue offset partially by higher compensation expense related to incremental expense from the adoption of SFAS 123R and higher performance-based compensation.

Net revenue was \$3.2 billion, up by \$500 million, or 18%, from the prior year. Noninterest revenue, principally fees and commissions, of \$2.7 billion was up by \$562 million, or 26%. This increase was due primarily to increased assets under management and higher performance and placement fees. Net interest income was \$494 million, down by \$62 million, or 11%, from the prior year, primarily due to narrower deposit spreads and the sale of BrownCo in the fourth quarter of 2005, partially offset by higher deposit and loan balances.

Private Bank client segment revenue grew 10% from the prior year to \$910 million, due to higher deposit balances, increased placement activity and management fees, partially offset by narrower deposit spreads. Retail client segment revenue grew 25% to \$888 million, primarily due to net asset inflows, partially offset by the sale of BrownCo. Institutional client segment revenue grew 39% to \$884 million due to net asset inflows and higher performance fees. Private Client Services client segment revenue decreased 1% to \$522 million due to narrower deposit and loan spreads, partially offset by higher deposit and loan balances.

Provision for credit losses was a \$14 million benefit compared with a benefit of \$27 million in the prior year. The prior year benefit in the provision for credit losses related primarily to refinements in the data used to estimate the allowance for credit losses.

Noninterest expense of \$2.2 billion was up by \$328 million, or 18%, from the prior year. The increase was due to higher performance-based compensation, and increased salaries and benefits related to business growth and incremental expense related to SFAS 123R, partially offset by the sale of BrownCo.

Table of Contents**Selected metrics**

(in millions, except headcount, ratios and ranking data, and where otherwise noted)

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|-----------------------------|-----------------|-----------|---------------------------|-----------------|-----------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Revenue by client segment | | | | | | |
| Private bank | \$ 469 | \$ 409 | 15% | \$ 910 | \$ 831 | 10% |
| Institutional | 449 | 313 | 43 | 884 | 635 | 39 |
| Retail | 446 | 363 | 23 | 888 | 709 | 25 |
| Private client services | 256 | 258 | (1) | 522 | 529 | (1) |
| Total net revenue | \$ 1,620 | \$ 1,343 | 21 | \$ 3,204 | \$ 2,704 | 18 |
| Business metrics | | | | | | |
| Number of: | | | | | | |
| Client advisors ^(a) | 1,486 | 1,452 | 2 | 1,486 | 1,452 | 2 |
| Retirement planning services participants | 1,361,000 | 1,210,000 | 12 | 1,361,000 | 1,210,000 | 12 |
| % of customer assets in 4 & 5 Star Funds ^(b) | | | | | | |
| | 56% | 50% | 12 | 56% | 50% | 12 |
| % of AUM in 1st and 2nd quartiles: ^(c) | | | | | | |
| 1 year | 71% | 75% | (5) | 71% | 75% | (5) |
| 3 years | 75% | 72% | 4 | 75% | 72% | 4 |
| 5 years | 81% | 73% | 11 | 81% | 73% | 11 |
| Selected balance sheets data (average) | | | | | | |
| Total assets | \$ 43,228 | \$ 42,001 | 3 | \$ 42,126 | \$ 40,865 | 3 |
| Loans ^(d) | 25,807 | 26,572 | (3) | 25,148 | 26,465 | (5) |
| Deposits ^{(d)(e)} | 51,583 | 40,774 | 27 | 49,834 | 41,405 | 20 |
| Equity | 3,500 | 2,400 | 46 | 3,500 | 2,400 | 46 |
| Headcount | 12,786 | 12,455 | 3 | 12,786 | 12,455 | 3 |
| Credit data and quality statistics | | | | | | |
| Net charge-offs (recoveries) | \$ (4) | \$ (2) | (100) | \$ 3 | \$ (8) | NM |
| Nonperforming loans | 76 | 100 | (24) | 76 | 100 | (24) |
| Allowance for loan losses | 117 | 195 | (40) | 117 | 195 | (40) |
| Allowance for lending-related commitments | 3 | 3 | | 3 | 3 | |
| Net charge-off (recovery) rate | (0.06)% | (0.03)% | | 0.02% | (0.06)% | |
| Allowance for loan losses to average loans | 0.45 | 0.73 | | 0.47 | 0.74 | |
| Allowance for loan losses to nonperforming loans | 154 | 195 | | 154 | 195 | |
| | 0.29 | 0.38 | | 0.30 | 0.38 | |

Nonperforming loans to average
loans

- (a) *Prior periods have been restated to conform with current methodologies.*
- (b) *Derived from Morningstar for the United States; Micropal for the United Kingdom, Luxembourg, Hong Kong and Taiwan; and Nomura for Japan.*
- (c) *Quartile rankings sourced from Lipper for the United States and Taiwan; Micropal for the United Kingdom, Luxembourg and Hong Kong; and Nomura for Japan.*
- (d) *The sale of BrownCo, which occurred on November 30, 2005, included \$3.0 billion in both loans and deposits.*
- (e) *Reflects the transfer in 2005 of certain consumer deposits from Retail Financial Services to Asset & Wealth*

Management.

Assets under supervision

Assets under supervision were \$1.2 trillion, up 11%, or \$120 billion, from the prior year, net of a \$33 billion reduction due to the sale of BrownCo. Assets under management were \$898 billion, up 15%, or \$115 billion, from the prior year. The increase was the result of net asset inflows driven by retail flows from third-party distribution, primarily in equity-related products, institutional flows in liquidity products and market appreciation. Custody, brokerage, administration and deposit balances were \$315 billion, up by \$5 billion, net of a \$33 billion reduction from the sale of BrownCo.

Table of Contents**ASSETS UNDER SUPERVISION** (in billions)

| As of June 30, | 2006 | 2005 |
|---|-----------------|----------|
| Assets by asset class | | |
| Liquidity | \$ 247 | \$ 223 |
| Fixed income | 172 | 171 |
| Equities & balanced | 393 | 323 |
| Alternatives | 86 | 66 |
| Total Assets under management | 898 | 783 |
| Custody/brokerage/administration/deposits | 315 | 310 |
| Total Assets under supervision | \$ 1,213 | \$ 1,093 |
| Assets by client segment | | |
| Institutional ^(a) | \$ 484 | \$ 455 |
| Private Bank | 143 | 135 |
| Retail ^(a) | 219 | 141 |
| Private Client Services | 52 | 52 |
| Total Assets under management | \$ 898 | \$ 783 |
| Institutional ^(a) | \$ 486 | \$ 458 |
| Private Bank | 331 | 300 |
| Retail ^(a) | 295 | 238 |
| Private Client Services | 101 | 97 |
| Total Assets under supervision | \$ 1,213 | \$ 1,093 |
| Assets by geographic region | | |
| U.S./Canada | \$ 577 | \$ 527 |
| International | 321 | 256 |
| Total Assets under management | \$ 898 | \$ 783 |
| U.S./Canada | \$ 828 | \$ 776 |
| International | 385 | 317 |
| Total Assets under supervision | \$ 1,213 | \$ 1,093 |
| Mutual fund assets by asset class | | |
| Liquidity | \$ 178 | \$ 174 |
| Fixed income | 47 | 41 |
| Equity | 194 | 114 |

Total mutual fund assets **\$ 419** **\$ 329**

(a) *During the first quarter of 2006, assets under management of \$22 billion from Retirement planning services has been reclassified from the Institutional client segment to the Retail client segment in order to be consistent with the revenue by client segment reporting.*

| | Three months ended June 30 | | Six months ended June 30 | |
|---|-------------------------------|-----------------|-----------------------------|-----------------|
| Assets under management rollforward | 2006 | 2005 | 2006 | 2005 |
| Beginning balance | \$ 873 | \$ 790 | \$ 847 | \$ 791 |
| Flows: | | | | |
| Liquidity | 10 | (5) | 5 | (11) |
| Fixed income | 6 | (2) | 6 | 2 |
| Equities, balanced and alternatives | 13 | 8 | 26 | 9 |
| Market/performance/other impacts ^(a) | (4) | (8) | 14 | (8) |
| Ending balance | \$ 898 | \$ 783 | \$ 898 | \$ 783 |
| | | | | |
| Assets under supervision rollforward | | | | |
| Beginning balance | \$ 1,197 | \$ 1,092 | \$ 1,149 | \$ 1,106 |
| Net asset flows | 33 | | 45 | 6 |
| Market/performance/other impacts ^(a) | (17) | 1 | 19 | (19) |
| Ending balance | \$ 1,213 | \$ 1,093 | \$ 1,213 | \$ 1,093 |

(a) *Includes AWM s strategic decision to exit the Institutional Fiduciary business in the*

*second quarter
of 2005
(\$12 billion).*

Table of Contents**CORPORATE**

For a discussion of the business profile of Corporate, see pages 53-54 of JPMorgan Chase's 2005 Annual Report. For additional information regarding enhanced disclosures related to the Corporate segment, refer to page 14 of this Form 10-Q.

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

| Selected income statement data (in millions) | Three months ended June 30, | | | Six months ended June 30, | | |
|--|-----------------------------|------------|--------|---------------------------|------------|--------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Revenue | | | | | | |
| Principal transactions | \$ 550 | \$ 289 | 90% | \$ 746 | \$ 1,032 | (28)% |
| Securities gains (losses) | (492) | 6 | NM | (650) | (895) | 27 |
| All other income ^(a) | 231 | 112 | 106 | 333 | 184 | 81 |
| Noninterest revenue | 289 | 407 | (29) | 429 | 321 | 34 |
| Net interest income | (355) | (775) | 54 | (902) | (1,450) | 38 |
| Total net revenue | (66) | (368) | 82 | (473) | (1,129) | 58 |
| Provision for credit losses | | 1 | NM | | (3) | NM |
| Noninterest expense | | | | | | |
| Compensation expense | 770 | 772 | | 1,455 | 1,545 | (6) |
| Noncompensation expense ^(b) | 335 | 2,718 | (88) | 944 | 4,422 | (79) |
| Merger costs | 86 | 279 | (69) | 157 | 424 | (63) |
| Subtotal | 1,191 | 3,769 | (68) | 2,556 | 6,391 | (60) |
| Net expenses allocated to other businesses | (1,036) | (1,137) | 9 | (2,069) | (2,274) | 9 |
| Total noninterest expense | 155 | 2,632 | (94) | 487 | 4,117 | (88) |
| Income (loss) from continuing operations before income tax expense | (221) | (3,001) | 93 | (960) | (5,243) | 82 |
| Income tax expense (benefit) | (181) | (1,177) | 85 | (500) | (2,081) | 76 |
| Income (loss) from continuing operations | (40) | (1,824) | 98 | (460) | (3,162) | 85 |
| Income from discontinued operations (after tax) | 56 | 57 | (2) | 110 | 115 | (4) |
| Net income (loss) | \$ 16 | \$ (1,767) | NM | \$ (350) | \$ (3,047) | 89 |

(a)

Includes a gain of \$103 million in the second quarter of 2006 related to the sale of MasterCard shares in its initial public offering.

(b) Includes litigation reserve charges of \$1,872 million in the second quarter of 2005 and \$2,772 million in the first six months of 2005 related to the settlement of the Enron and WorldCom class action litigations and for certain other material legal proceedings. In the second quarter and the first six months of 2006, insurance recoveries related to certain material litigation of \$260 million and \$358 million, respectively, were recorded.

Quarterly results

Net income was \$16 million compared with a net loss of \$1.8 billion in the prior year. In comparison to the prior year, Private Equity earnings were \$293 million, up from \$122 million; Treasury net loss was \$347 million compared with a net loss of \$324 million; and the net gain in Other Corporate (including Merger costs) was \$14 million compared with a net loss of \$1.6 billion.

Net revenue was negative \$66 million compared with negative \$368 million in the prior year. Net interest income was negative \$355 million compared with negative \$775 million in the prior year. Treasury was the primary driver of the improvement, with net interest income of negative \$104 million compared with negative \$473 million, benefiting primarily from an improvement in Treasury's net interest spread and an increase in available for sale securities. Noninterest revenue was \$289 million compared with \$407 million, reflecting \$492 million of securities losses in Treasury compared with gains of \$6 million; higher Private Equity gains of \$549 million compared with gains of \$300 million; and a gain in the current quarter of \$103 million related to the sale of MasterCard shares in its initial public offering.

Noninterest expense was \$155 million, down by \$2.5 billion from \$2.6 billion in the prior year. Insurance recoveries relating to certain material litigation were \$260 million in the current period, while the prior year results included a material litigation charge of \$1.9 billion. Merger costs of \$86 million were incurred in the current quarter and \$279 million in the prior year. Excluding all of these items, noninterest expenses would have been down by \$152 million compared with the prior year, reflecting merger related savings and other operating efficiencies.

Table of Contents**Year to date results**

Net loss was \$350 million compared with a net loss of \$3.0 billion in the prior year. In comparison with the prior year, Private Equity earnings were \$396 million, down from \$559 million; Treasury net loss was \$619 million compared with a net loss of \$1.2 billion; and the net loss in Other Corporate (including Merger costs) was \$237 million compared with a net loss of \$2.6 billion.

Net revenue was negative \$473 million compared with negative \$1.1 billion in the prior year. Net interest income was negative \$902 million compared with negative \$1.5 billion in the prior year. Treasury was the primary driver of the improvement, with net interest income of negative \$385 million compared with negative \$884 million, benefiting primarily from an improvement in Treasury's net interest spread and an increase in available for sale securities. Noninterest revenue was \$429 million compared with \$321 million, reflecting \$650 million of securities losses in Treasury compared with losses of \$896 million; lower Private Equity gains of \$786 million compared with gains of \$1.1 billion; and a gain in the current quarter of \$103 million related to the sale of MasterCard shares in its initial public offering.

Noninterest expense was \$487 million, down by \$3.6 billion from \$4.1 billion in the prior year. Insurance recoveries relating to certain material litigation were \$358 million in the current year, while the prior year results included a material litigation charge of \$2.8 billion. Merger costs were \$157 million compared with \$424 million in the prior year. Excluding all of these items, noninterest expenses would have been down by \$233 million compared with the prior year, reflecting merger related savings and other operating efficiencies.

| Selected metrics (in millions) | Three months ended June 30, | | | Six months ended June 30, | | |
|---|-----------------------------|------------|--------|---------------------------|------------|--------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Total net revenue | | | | | | |
| Private equity | \$ 500 | \$ 255 | 96% | \$ 704 | \$ 999 | (30)% |
| Treasury | (562) | (459) | (22) | (1,028) | (1,805) | 43 |
| Corporate other ^(a) | (4) | (164) | 98 | (149) | (323) | 54 |
| Total net revenue | \$ (66) | \$ (368) | 82 | \$ (473) | \$ (1,129) | 58 |
| Net income (loss) | | | | | | |
| Private equity | \$ 293 | \$ 122 | 140 | \$ 396 | \$ 559 | (29) |
| Treasury | (347) | (324) | (7) | (619) | (1,153) | 46 |
| Corporate other ^(b) | 67 | (1,449) | NM | (140) | (2,305) | 94 |
| Merger costs | (53) | (173) | 69 | (97) | (263) | 63 |
| Income (loss) from continuing operations | (40) | (1,824) | 98 | (460) | (3,162) | 85 |
| Income from discontinued operations (after tax) | 56 | 57 | (2) | 110 | 115 | (4) |
| Total net income (loss) | \$ 16 | \$ (1,767) | NM | \$ (350) | \$ (3,047) | 89 |

(a) See Footnote
(a) on page 40.

(b) See Footnotes
(a) and (b) on
page 40.

Table of Contents**Selected income statement
and balance sheet data**

| (in millions) | Three months ended June 30, | | | Six months ended June 30, | | |
|---|-----------------------------|---------------|-----------|---------------------------|-----------------|-------------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Treasury | | | | | | |
| Securities gains (losses) ^(a) | \$ (492) | \$ 6 | NM | \$ (650) | \$ (896) | 27% |
| Investment portfolio (average) | 63,714 | 43,652 | 46% | 51,917 | 54,588 | (5) |
| Investment portfolio (ending) | 61,990 | 34,319 | 81 | 61,990 | 34,319 | 81 |
| Private equity | | | | | | |
| Private equity gains (losses) | | | | | | |
| Realized gains | \$ 568 | \$ 555 | 2 | \$ 775 | \$ 1,188 | (35) |
| Write ups / (write downs) | (74) | (133) | 44 | (64) | 73 | NM |
| Mark to market gains (losses) | 49 | (153) | NM | 53 | (242) | NM |
| Total direct investments | 543 | 269 | 102 | 764 | 1,019 | (25) |
| Third party fund investments | 6 | 31 | (81) | 22 | 70 | (69) |
| Total private equity gains^(b) | \$ 549 | \$ 300 | 83 | \$ 786 | \$ 1,089 | (28) |

Private equity portfolio information

| | June 30, 2006 | December 31, 2005 | Change |
|--|------------------|----------------------|-------------|
| Direct investments | | | |
| Publicly held securities | | | |
| Carrying value | \$ 589 | \$ 479 | 23% |
| Cost | 446 | 403 | 11 |
| Quoted public value | 808 | 683 | 18 |
| Privately held direct securities | | | |
| Carrying value | 4,321 | 5,028 | (14) |
| Cost | 5,647 | 6,463 | (13) |
| Third party fund investments | | | |
| Carrying value | 642 | 669 | (4) |
| Cost | 963 | 1,003 | (4) |
| Total private equity portfolio Carrying value | \$ 5,552 | \$ 6,176 | (10) |
| Total private equity portfolio Cost | \$ 7,056 | \$ 7,869 | (10) |

(a) Losses reflect repositioning of the Treasury investment securities portfolio. Excludes

*gains/losses on
securities used
to manage risk
associated with
MSRs.*

*(b) Included in
Principal
transactions.*

The carrying value of the private equity portfolio at June 30, 2006, was \$5.6 billion, down \$624 million from December 31, 2005. The portfolio decline was primarily due to sales activity. The portfolio represented 8.3% of the Firm's stockholders' equity less goodwill at June 30, 2006, down from 9.7% at December 31, 2005.

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Table of Contents**BALANCE SHEET ANALYSIS**

| Selected balance sheet data (in millions) | June 30, 2006 | December 31, 2005 |
|---|--------------------------|----------------------|
| Assets | | |
| Cash and due from banks | \$ 38,390 | \$ 36,670 |
| Deposits with banks | 14,437 | 21,661 |
| Federal funds sold and securities purchased under resale agreements | 157,438 | 133,981 |
| Securities borrowed | 87,377 | 74,604 |
| Trading assets: | | |
| Debt and equity instruments | 295,604 | 248,590 |
| Derivative receivables | 54,075 | 49,787 |
| Securities: | | |
| Available for sale | 77,955 | 47,523 |
| Held to maturity | 67 | 77 |
| Interests in purchased receivables ^(a) | | 29,740 |
| Loans, net of Allowance for loan losses ^(a) | 448,028 | 412,058 |
| Other receivables | 32,024 | 27,643 |
| Goodwill | 43,498 | 43,621 |
| Other intangible assets | 15,616 | 14,559 |
| All other assets | 62,259 | 58,428 |
| Assets of discontinued operations held for sale | 1,233 | |
| Total assets | \$ 1,328,001 | \$ 1,198,942 |
| Liabilities | | |
| Deposits | \$ 593,716 | \$ 554,991 |
| Federal funds purchased and securities sold under repurchase agreements | 175,055 | 125,925 |
| Commercial paper and other borrowed funds | 29,475 | 24,342 |
| Trading liabilities: | | |
| Debt and equity instruments | 105,445 | 94,157 |
| Derivative payables | 52,630 | 51,773 |
| Long term debt and capital debt securities | 136,107 | 119,886 |
| Beneficial interests issued by consolidated VIEs | 15,432 | 42,197 |
| All other liabilities | 82,569 | 78,460 |
| Liabilities of discontinued operations held for sale | 26,888 | |
| Total liabilities | 1,217,317 | 1,091,731 |
| Stockholders equity | 110,684 | 107,211 |
| Total liabilities and stockholders equity | \$ 1,328,001 | \$ 1,198,942 |

(a) As a result of restructuring certain

*multi seller
conduits the
Firm
administers,
JPMorgan
Chase
deconsolidated
\$29 billion of
Interests in
purchased
receivables,
\$3 billion of
Loans and
\$1 billion of
Securities, and
recorded
\$33 billion of
lending related
commitments as
of June 30,
2006.*

*(b) The Firm has
announced the
exchange of
certain portions
of the corporate
trust business
for the
consumer,
small business
and
middle market
banking
businesses of
The Bank of
New York. The
corporate trust
businesses to be
transferred
includes trustee,
paying agent,
loan agency
services and
document
management. As
a result of this
pending
transaction,
assets and
liabilities of this
business are*

*being reported
as discontinued
operations for
the period
ended June 30,
2006.*

Balance sheet overview

At June 30, 2006, the Firm's total assets were \$1.3 trillion, an increase of \$129.1 billion, or 11%, from December 31, 2005. Growth was primarily in Trading assets—debt and equity instruments, Loans, AFS securities, Federal funds sold and securities purchased under resale agreements and Securities borrowed, partly offset by a decline in Interests in purchased receivables due to the deconsolidation of certain multi-seller conduits in the second quarter of 2006.

At June 30, 2006, the Firm's total liabilities were \$1.2 trillion, an increase of \$125.6 billion, or 12%, from December 31, 2005. Growth was primarily in Federal funds purchased and securities sold under repurchase agreements, Deposits, Long-term debt and capital debt securities and Trading liabilities—debt and equity instruments, partly offset by a decline in Beneficial interests issued by consolidated VIEs as a result of the aforementioned deconsolidation.

Table of Contents**Federal funds sold and securities purchased under resale agreements and Securities borrowed, as well as Federal funds purchased and securities sold under repurchase agreements**

The Firm utilizes Federal funds sold and securities purchased under resale agreements and Securities borrowed, and Federal funds purchased and securities sold under repurchase agreements as part of its liquidity management framework, in order to manage the Firm's cash positions and risk based capital requirements, as well as to maximize liquidity access and minimize funding costs. During the first half of 2006, the growth in liabilities outpaced growth on the asset side of the balance sheet resulting in an increase in short term investments, specifically securities purchased under resale agreements and securities borrowed. Securities sold under repurchase agreements increased primarily due to a higher level of funding requirements associated with the AFS inventory. For additional information on the Firm's Liquidity risk management, see pages 50-51 of this Form 10-Q.

Trading assets and liabilities - debt and equity instruments

The Firm's debt and equity trading instruments consist primarily of fixed income securities (including government and corporate debt) and equity and convertible cash instruments used for both market making and proprietary risk taking activities. The increase over December 31, 2005, was due primarily to growth in client driven market making activities across interest rate, credit and equity markets, as well as to an increase in proprietary trading activities. For additional information, refer to Note 4 on page 74 of this Form 10-Q.

Trading assets and liabilities - derivative receivables and payables

The Firm uses various interest rate, foreign exchange, equity, credit and commodity derivatives for market making, proprietary risk taking and risk management purposes. The increase from December 31, 2005, was due primarily to increased interest rate, equity and commodity trading activity and rising commodity and foreign exchange prices. For additional information, refer to Credit risk management and Note 4 on pages 51-62 and 74, respectively, of this Form 10-Q.

Securities

The AFS portfolio increased by \$30.4 billion from 2005 year end, primarily due to net purchases in the Treasury investment securities portfolio. For additional information related to securities, refer to the Corporate segment discussion and to Note 9 on pages 40-42 and 79-80, respectively, of this Form 10-Q.

Loans

The \$36.0 billion increase in loans was due primarily to an increase of \$28.1 billion in the wholesale portfolio, mainly in the IB, reflecting an increase in capital markets activity, including leveraged financings and syndications, and higher balances of loans held for sale. The \$7.9 billion increase in consumer loans was largely due to an increase of \$5.3 billion in education loans as well as higher home equity loans, partially offset by a decline in auto loans and leases. The increase in education loans was the result of the purchase of Collegiate Funding Services in the first quarter of 2006. For a more detailed discussion of the loan portfolio and the Allowance for loan losses, refer to Credit risk management on pages 51-62 of this Form 10-Q.

Goodwill

The \$123 million decrease in Goodwill primarily resulted from the transfer of \$402 million of goodwill to Assets of discontinued operations held for sale related to the corporate trust business as a result of the pending transaction with The Bank of New York, and from purchase accounting adjustments related to the November 2005 acquisition of the Sears Canada credit card business. These decreases were partially offset by goodwill related to the acquisition of Collegiate Funding Services. For additional information, see Notes 3 and 15 on pages 73 and 87-89 of this Form 10-Q.

Other intangible assets

The \$1.1 billion increase in Other intangible assets primarily reflects higher MSRs due to growth in the servicing portfolio, higher fair value due to the implementation of SFAS 156 and an overall increase in the MSR valuation from improved market conditions; and, to a lesser extent, purchase accounting adjustments related to the Sears Canada credit card business. Partially offsetting the increase were declines from amortization and the transfer of \$443 million of the corporate trust business other intangibles to Assets of discontinued operations held for sale as a result of the pending transaction with The Bank of New York. For additional information, see Notes 3 and 15 on pages 73 and 87-89 of this Form 10-Q.

Assets of discontinued operations held for sale and Liabilities of discontinued operations held for sale

The increase from December 31, 2005, reflects the agreement to acquire The Bank of New York's consumer, small business and middle market banking businesses in exchange for certain portions of the Firm's corporate trust business. Assets of discontinued operations primarily include goodwill, other intangibles and other assets. Liabilities of discontinued operations primarily include deposits and other liabilities. For more information, refer to the TSS segment discussion on pages 33-36 and Note 3 on page 73 of this Form 10-Q.

Table of Contents**Deposits**

Deposits increased by 7% from December 31, 2005. Growth in retail deposits reflected new account acquisitions and the ongoing expansion of the retail branch distribution network. Wholesale deposits were higher driven by growth in business volumes. Partially offsetting the growth in deposits was the transfer of \$26.5 billion of deposits to Liabilities of discontinued operations held for sale related to the pending transaction with The Bank of New York. For more information on deposits, refer to the RFS segment discussion and the Liquidity risk management discussion on pages 19-26 and 50-51, respectively, of this Form 10-Q. For more information on liability balances, refer to the CB and TSS segment discussions on pages 31-33 and 33-36, respectively, of this Form 10-Q.

Long term debt and capital debt securities

Long term debt and capital debt securities increased by \$16.2 billion, or 14%, from December 31, 2005, primarily due to net new issuances of long term debt offset partially by a redemption of capital debt securities. Consistent with its liquidity management policy, the Firm has raised funds at the parent holding company sufficient to cover its obligations and those of its nonbank subsidiaries that mature over the next 12 months. For additional information on the Firm's long term debt activity, see the Liquidity risk management discussion on pages 50-51 of this Form 10-Q.

Beneficial interests issued by consolidated VIEs

As a result of restructuring certain multi-seller conduits that the Firm administers, JPMorgan Chase deconsolidated \$33 billion of assets and liabilities, which reduced Beneficial interests issued by consolidated VIEs. For additional information related to multi-seller conduits, refer to Off-balance sheet arrangements and contractual cash obligations on pages 48-49 and Note 14 on pages 85-86 of this Form 10-Q.

Stockholders equity

Total stockholders equity increased by \$3.5 billion from year-end 2005 to \$110.7 billion at June 30, 2006. The increase was the result of net income for the first six months of 2006, common stock issued under employee plans and the effect of changes in accounting principles. This increase was offset partially by payment of cash dividends, stock repurchases, the redemption of \$139 million of preferred stock and net unrealized losses in Accumulated other comprehensive income. For a further discussion of capital, see the Capital management section that follows.

CAPITAL MANAGEMENT

The following discussion of JPMorgan Chase's Capital Management highlights developments since December 31, 2005, and should be read in conjunction with pages 56-58 of JPMorgan Chase's 2005 Annual Report.

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

Line of business equity

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

Effective January 1, 2006, the Firm refined its methodology for allocating capital to the lines of business. As a result of this refinement, Retail Financial Services, Card Services, Commercial Banking, Treasury & Securities Services and Asset & Wealth Management had higher amounts of capital allocated to them, commencing in the first quarter of 2006. The revised methodology considers for each line of business, among other things, goodwill associated with such line of business acquisitions since the Merger. In management's view, the revised methodology assigns responsibility to the lines of business to generate returns on the amount of capital supporting acquisition-related goodwill. As part of this refinement in the capital allocation methodology, the Firm assigned to the Corporate segment an amount of equity capital equal to the then-current book value of goodwill from and prior to the Merger. As prior periods have not been revised to reflect the new capital allocations, capital allocated to the respective lines of business for 2006 is not

comparable to prior periods and certain business metrics, such as ROE, are not comparable to the current presentation. The Firm may revise its equity capital allocation methodology again in the future.

In accordance with SFAS 142, the lines of business will continue to perform the required goodwill impairment testing. For a further discussion of goodwill and impairment testing, see Critical accounting estimates and Note 15 on pages 81 83 and 114 116, respectively, of JPMorgan Chase s 2005 Annual Report.

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| (in billions) Line of business equity | Quarterly Averages | |
|---|--------------------|----------|
| | 2Q06 | 2Q05 |
| Investment Bank | \$ 21.0 | \$ 20.0 |
| Retail Financial Services | 14.3 | 13.3 |
| Card Services | 14.1 | 11.8 |
| Commercial Banking | 5.5 | 3.4 |
| Treasury & Securities Services | 2.2 | 1.5 |
| Asset & Wealth Management | 3.5 | 2.4 |
| Corporate | 48.4 | 52.9 |
| Total common stockholders' equity | \$ 109.0 | \$ 105.3 |

Economic risk capital

JPMorgan Chase assesses its capital adequacy relative to the risks underlying the Firm's business activities, utilizing internal risk assessment methodologies. The Firm assigns economic capital based primarily upon four risk factors: credit risk, market risk and operational risk for each business; in addition, the Firm assigns capital based on private equity risk to the Corporate segment in connection with the segment's private equity business.

| (in billions) Economic risk capital | Quarterly Averages | |
|--|--------------------|---------|
| | 2Q06 | 2Q05 |
| Credit risk | \$21.2 | \$23.2 |
| Market risk | 10.2 | 9.6 |
| Operational risk | 5.8 | 5.6 |
| Private equity risk | 3.2 | 3.9 |
| Economic risk capital | 40.4 | 42.3 |
| Goodwill | 43.9 | 43.5 |
| Other ^(a) | 24.7 | 19.5 |
| Total common stockholders' equity | \$109.0 | \$105.3 |

(a) *Additional capital required to meet internal regulatory and debt rating objectives.*

Regulatory capital

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

JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A.

In the first quarter of 2006, the federal banking regulatory agencies issued a final rule that makes permanent an interim rule issued in 2000 that provides regulatory capital relief for certain cash collateralized securities borrowed transactions. The final rule, which became effective February 22, 2006, also broadens the types of transactions qualifying for regulatory capital relief under the interim rule. Adoption of the rule did not have a material effect on the Firm's capital ratios.

On March 1, 2005, the FRB issued a final rule, which became effective April 11, 2005, that continues the inclusion of trust preferred securities in Tier 1 capital, subject to stricter quantitative limits and revised qualitative standards, and broadens the definition of restricted core capital elements. The rule provides for a five year transition period. As an internationally active bank holding company, JPMorgan Chase is subject to the rule's limitation on restricted core capital elements, including trust preferred securities, to 15% of total core capital elements, net of goodwill less any associated deferred tax liability. At June 30, 2006, JPMorgan Chase's restricted core capital elements were 14.5% of total core capital elements. JPMorgan Chase expects to be in compliance with the 15% limit by the March 31, 2009, implementation date.

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The following table presents the risk-based capital ratios for JPMorgan Chase and its significant banking subsidiaries at June 30, 2006, and December 31, 2005:

| (in millions, except ratios) | Tier 1 capital | Total capital | Risk-weighted assets ^(c) | Adjusted average assets ^(d) | Tier 1 capital ratio | Total capital ratio | Tier 1 leverage ratio |
|--|-------------------|-------------------|--|--|----------------------------|---------------------------|-----------------------------|
| June 30, 2006 | | | | | | | |
| JPMorgan Chase & Co. ^(a) | \$ 74,983 | \$ 106,283 | \$ 884,228 | \$ 1,282,233 | 8.5% | 12.0% | 5.8% |
| JPMorgan Chase Bank, N.A. | 64,055 | 88,238 | 783,939 | 1,123,564 | 8.2 | 11.3 | 5.7 |
| Chase Bank USA, N.A. | 9,767 | 11,909 | 66,392 | 59,076 | 14.7 | 17.9 | 16.5 |
| JPMorgan Chase & Co. ^(a) | \$ 72,474 | \$ 102,437 | \$ 850,643 | \$ 1,152,546 | 8.5% | 12.0% | 6.3% |
| JPMorgan Chase Bank, N.A. | 61,050 | 84,227 | 750,397 | 995,095 | 8.1 | 11.2 | 6.1 |
| Chase Bank USA, N.A. | 8,608 | 10,941 | 72,229 | 59,882 | 11.9 | 15.2 | 14.4 |
| Well-capitalized ratios ^(b) | | | | | 6.0% | 10.0% | 5.0% ^(e) |
| Minimum capital ratios ^(b) | | | | | 4.0 | 8.0 | 3.0 ^(f) |

(a) Asset and capital amounts for JPMorgan Chase's banking subsidiaries reflect intercompany transactions, whereas the respective amounts for JPMorgan Chase reflect the elimination of intercompany transactions.

(b) As defined by the regulations issued by the FRB, OCC and FDIC.

(c) Includes off balance sheet risk-weighted assets in the amounts of \$291.5 billion, \$278.2 billion and \$9.8 billion, respectively, at June 30, 2006, and \$279.2 billion, \$260.0 billion and \$15.5 billion, respectively, at December 31, 2005.

(d) Average adjusted assets for purposes of calculating the leverage ratio include total average assets adjusted for unrealized gains/losses on securities, less deductions for disallowed goodwill and other intangible assets, investments in subsidiaries and the total adjusted carrying value of nonfinancial equity investments that are subject to deductions from Tier 1 capital.

(e) Represents requirements for bank subsidiaries pursuant to regulations issued under the Federal Deposit Insurance Corporation Improvement Act. There is no Tier 1 leverage component in the definition of a well-capitalized bank holding company.

(f) The minimum Tier 1 leverage ratio for bank holding companies and banks is 3% or 4% depending on factors specified in regulations issued by the FRB and OCC.

Tier 1 capital was \$75.0 billion at June 30, 2006, compared with \$72.5 billion at December 31, 2005, an increase of \$2.5 billion. The increase was due primarily to net income of \$6.6 billion and net issuances of common stock under employee plans of \$1.9 billion. Offsetting these increases were changes in equity net of other comprehensive income due to dividends declared of \$2.4 billion, common share repurchases of \$2.0 billion and the redemption of preferred stock of \$139 million, as well as the redemption of qualifying trust preferred securities, a reduction in qualifying minority interests and an increase in the deduction for goodwill and other nonqualifying intangibles. Additional information regarding the Firm's capital ratios and the federal regulatory capital standards to which it is subject is

presented in Note 24 on pages 121-122 of JPMorgan Chase's 2005 Annual Report.

Dividends

The Firm's common stock dividend policy reflects JPMorgan Chase's earnings outlook, desired payout ratios, need to maintain an adequate capital level and alternative investment opportunities. In the second quarter of 2006, JPMorgan Chase declared a quarterly cash dividend on its common stock of \$0.34 per share, payable July 31, 2006, to stockholders of record at the close of business on July 6, 2006. The Firm continues to target a dividend payout ratio of approximately 30-40% of net income over time.

Stock repurchases

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

For the three and six months ended June 30, 2006, under the respective stock repurchase programs then in effect, the Firm repurchased a total of 17.7 million shares and 49.5 million shares for \$745.5 million and \$2.0 billion at an average price per share of \$42.24 and \$41.14, respectively. Of the \$2.0 billion of shares repurchased in the first half of 2006, \$1.1 billion was repurchased during the first quarter under the original \$6 billion stock repurchase program, and \$888 million was repurchased in the first and second quarters under the new \$8 billion stock repurchase program. For the three and six months ended June 30, 2005, under the original \$6 billion stock repurchase program then in effect, the Firm repurchased 16.8 million shares and 52.8 million shares for \$593.7 million and \$1.9 billion at an average price per share of \$35.32 and \$36.17, respectively. As of June 30, 2006, \$7.1 billion of authorized repurchase capacity remained under the new stock repurchase program.

For additional information regarding repurchases of the Firm's equity securities, see Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds, on pages 105-106 of this Form 10-Q.

Table of Contents**OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL CASH OBLIGATIONS****Special-purpose entities**

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

JPMorgan Chase is involved with SPEs in three broad categories: loan securitizations, multi-seller conduits and client intermediation. Capital is held, as deemed appropriate, against all SPE-related transactions and related exposures, such as derivative transactions and lending-related commitments. For a further discussion of SPEs and the Firm s accounting for these types of exposures, see Note 1 on page 91, Note 13 on pages 108 111 and Note 14 on pages 111 113 of JPMorgan Chase s 2005 Annual Report.

For certain liquidity commitments to SPEs, the Firm could be required to provide funding if the credit rating of JPMorgan Chase Bank, N.A. were downgraded below specific levels, primarily P-1, A-1 and F1 for Moody s, Standard & Poor s and Fitch, respectively. The amount of these liquidity commitments was \$71.6 billion and \$71.3 billion at June 30, 2006, and December 31, 2005, respectively. Alternatively, if JPMorgan Chase Bank were downgraded, the Firm could be replaced by another liquidity provider in lieu of providing funding under the liquidity commitment, or, in certain circumstances, could facilitate the sale or refinancing of the assets in the SPE in order to provide liquidity.

Of its \$71.6 billion in liquidity commitments to SPEs at June 30, 2006, \$71.5 billion was included in the Firm s other unfunded commitments to extend credit and asset purchase agreements, included in the table on the following page. Of the \$71.3 billion of liquidity commitments to SPEs at December 31, 2005, \$38.9 billion was included in the Firm s other unfunded commitments to extend credit and asset purchase agreements. As a result of the Firm s consolidation of multi-seller conduits in accordance with FIN 46R, \$0.1 billion of these commitments are excluded from the table at June 30, 2006, compared with \$32.4 billion at December 31, 2005, as the underlying assets of the SPEs have been included on the Firm s Consolidated balance sheets. The decrease from year-end is due to the deconsolidation during the 2006 second quarter of several multi-seller conduits administered by the Firm. For further information, refer to Note 14 on pages 85-86 of this Form 10-Q.

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

The following table summarizes certain revenue information related to consolidated and nonconsolidated variable interest entities (VIEs) with which the Firm has significant involvement, and to qualifying SPEs (QSPEs). The revenue reported in the table below primarily represents servicing and credit fee income. For a further discussion of VIEs and QSPEs, see Note 1, Note 13 and Note 14, on pages 91, 108 111 and 111 113, respectively, of JPMorgan Chase s 2005 Annual Report.

Revenue from VIEs and QSPEs

| (in millions) | Three months ended June 30, | | | Six months ended June 30, | | |
|---------------------|-----------------------------|---------------|---------------|---------------------------|-----------------|-----------------|
| | VIEs | QSPEs | Total | VIEs | QSPEs | Total |
| 2006 | \$ 53 | \$ 785 | \$ 838 | \$ 107 | \$ 1,578 | \$ 1,685 |
| 2005 ^(a) | 53 | 713 | 766 | 110 | 1,456 | 1,566 |

(a) Prior period results have been restated to reflect current methodology.

Off-balance sheet lending-related financial instruments and guarantees

JPMorgan Chase utilizes lending-related financial instruments (e.g., commitments and guarantees) to meet the financing needs of its customers. The contractual amount of these financial instruments represents the maximum possible credit risk should the counterparty draw down the commitment or the Firm fulfill its obligation under the guarantee, and the counterparty subsequently fails to perform according to the terms of the contract. Most of these commitments and guarantees expire without a default occurring or without being drawn. As a result, the total contractual amount of these instruments is not, in the Firm's view, representative of its actual future credit exposure or funding requirements. Further, certain commitments, primarily related to consumer financings, are cancelable upon notice at the option of the Firm. For a further discussion of lending-related commitments and guarantees and the Firm's accounting for them, see Credit risk management on pages 63-72 and Note 27 on pages 124-125 of JPMorgan Chase's 2005 Annual Report.

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The following table presents off balance sheet lending-related financial instruments and guarantees for the periods indicated:

| By remaining maturity (in millions) | June 30, 2006 | | | | Total | Dec. 31, |
|---|---------------|---------------|--------------|-----------|--------------|------------|
| | < 1 year | 1-<3 years | 3-5 years | > 5 years | | Total |
| Lending-related | | | | | | |
| Consumer ^(a) | \$ 647,224 | \$ 3,725 | \$ 3,706 | \$ 55,959 | \$ 710,614 | \$ 655,596 |
| Wholesale: | | | | | | |
| Other unfunded commitments to extend credit ^{(b)(c)} | 83,273 | 49,327 | 60,235 | 17,144 | 209,979 | 208,469 |
| Asset purchase agreements ^(d) | 22,702 | 33,801 | 5,896 | 1,600 | 63,999 | 31,095 |
| Standby letters of credit and guarantees ^{(c)(e)} | 28,450 | 18,656 | 36,250 | 5,127 | 88,483 | 77,199 |
| Other letters of credit ^(c) | 3,675 | 444 | 319 | 15 | 4,453 | 4,346 |
| Total wholesale | 138,100 | 102,228 | 102,700 | 23,886 | 366,914 | 321,109 |
| Total lending-related | \$ 785,324 | \$ 105,953 | \$ 106,406 | \$ 79,845 | \$ 1,077,528 | \$ 976,705 |
| Other guarantees | | | | | | |
| Securities lending guarantees ^(f) | \$ 297,862 | \$ | \$ | \$ | \$ 297,862 | \$ 244,316 |
| Derivatives qualifying as guarantees ^(g) | 28,331 | 13,351 | 3,445 | 19,273 | 64,400 | 61,759 |

(a) Includes Credit card lending-related commitments of \$627 billion at June 30, 2006, and \$579 billion at December 31, 2005, which represent the total available credit to the Firm's cardholders. The Firm has not experienced, and does not anticipate, that all of its cardholders will

utilize their entire available lines of credit at the same time. The Firm can reduce or cancel a credit card commitment by providing the cardholder prior notice or, in some cases, without notice as permitted by law.

- (b) Includes unused advised lines of credit totaling \$31.6 billion at June 30, 2006, and \$28.3 billion at December 31, 2005, which are not legally binding. In regulatory filings with the FRB, unused advised lines are not reportable.*
- (c) Represents contractual amount net of risk participations totaling \$37.4 billion at June 30, 2006, and \$29.3 billion at December 31, 2005.*
- (d) The maturity is based upon the weighted*

average life of the underlying assets in the SPE, primarily multi-seller asset-backed commercial paper conduits. Certain of the Firm's administered multi-seller conduits were deconsolidated. As of June 30, 2006, the deconsolidated assets were approximately \$33 billion.

- (e) Includes unused commitments to issue standby letters of credit of \$43.5 billion at June 30, 2006, and \$37.5 billion at December 31, 2005.*
- (f) Collateral held by the Firm in support of securities lending indemnification agreements was \$296 billion at June 30, 2006, and \$245 billion at December 31, 2005.*
- (g) Represents notional amounts of derivative guarantees. For a further*

*discussion of
guarantees, see
Note 27 on
pages 124-125
of JPMorgan
Chase's 2005
Annual Report.*

RISK MANAGEMENT

Risk is an inherent part of JPMorgan Chase's business activities. The Firm's risk management framework and governance structure is intended to provide comprehensive controls and ongoing management of the major risks inherent in its business activities. In addition, this framework recognizes the diversity among the Firm's core businesses, which helps reduce the impact of volatility in any particular area on the Firm's operating results as a whole. There are eight major risk types identified in the business activities of the Firm: liquidity risk, credit risk, market risk, interest rate risk, operational risk, legal and reputational risk, fiduciary risk and private equity risk. For a further discussion of these risks see pages 60-80 of JPMorgan Chase's 2005 Annual Report.

Table of Contents**LIQUIDITY RISK MANAGEMENT**

The following discussion of JPMorgan Chase's liquidity management framework highlights developments since December 31, 2005, and should be read in conjunction with pages 61-62 of JPMorgan Chase's 2005 Annual Report. Liquidity risk arises from the general funding needs of the Firm's activities and in the management of its assets and liabilities. JPMorgan Chase's liquidity management framework is intended to maximize liquidity access and minimize funding costs. Through active liquidity management, the Firm seeks to preserve stable, reliable and cost-effective sources of funding. This enables the Firm to replace maturing obligations when due and fund assets at appropriate maturities and rates. To accomplish this task, management uses a variety of liquidity risk measures that take into consideration market conditions, prevailing interest rates, liquidity needs and the desired maturity profile of liabilities.

Funding**Sources of funds**

Consistent with its liquidity management policy, the Firm has raised funds at the parent holding company sufficient to cover its obligations and those of its nonbank subsidiaries that mature over the next 12 months. Long-term funding needs for the parent holding company over the next several quarters are expected to be consistent with prior periods. As of June 30, 2006, the Firm's liquidity position remained strong based upon its liquidity metrics. JPMorgan Chase's long-dated funding, including core deposits, exceeds illiquid assets, and the Firm believes its obligations can be met even if access to funding is impaired.

The diversity of the Firm's funding sources enhances financial flexibility and limits dependence on any one source, thereby minimizing the cost of funds. The deposits held by the RFS, CB and TSS lines of business are a stable and consistent source of funding for JPMorgan Chase Bank. As of June 30, 2006, total deposits for the Firm were \$594 billion, which represented 64% of the Firm's funding liabilities. A significant portion of the Firm's retail deposits are core deposits, which are less sensitive to interest rate changes and therefore are considered more stable than market-based deposits. Core deposits include all U.S. deposits insured by the FDIC, up to the legal limit of \$100,000 per depositor. Throughout the first half of 2006, core bank deposits remained at approximately the same level as at the 2005 year-end. In addition to core retail deposits, the Firm benefits from substantial, geographically diverse corporate liability balances originated by TSS and CB through the normal course of business. These franchise-generated core liability balances are also a stable and consistent source of funding due to the nature of the businesses from which they are generated. For a further discussion of deposit and liability balance trends, see Business Segment Results and Balance Sheet Analysis on pages 14-15 and 43-45, respectively, of this Form 10-Q.

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

Finally, funding flexibility is provided by the Firm's ability to access the repo and asset securitization markets. These markets are evaluated on an ongoing basis to achieve an appropriate balance of secured and unsecured funding. The ability to securitize loans, and the associated gains on those securitizations, are principally dependent upon the credit quality and yields of the assets securitized and are generally not dependent upon the credit ratings of the issuing entity. Transactions between the Firm and its securitization structures are reflected in JPMorgan Chase's consolidated financial statements; these relationships include retained interests in securitization trusts, liquidity facilities and derivative transactions. For further details, see Off-balance sheet arrangements and contractual cash obligations and Notes 13 and 20 on pages 48-49, 82-85 and 91-92, respectively, of this Form 10-Q.

Table of Contents**Issuance**

Corporate credit spreads widened in the second quarter retracing much of the spread tightening experienced in the first quarter. JPMorgan Chase's spreads relative to U.S. treasuries widened slightly more than the Firm's peers in the second quarter.

During the second quarter of 2006, JPMorgan Chase issued approximately \$19.8 billion of long-term debt and capital debt securities. These issuances were offset partially by \$7.4 billion of long-term debt and capital debt securities that matured or were redeemed. In addition, during the second quarter of 2006, the Firm securitized approximately \$3.9 billion of residential mortgage loans and approximately \$1.2 billion of credit card loans, resulting in pre-tax gains (losses) on securitizations of \$(1) million and \$8 million, respectively. Also, during the second quarter of 2006 and the first half of 2006, the Firm securitized \$1.2 billion of automobile loans resulting in a small gain. During the first half of 2006, JPMorgan Chase issued approximately \$32.2 billion of long-term debt and capital debt securities. These issuances were offset partially by \$16.7 billion of long-term debt and capital debt securities that matured or were redeemed. In addition, during the first half of 2006, the Firm securitized approximately \$7.1 billion of residential mortgage loans and \$5.7 billion of credit card loans, resulting in pre-tax gains on securitizations of \$1 million and \$38 million, respectively. For a further discussion of loan securitizations, see Note 13 on pages 82-85 of this Form 10-Q.

Credit ratings

The credit ratings of JPMorgan Chase's parent holding company and each of its significant banking subsidiaries were, as of June 30, 2006, as follows:

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

The cost and availability of unsecured financing are influenced by credit ratings. A reduction in these ratings could adversely affect the Firm's access to liquidity sources, increase the cost of funds, trigger additional collateral requirements and decrease the number of investors and counterparties willing to lend. Critical factors in maintaining high credit ratings include a stable and diverse earnings stream, strong capital ratios, strong credit quality and risk management controls, diverse funding sources and strong liquidity monitoring procedures.

If the Firm's ratings were downgraded by one notch, the Firm estimates the incremental cost of funds and the potential loss of funding to be negligible. Additionally, the Firm estimates the additional funding requirements for VIEs and other third-party commitments would not be material. In the current environment, the Firm believes a downgrade is unlikely. For additional information on the impact of a credit ratings downgrade on the funding requirements for VIEs, and on derivatives and collateral agreements, see Special-purpose entities on page 48 and Ratings profile of derivative receivables mark-to-market (MTM) on page 56, of this Form 10-Q.

CREDIT RISK MANAGEMENT

The following discussion of JPMorgan Chase's credit portfolio as of June 30, 2006, highlights developments since December 31, 2005, and should be read in conjunction with pages 63-74 and page 81, and Notes 11, 12, 27, and 28 of JPMorgan Chase's 2005 Annual Report.

The Firm assesses its consumer credit exposure on a managed basis, which includes credit card receivables that have been securitized. For a reconciliation of the Provision for credit losses on a reported basis to managed basis, see pages 11-14 of this Form 10-Q.

Table of Contents**CREDIT PORTFOLIO**

The following table presents JPMorgan Chase's credit portfolio as of June 30, 2006, and December 31, 2005. Total credit exposure at June 30, 2006, increased by \$107 billion from December 31, 2005, reflecting an increase of \$48 billion and \$59 billion in the wholesale and consumer credit portfolios, respectively, as described in the following pages. In the table below, reported loans include all HFS loans, which are carried at the lower of cost or fair value with changes in value recorded in Other income. However, these HFS loans are excluded from the average loan balances used for the net charge-off rate calculations.

| (in millions, except ratios) | Credit exposure | | Nonperforming assets ⁽ⁱ⁾ | |
|---|---------------------|---------------------|-------------------------------------|-------------------------|
| | June 30, 2006 | Dec. 31, 2005 | June 30, 2006 | Dec. 31, 2005 |
| Total credit portfolio | | | | |
| Loans reported ^(d) | \$ 455,104 | \$ 419,148 | \$ 2,161 ^(j) | \$ 2,343 ^(j) |
| Loans securitized ^(d) | 66,349 | 70,527 | | |
| Total managed loans ^(c) | 521,453 | 489,675 | 2,161 | 2,343 |
| Derivative receivables ^(d) | 54,075 | 49,787 | 36 | 50 |
| Interests in purchased receivables ^(e) | | 29,740 | | |
| Total managed credit-related assets | 575,528 | 569,202 | 2,197 | 2,393 |
| Lending-related commitments ^(f) | 1,077,528 | 976,705 | NA | NA |
| Assets acquired in loan satisfactions | NA | NA | 187 | 197 |
| Total credit portfolio | \$ 1,653,056 | \$ 1,545,907 | \$ 2,384 | \$ 2,590 |
| Credit derivative hedges notional ^(g) | \$ (38,722) | \$ (29,882) | \$ (18) | \$ (17) |
| Collateral held against derivatives | (5,880) | (6,000) | NA | NA |
| Held-for-sale | | | | |
| Total average HFS loans | 33,157 | 32,086 | NA | NA |
| Nonperforming purchased ^(d) | 302 | 341 | NA | NA |

| (in millions, except ratios) | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|-----------------------------|--------|---|-------|---------------------------|----------|---|-------|
| | Net charge-offs | | Average annual net charge-off rate ^(l) | | Net charge-offs | | Average annual net charge-off rate ^(l) | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Total credit portfolio^(k) | | | | | | | | |
| Loans reported | \$ 654 | \$ 773 | 0.64% | 0.82% | \$ 1,322 | \$ 1,589 | 0.66% | 0.85% |
| Loans securitized ^(d) | 561 | 930 | 3.26 | 5.48 | 1,010 | 1,847 | 2.94 | 5.42 |

| | | | | | | | | |
|---------------------|-----------------|----------|--------------|-------|-----------------|----------|--------------|-------|
| Total managed loans | \$ 1,215 | \$ 1,703 | 1.02% | 1.53% | \$ 2,332 | \$ 3,436 | 1.00% | 1.56% |
|---------------------|-----------------|----------|--------------|-------|-----------------|----------|--------------|-------|

- (a) Loans are presented net of unearned income of \$2.6 billion and \$3.0 billion at June 30, 2006, and December 31, 2005, respectively.
- (b) Represents securitized credit card receivables. For a further discussion of credit card securitizations, see Card Services on pages 27-30 of this Form 10-Q.
- (c) Past-due 90 days and over and accruing includes credit card receivables of \$1.1 billion at both June 30, 2006 and December 31, 2005, and related credit card securitizations of \$977 million and \$730 million at June 30, 2006, and December 31, 2005, respectively.
- (d) Reflects net cash received under credit support annexes to legally enforceable master netting agreements of \$22 billion and \$27 billion as of June 30, 2006, and December 31, 2005, respectively.
- (e) As a result of restructuring certain multi-seller conduits the Firm administers, JPMorgan Chase deconsolidated \$29 billion of Interests in purchased receivables, \$3 billion of Loans and \$1 billion of Securities, and recorded \$33 billion of lending-related commitments as of June 30, 2006.
- (f) Includes wholesale unused advised lines of credit totaling \$31.6 billion and \$28.3 billion at June 30, 2006, and December 31, 2005, respectively, which are not legally binding. In regulatory filings with the Federal Reserve Board, unused advised lines are not reportable. Credit card lending-related commitments of \$627 billion and \$579 billion at June 30, 2006, and December 31, 2005, respectively, represent the total available credit to its cardholders. The Firm has not experienced, and does not anticipate, that all of its cardholders will utilize their entire available lines of credit at the same time. The Firm can reduce or cancel a credit card commitment by providing the cardholder prior notice or, in some cases, without notice as permitted by law.
- (g) Represents the net notional amount of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit risk of credit exposures; these derivatives do not qualify for hedge accounting under SFAS 133.
- (h) Represents distressed HFS wholesale loans purchased as part of IB's proprietary activities, which are excluded from nonperforming assets.
- (i) Includes nonperforming HFS loans of \$79 million and \$136 million as of June 30, 2006, and December 31, 2005, respectively.
- (j) Excludes nonperforming assets related to (i) loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by government agencies of \$1.1 billion for both June 30, 2006, and December 31, 2005, and (ii) education loans that are 90 days past due and still accruing, which are insured by government agencies under the Federal Family Education Loan Program, of \$0.2 billion at June 30, 2006. These amounts for GNMA and education loans are excluded, as reimbursement is proceeding normally.
- (k) There were no net charge-offs for the six months ended June 30, 2006 and 2005, for Derivative receivables, Interests in purchased receivables and lending-related commitments.
- (l) Net charge-off rates exclude average loans HFS of \$33 billion and \$26 billion for the three months ended June 30, 2006 and 2005, respectively, and \$34 billion and \$25 billion for the six months ended June 30, 2006 and 2005, respectively.

Table of Contents**WHOLESALE CREDIT PORTFOLIO**

As of June 30, 2006, wholesale exposure (IB, CB, TSS and AWM) increased by \$48 billion from December 31, 2005, due to increases in lending-related commitments of \$46 billion, Loans of \$28 billion, and Derivative receivables of \$4 billion, offset by a decrease of \$30 billion in Interests in purchased receivables. During the second quarter of 2006, certain multi-seller conduits that the Firm administers were deconsolidated, resulting in a decrease of \$29 billion in Interests in purchased receivables, offset by a related increase of \$33 billion in lending-related commitments. For a more detailed discussion of the deconsolidation, refer to Note 14 Variable Interest Entities, pages 85-86 of this Form 10-Q. The remainder of the increase in lending-related commitments and Loans was primarily in the IB, reflecting an increase in capital markets activity, including leveraged financings and syndications, and higher balances of loans held-for-sale.

| (in millions, except ratios) | Credit exposure | | Nonperforming assets ^(g) | |
|---|-------------------|-------------------|-------------------------------------|------------------|
| | June 30, 2006 | Dec. 31, 2005 | June 30, 2006 | Dec. 31, 2005 |
| Loans reported ^(d) | \$ 178,215 | \$ 150,111 | \$ 811 | \$ 992 |
| Derivative receivables ^(b) | 54,075 | 49,787 | 36 | 50 |
| Interests in purchased receivables ^(c) | | 29,740 | | |
| Total wholesale credit-related assets | 232,290 | 229,638 | 847 | 1,042 |
| Lending-related commitments ^(d) | 366,914 | 321,109 | NA | NA |
| Assets acquired in loan satisfactions | NA | NA | 6 | 17 |
| Total wholesale credit exposure | \$ 599,204 | \$ 550,747 | \$ 853 | \$ 1,059 |
| Credit derivative hedges notional ^(e) | \$ (38,722) | \$ (29,882) | \$ (18) | \$ (17) |
| Collateral held against derivatives | (5,880) | (6,000) | NA | NA |
| Held-for-sale | | | | |
| Total average HFS loans | 20,254 | 15,581 | NA | NA |
| Nonperforming purchased ^(f) | 302 | 341 | NA | NA |

(a) Past-due 90 days and over and accruing include loans of \$40 million and \$50 million at June 30, 2006, and December 31, 2005, respectively.

(b) Reflects net cash received under credit support annexes to legally enforceable master netting agreements of \$22 billion and \$27 billion as of June 30, 2006, and December 31, 2005, respectively.

(c) As a result of restructuring certain multi-seller conduits the Firm administers, JPMorgan Chase deconsolidated \$29 billion of Interests in purchased receivables, \$3 billion of Loans and \$1 billion of Securities, and recorded \$33 billion of lending-related commitments as of June 30, 2006.

(d) Includes unused advised lines of credit totaling \$31.6 billion and \$28.3 billion at June 30, 2006, and December 31, 2005, respectively, which are not legally binding. In regulatory filings with the Federal Reserve Board, unused advised lines are not reportable.

(e) Represents the net notional amount of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit risk of credit exposures; these derivatives do not qualify for hedge accounting under SFAS 133.

(f)

Represents distressed HFS loans purchased as part of IB's proprietary activities, which are excluded from nonperforming assets.

(g) Includes nonperforming HFS loans of \$70 million and \$109 million as of June 30, 2006, and December 31, 2005, respectively.

Table of Contents**Net charge-offs/recoveries**

Wholesale net recoveries were \$19 million and \$52 million for the three months ended June 30, 2006 and 2005, respectively. The net recovery rate was 0.05% compared with a net recovery rate of 0.16% for the prior year. Wholesale net recoveries were \$39 million and \$61 million in the six months ended June 30, 2006 and 2005, respectively. The net recovery rate was 0.05% compared with a net recovery rate of 0.10% for the prior year. There were no net charge-offs for the six months ended June 30, 2006 and 2005 for Derivative receivables, Interests in purchased receivables and lending-related commitments. Net charge-off rates also exclude average loans HFS of \$20 billion and \$12 billion for the three months ended June 30, 2006 and 2005, respectively, and \$20 billion and \$10 billion for the six months ended June 30, 2006 and 2005, respectively.

These net recoveries do not include gains from sales of nonperforming loans that were sold from the credit portfolio. The gains from these sales were \$15 million and \$39 million for the three months ended June 30, 2006 and 2005, respectively, and gains of \$35 million and \$47 million for the six months ended June 30, 2006 and 2005, respectively. When it is determined that a loan will be sold, it is transferred into a held-for-sale account. HFS loans are accounted for at lower of cost or fair value, with changes in value recorded in Other income.

Below are summaries of the maturity and ratings profiles of the wholesale portfolio as of June 30, 2006, and December 31, 2005. The ratings scale is based upon the Firm's internal risk ratings and is presented on an S&P-equivalent basis.

Wholesale exposure

| At June 30, 2006 (in billions, except ratios) | Maturity profile ^(d) | | | Ratings profile | | | Total % of IG ^(e) |
|--|---------------------------------|-----------------------------|----------------------------|-----------------|--|--|---------------------------------------|
| | <1 year ^(e) | 1-5 years ^(e) | >5 years ^(e) | Total | Investment | Noninvestment- | |
| | | | | | grade (IG ^(e)) AAA to BBB- | grade ^(e) BB+ & below | |
| Loans | 46% | 42% | 12% | 100% | \$ 101 | \$ 53 | 66% |
| Derivative receivables | 14 | 37 | 49 | 100 | 48 | 6 | 89 |
| Interests in purchased receivables ^(a) | | | | | | | |
| Lending-related commitments | 38 | 56 | 6 | 100 | 317 | 50 | 86 |
| Total excluding HFS Held-for-sale ^(b) | 38% | 50% | 12% | 100% | \$ 466 | \$ 109 | 81% |
| Total exposure | | | | | | | \$ 599 |
| Credit derivative hedges notional ^(c) | 12% | 77% | 11% | 100% | \$ (35) | \$ (4) | 90% |

| At December 31, 2005 (in billions, except ratios) | Maturity profile ^(d) | | | Ratings profile | | | Total % |
|--|---------------------------------|--|--|-----------------|-------------------------------|----------------------|------------|
| | | | | Total | Investment | Noninvestment- | |
| | | | | | grade (IG ^(e)) | grade ^(e) | |
| | | | | | | | |

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| | <1 year ^(e) | 1-5 years ^(e) | >5 years ^(e) | | AAA to BBB- | BB+ & below | | of IG ^(e) |
|---|---------------------------|-----------------------------|----------------------------|------|-------------------|----------------|--------------|-------------------------|
| Loans | 43% | 44% | 13% | 100% | \$ 87 | \$ 45 | \$ 132 | 66% |
| Derivative receivables | 2 | 42 | 56 | 100 | 42 | 8 | 50 | 84 |
| Interests in purchased receivables | 41 | 57 | 2 | 100 | 30 | | 30 | 100 |
| Lending-related commitments | 36 | 57 | 7 | 100 | 273 | 48 | 321 | 85 |
| Total excluding HFS Held-for-sale ^(b) | 35% | 52% | 13% | 100% | \$ 432 | \$ 101 | \$ 533 18 | 81% |
| Total exposure | | | | | | | \$ 551 | |
| Credit derivative hedges notional ^(c) | 15% | 74% | 11% | 100% | \$ (27) | \$ (3) | \$ (30) | 90% |

(a) As a result of restructuring certain multi-seller conduits the Firm administers, JPMorgan Chase deconsolidated \$29 billion of Interests in purchased receivables, \$3 billion of Loans and \$1 billion of Securities, and recorded \$33 billion of lending-related commitments as of June 30, 2006.

(b) HFS loans relate primarily to securitization and syndication activities.

(c) Ratings are based upon the underlying referenced assets.

(d) The maturity profile of Loans and lending-related commitments is based upon the remaining contractual maturity. The maturity profile of Derivative receivables is based upon the maturity profile of Average exposure. See page 68 of JPMorgan Chase's 2005 Annual Report for a further discussion of Average exposure.

(e) Excludes HFS loans.

Table of Contents**Wholesale credit exposure selected industry concentration**

The Firm continues to focus on the management and diversification of its industry concentrations, with particular attention paid to industries with actual or potential credit concerns. Compared with December 31, 2005, the top 10 industries remained unchanged as of June 30, 2006. The increase in Banks and finance companies, Securities firms and exchanges and Utilities reflects the overall growth in wholesale exposure. Below is a summary of the Top 10 industry concentrations as of June 30, 2006 and December 31, 2005.

| Top 10 industries (in millions, except ratios) | June 30, 2006 | | December 31, 2005 | |
|---|-----------------------------------|-------------------|-----------------------------------|-------------------|
| | Credit exposure ^(b) | % of portfolio | Credit exposure ^(b) | % of portfolio |
| Banks and finance companies | \$ 61,201 | 11% | \$ 50,924 | 10% |
| Real estate | 31,301 | 5 | 29,974 | 5 |
| Consumer products | 27,217 | 5 | 25,678 | 5 |
| State and municipal governments | 26,481 | 5 | 25,328 | 5 |
| Healthcare | 24,647 | 4 | 25,435 | 5 |
| Utilities | 24,481 | 4 | 20,482 | 4 |
| Securities firms and exchanges | 22,265 | 4 | 17,094 | 3 |
| Retail and consumer services | 20,301 | 4 | 19,920 | 4 |
| Asset managers | 19,105 | 3 | 17,358 | 3 |
| Oil and gas | 17,836 | 3 | 18,200 | 3 |
| All other | 299,744 | 52 | 282,802 | 53 |
| Total excluding HFS Held-for-sale ^(a) | \$ 574,579 | 100% | \$ 533,195 | 100% |
| | 24,625 | | 17,552 | |
| Total exposure | \$ 599,204 | | \$ 550,747 | |

(a) HFS loans primarily relate to securitization and syndication activities.

(b) Credit exposure is net of risk participations and excludes the benefit of credit derivative hedges and collateral held against Derivative receivables or Loans. At June 30, 2006, and December 31, 2005, collateral held against Derivative receivables excludes \$22 billion and \$27 billion, respectively, of cash collateral as a result of the Firm electing to report the fair value of derivative assets and liabilities net of cash received and paid, respectively, under legally enforceable master netting agreements.

Wholesale criticized exposure

Exposures deemed criticized generally represent a ratings profile similar to a rating of CCC+/Caa1 and lower, as defined by Standard & Poor's/Moody's. At June 30, 2006, Chemicals/plastics moved into the top 10, replacing Telecom services.

The criticized component of the portfolio decreased to \$4.2 billion (excluding HFS loans) at June 30, 2006, from \$5.2 billion at year-end 2005 due primarily to loan sales, repayments and gross charge-offs. Wholesale nonperforming assets (excluding purchased held-for-sale wholesale loans) decreased to \$853 million at June 30, 2006, from \$1.1 billion at December 31, 2005, representing 20% of criticized assets (excluding HFS loans) at June 30, 2006.

Wholesale criticized exposure industry concentrations

| Top 10 industries ^(a) (in millions, except ratios) | June 30, 2006 | | December 31, 2005 | |
|--|---------------|-------------------|-------------------|-------------------|
| | Amount | % of portfolio | Amount | % of portfolio |
| Automotive | \$ 604 | 14% | \$ 643 | 12% |
| Media | 459 | 11 | 684 | 13 |

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| | | | | |
|---------------------------------------|-----------------|-------------|----------|------|
| Consumer products | 403 | 10 | 590 | 11 |
| Real estate | 252 | 6 | 276 | 5 |
| Machinery and equipment manufacturing | 205 | 5 | 290 | 6 |
| Chemicals/plastics | 198 | 5 | 188 | 4 |
| Retail and consumer services | 189 | 4 | 288 | 6 |
| Utilities | 189 | 4 | 295 | 6 |
| Building materials/construction | 183 | 4 | 266 | 5 |
| Airlines | 176 | 4 | 333 | 6 |
| All other | 1,356 | 33 | 1,319 | 26 |
| Total excluding HFS | \$ 4,214 | 100% | \$ 5,172 | 100% |
| Held-for-sale ^(b) | 594 | | 1,069 | |
| Total | \$ 4,808 | | \$ 6,241 | |

(a) Rankings are based upon exposure at June 30, 2006.

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

Table of Contents**Derivative contracts**

In the normal course of business, the Firm uses derivative instruments to meet the needs of customers; to generate revenues through trading activities; to manage exposure to fluctuations in interest rates, currencies and other markets; and to manage the Firm's credit exposure. For a further discussion of derivative contracts, see Note 19 on page 91 of this Form 10-Q, and pages 67-70 of JPMorgan Chase's 2005 Annual Report.

The following table summarizes the aggregate notional amounts and the reported net derivative receivables MTM for the periods presented. The net derivative receivables MTM reflects the reported derivative receivables (i.e., the MTM or fair value of derivative contracts after the effects of legally enforceable master netting agreements) less other liquid securities held as collateral by the Firm. The MTM of derivative receivables contracts represents the cost to replace the contracts at current market rates should the counterparty default. When JPMorgan Chase has more than one transaction outstanding with a counterparty, the netted MTM exposure, less collateral held, represents, in the Firm's view, the appropriate measure of current credit risk.

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

| (in billions) | Notional amounts ^(a) | | Derivative receivables MTM | |
|--|---------------------------------|-------------------|----------------------------|--------------------|
| | June 30, 2006 | December 31, 2005 | June 30, 2006 | December 31, 2005 |
| Interest rate | \$44,254 | \$ 38,493 | \$ 35 | \$ 30 |
| Foreign exchange | 2,481 | 2,136 | 3 | 3 |
| Equity | 735 | 458 | 6 | 6 |
| Credit derivatives | 3,504 | 2,241 | 4 | 4 |
| Commodity | 400 | 265 | 6 | 7 |
| Total | \$51,374 | \$ 43,593 | 54 ^(b) | 50 ^(b) |
| Collateral held against derivative receivables | NA | NA | (6) ^(c) | (6) ^(c) |
| Exposure net total of collateral | NA | NA | \$ 48 | \$ 44 |

(a) Represents the gross sum of long and short third-party notional derivative contracts, excluding written options and foreign exchange spot contracts.

(b) Reflects \$22 billion and \$27 billion of cash collateral as of June 30, 2006, and December 31, 2005, respectively.

(c) Represents other liquid securities collateral held by the Firm as of June 30, 2006, and December 31, 2005, respectively.

The Firm also holds collateral delivered by clients at the initiation of transactions, but this collateral does not reduce the derivative receivables MTM in the table above. The collateral secures potential exposure that could arise in the derivatives portfolio should the MTM of the client's transactions move in the Firm's favor. As of June 30, 2006, and December 31, 2005, the Firm held \$12 billion and \$10 billion, respectively, of this collateral. The net derivative receivables MTM also does not include other credit enhancements in the forms of letters of credit and surety receivables. The percentage of the Firm's derivatives transactions subject to collateral agreements decreased slightly, to 79% as of June 30, 2006, from 81% at December 31, 2005.

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

Ratings profile of derivative receivables MTM

| Rating equivalent (in millions) | June 30, 2006 | | December 31, 2005 | |
|---------------------------------|------------------------|--------------|------------------------|--------------|
| | Net MTM ^(a) | % of Net MTM | Net MTM ^(a) | % of Net MTM |
| | | | | |

| | | | | |
|----------------|------------------|-------------|-----------|------|
| AAA to AA- | \$ 25,540 | 53% | \$ 20,735 | 48% |
| A+ to A- | 8,585 | 18 | 8,074 | 18 |
| BBB+ to BBB- | 8,711 | 18 | 8,243 | 19 |
| BB+ to B- | 5,289 | 11 | 6,580 | 15 |
| CCC+ and below | 70 | | 155 | |
| Total | \$ 48,195 | 100% | \$ 43,787 | 100% |

(a) See footnotes (b) and (c) above.

The Firm posted \$23 billion and \$27 billion of collateral as of June 30, 2006, and December 31, 2005, respectively. Certain derivative and collateral agreements include provisions that require the Firm, upon specified downgrades in its credit ratings, to post additional collateral for the benefit of the other party. As of June 30, 2006, the impact of a single-notch ratings downgrade to JPMorgan Chase Bank, from its current rating of AA- to A+, would have been an additional \$1 billion of collateral posted by the Firm; the impact of a six-notch ratings downgrade (from AA- to BBB-) would have been \$3 billion of additional collateral. Certain derivative contracts also provide for termination of the contract, generally upon a downgrade of the Firm, at the then-existing MTM value of the derivative contracts.

Table of Contents**Credit derivatives**

The following table presents the Firm's notional amounts of credit derivatives protection purchased and sold by the respective businesses as of June 30, 2006, and December 31, 2005:

Credit derivatives positions

| (in billions) | Notional amount | | | | Total |
|----------------------|-------------------------|--------------------|-------------------------|--------------------|-----------------|
| | Credit portfolio | | Dealer/client | | |
| | Protection purchased | Protection sold | Protection purchased | Protection sold | |
| June 30, 2006 | \$ 40 | \$ 1 | \$ 1,711 | \$ 1,752 | \$ 3,504 |
| December 31, 2005 | 31 | 1 | 1,096 | 1,113 | 2,241 |

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

JPMorgan Chase has limited counterparty exposure as a result of credit derivatives transactions. Of the \$54 billion of total Derivative receivables MTM at June 30, 2006, approximately \$4 billion, or 7%, was associated with credit derivatives, before the benefit of liquid securities collateral.

Dealer/client

As of June 30, 2006, the total notional amount of protection purchased and sold in the dealer/client business increased by \$1.3 trillion from year-end 2005 as a result of increased trade volume in the market. This business has a mismatch between the total notional amounts of protection purchased and sold. However, in the Firm's view, the risk positions are largely matched when securities used to risk-manage certain derivative positions are taken into consideration and the notional amounts are adjusted to a duration-based equivalent basis or to reflect different degrees of subordination in tranching structures.

Use of single-name and portfolio credit derivatives

| (in millions) | Notional amount of protection purchased | |
|---------------------------------------|--|----------------------|
| | June 30, 2006 | December 31, 2005 |
| Credit derivatives used to manage: | | |
| Loans and lending-related commitments | \$ 28,935 | \$ 18,926 |
| Derivative receivables | 11,075 | 12,088 |
| Total | \$ 40,010 | \$ 31,014 |

Credit portfolio management activities

The credit derivatives used by JPMorgan Chase for credit portfolio management activities do not qualify for hedge accounting under SFAS 133, and therefore, effectiveness testing under SFAS 133 is not performed. These derivatives are reported at fair value, with gains and losses recognized in Principal transactions. The MTM value incorporates both the cost of credit derivative premiums and changes in value due to movement in spreads and credit events; in contrast, the loans and lending-related commitments being risk-managed are accounted for on an accrual basis. Loan interest and fees are generally recognized in Net interest income, and impairment is recognized in the Provision for credit losses. This asymmetry in accounting treatment, between loans and lending-related commitments and the credit

derivatives utilized in credit portfolio management activities, causes earnings volatility that is not representative, in the Firm's view, of the true changes in value of the Firm's overall credit exposure. The MTM related to the Firm's credit derivatives used for managing credit exposure, as well as the mark related to the credit valuation adjustment (CVA), which reflects the credit quality of derivatives counterparty exposure, are included in the table below:

| (in millions) | Three months ended June | | Six months ended June | |
|--|-------------------------|---------|-----------------------|---------|
| | 2006 | 2005 | 2006 | 2005 |
| CVA and hedges of CVA ^(a) | \$ 12 | \$ (52) | \$ 35 | \$ (31) |
| Hedges of loans and lending-related commitments ^(a) | (41) | 9 | (123) | 42 |
| Net gains (losses) ^(b) | \$ (29) | \$ (43) | \$ (88) | \$ 11 |

(a) These hedges do not qualify for hedge accounting under SFAS 133.

(b) Excludes \$9 million of gains and \$25 million of losses for the three months ended June 30, 2006 and 2005, respectively, and \$3 million of gains and \$47 million of losses for the six months ended June 30, 2006 and 2005, respectively, of other Principal transaction revenues that are not associated with hedging activities.

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The Firm also actively manages wholesale credit exposure through loan and commitment sales. During the second quarters of 2006 and 2005, the Firm sold \$885 million and \$1.1 billion of loans and commitments, respectively, recognizing gains of \$20 million and \$33 million, respectively. During the first six months of 2006 and 2005, the Firm sold \$1.6 billion and \$2.1 billion of loans and commitments, respectively, in connection with the management of its wholesale credit exposure, resulting in gains of \$40 million and \$44 million, respectively. Both quarterly and year-to-date gains include gains on sales of nonperforming loans as discussed on page 54 of this Form 10 Q. These activities are not related to the Firm's securitization activities, which are undertaken for liquidity and balance sheet management purposes. For a further discussion of securitization activity, see Note 13 on pages 82-85 of this Form 10 Q.

Lending-related commitments

The contractual amount of wholesale lending-related commitments was \$367 billion at June 30, 2006, compared with \$321 billion at December 31, 2005. See page 53 of this Form 10 Q for an explanation of the increase in exposure. In the Firm's view, the total contractual amount of these instruments is not representative of the Firm's actual credit risk exposure or funding requirements. In determining the amount of credit risk exposure the Firm has to wholesale lending-related commitments, which is used as the basis for allocating credit risk capital to these instruments, the Firm has established a loan-equivalent amount for each commitment; this amount represents the portion of the unused commitment or other contingent exposure that is expected, based upon average portfolio historical experience, to become outstanding in the event of a default by an obligor. The loan equivalent amount of the Firm's lending-related commitments was \$201 billion and \$178 billion as of June 30, 2006, and December 31, 2005, respectively.

Country exposure

The Firm has a comprehensive process for measuring and managing exposures and risk in emerging markets countries defined as those countries potentially vulnerable to sovereign events. Exposures to a country include all credit-related lending, trading, and investment activities, whether cross-border or locally funded. Exposure amounts are adjusted for credit enhancements (e.g., guarantees and letters of credit) provided by third parties located outside the country, if the enhancements fully cover the country risk as well as the business risk. As of June 30, 2006, the Firm's exposure to any individual emerging markets country was not significant.

Table of Contents**CONSUMER CREDIT PORTFOLIO**

JPMorgan Chase's consumer portfolio consists primarily of residential mortgages, home equity loans, credit cards, auto loans and leases, education loans and loans to small businesses. The domestic consumer portfolio reflects the benefit of diversification from both a product and a geographical perspective. The primary focus is on serving the prime consumer credit market. The Firm proactively manages its retail credit operation. Ongoing efforts include continual review and enhancement of credit underwriting criteria and refinement of pricing and risk management models.

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

| (in millions, except ratios) | Credit exposure | | Nonperforming assets ^(e) | |
|---|---------------------|------------------|-------------------------------------|----------------------|
| | June 30, 2006 | Dec. 31, 2005 | June 30, 2006 | Dec. 31, 2005 |
| Retail Financial Services | | | | |
| Home equity | \$ 77,826 | \$ 73,866 | \$ 403 | \$ 422 |
| Mortgage | 60,014 | 58,959 | 503 | 442 |
| Auto loans and leases ^(a) | 42,184 | 46,081 | 133 | 193 |
| All other loans | 23,904 | 18,393 | 300 | 281 |
| Card Services reported ^(h) | 72,961 | 71,738 | 11 | 13 |
| Total consumer loans reported | 276,889 | 269,037 | 1,350^(f) | 1,351 ^(f) |
| Card Services securitization ^{(b)(c)} | 66,349 | 70,527 | | |
| Total consumer loans managed^(h) | 343,238 | 339,564 | 1,350 | 1,351 |
| Assets acquired in loan satisfactions | NA | NA | 181 | 180 |
| Total consumer related assets managed | 343,238 | 339,564 | 1,531 | 1,531 |
| Consumer lending related commitments: | | | | |
| Home equity | 63,707 | 58,281 | NA | NA |
| Mortgage | 6,624 | 5,944 | NA | NA |
| Auto loans and leases | 7,228 | 5,665 | NA | NA |
| All other loans | 5,942 | 6,385 | NA | NA |
| Card Services ^(d) | 627,113 | 579,321 | NA | NA |
| Total lending-related commitments | 710,614 | 655,596 | NA | NA |
| Total consumer credit portfolio | \$ 1,053,852 | \$ 995,160 | \$ 1,531 | \$ 1,531 |
| Total average HFS loans | \$ 12,903 | \$ 16,505 | NA | NA |
| Memo: Credit card managed | 139,310 | 142,265 | \$ 11 | \$ 13 |

Three months ended June 30,

Six months ended June 30,

| (in millions, except ratios) | Net charge-offs | | Average annual net charge-off rate ^(h) | | Net charge-offs | | Average annual net charge-off rate ^(h) | |
|---|-----------------|-----------------|---|--------------|-----------------|-----------------|---|--------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Retail Financial Services | | | | | | | | |
| Home equity | \$ 30 | \$ 32 | 0.16% | 0.19% | \$ 63 | \$ 67 | 0.17% | 0.20% |
| Mortgage | 9 | 8 | 0.08 | 0.07 | 21 | 14 | 0.09 | 0.06 |
| Auto loans and leases ^(a) | 45 | 47 | 0.43 | 0.37 | 96 | 130 | 0.44 | 0.49 |
| All other loans | 29 | 27 | 0.52 | 0.68 | 54 | 55 | 0.54 | 0.69 |
| Card Services reported | 560 | 711 | 3.29 | 4.25 | 1,127 | 1,384 | 3.33 | 4.25 |
| Total consumer loans reported | 673 | 825 | 1.05 | 1.32 | 1,361 | 1,650 | 1.08 | 1.34 |
| Card Services securitization ^(e) | 561 | 930 | 3.26 | 5.48 | 1,010 | 1,847 | 2.94 | 5.42 |
| Total consumer loans managed^(g) | \$ 1,234 | \$ 1,755 | 1.52% | 2.21% | \$ 2,371 | \$ 3,497 | 1.48% | 2.22% |
| Memo: Credit card managed | \$ 1,121 | \$ 1,641 | 3.28% | 4.87% | \$ 2,137 | \$ 3,231 | 3.13% | 4.85% |

(a) Excludes operating lease-related assets of \$1.3 billion and \$858 million for June 30, 2006, and December 31, 2005, respectively.

(b) Past-due loans 90 days and over and accruing includes credit card receivables of \$1.1 billion at both June 30, 2006, and December 31, 2005, and related credit card securitizations of \$977 million and \$730 million at June 30, 2006, and December 31, 2005, respectively.

(c) Represents securitized credit card receivables. For a further discussion of credit card securitizations, see Card Services on pages 27-30 of this Form 10-Q.

(d) The credit card lending related commitments represent the total available credit to the Firm's cardholders. The Firm has not experienced, and does not anticipate, that all of its cardholders will utilize their entire available lines of credit at the same time. The Firm can reduce or cancel a credit card commitment by providing the cardholder prior notice or, in some cases, without notice as permitted by law.

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- (e) *Includes nonperforming HFS loans of \$9 million and \$27 million at June 30, 2006, and December 31, 2005, respectively.*
- (f) *Excludes nonperforming assets related to (i) loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by government agencies of \$1.1 billion for both June 30, 2006, and December 31, 2005, and (ii) education loans that are 90 days past due and still accruing, which are insured by government agencies under the Federal Family Education Loan Program of \$0.2 billion at June 30, 2006. These amounts for GNMA and education loans are excluded, as reimbursement is proceeding normally.*
- (g) *There were no net charge-offs for the six months ended June 30, 2006 and 2005, for lending-related commitments.*
- (h) *Net charge-off rates exclude average loans HFS of \$13 billion and \$15 billion for the three months ended June 30, 2006 and 2005, respectively, and \$15 billion for both the six months ended June 30, 2006 and 2005.*

Consumer credit quality trends reflect stable underlying credit quality. Total managed consumer loans as of June 30, 2006, were \$343 billion, up from \$340 billion at year-end 2005, reflecting an increase in education loans as a result of the purchase of Collegiate Funding Services, and growth in home equity loans partially offset by the seasonal pattern and higher-than-normal customer payment rates of credit card receivables. Consumer lending-related commitments increased by 8%, to \$711 billion at June 30, 2006, reflecting the Kohl's private label credit card acquisition as well as a general increase across most Retail Financial Services and Card Services portfolios. The following discussion relates to the specific loan and lending-related categories within the consumer portfolio:

Retail Financial Services

Loan balances for Retail Financial Services were \$204 billion at June 30, 2006, an increase of \$7 billion from December 31, 2005. The increase was driven primarily by the \$6 billion increase in education loans as a result of the acquisition of Collegiate Funding Services on March 1, 2006. The net charge-off rate was 0.24% and 0.25% for the second quarter of 2006 and the first half of 2006, respectively, a decrease from 0.25% and 0.29% in comparable prior periods. The decrease reflected the benefits of stable credit trends in most consumer lending portfolios and the sale of the recreational vehicle loan portfolio in the first quarter of 2005.

Home Equity: Home Equity loans at June 30, 2006, were \$78 billion, an increase of \$4 billion from year-end 2005. The portfolio reflects a high concentration of prime quality credits. There are no products in the Home Equity portfolio that result in negative amortization.

Mortgage: Mortgage loans at June 30, 2006, were \$60 billion, an increase of \$1 billion from year-end 2005. Credit metrics were affected by the decision in early 2005 to retain, rather than securitize, subprime mortgage loans. Mortgage loans include some interest-only payment options to predominantly prime borrowers. There are no products in the mortgage portfolio that result in negative amortization.

Auto loans and leases: As of June 30, 2006, Auto loans and leases were \$42 billion, a decrease of \$4 billion from year-end 2005. The decrease in outstanding loans was caused partially by the de-emphasis of vehicle leasing, which comprised \$3 billion of outstanding loans as of June 30, 2006. It is anticipated that over time vehicle leases will account for a smaller share of balance sheet receivables and exposure. The Auto loans and leases portfolio reflects a high concentration of prime quality credits.

All other loans: As of June 30, 2006, other consumer loans were \$24 billion, an increase of \$6 billion from year-end 2005, primarily due to an increase in Education loans as a result of the acquisition of the Collegiate Funding Services education loan portfolio. Other loans also include small business banking loans (which are highly collateralized loans, often with personal loan guarantees) and community development loans.

Card Services

JPMorgan Chase analyzes its credit card portfolio on a managed basis, which includes credit card receivables on the consolidated balance sheet and those receivables sold to investors through securitization. Managed credit card receivables were \$139 billion at June 30, 2006, a decrease of \$3 billion from year-end 2005, reflecting the normal seasonal pattern and higher-than-normal customer payment rates, which management believes may partially be related to the new minimum payment rules and a higher proportion of customers in rewards-based programs. Partially offsetting these decreases were increases in receivables resulting from the Kohl's private label portfolio acquisition. The managed credit card net charge-off rate decreased to 3.28% and 3.13% in the second quarter of 2006 and year-to-date 2006, respectively, from 4.87% and 4.85% in the comparable prior-year periods. This decrease was due

primarily to lower bankruptcy-related net charge-offs. The 30-day delinquency rate increased to 3.14% on June 30, 2006, from 2.79% on December 31, 2005, primarily driven by accelerated loss recognition of delinquent accounts on December 31, 2005, following the significant 2005 fourth-quarter increase in bankruptcy filings. The managed credit card portfolio continues to reflect a well-seasoned portfolio that has good U.S. geographic diversification.

Table of Contents**ALLOWANCE FOR CREDIT LOSSES**

For further discussion of the components of the Allowance for credit losses, see Critical accounting estimates used by the Firm on page 81 and Note 12 on pages 107-108 of JPMorgan Chase's 2005 Annual Report. At June 30, 2006, management deemed the allowance for credit losses to be sufficient to absorb losses that are inherent in the portfolio, including losses that are not specifically identified or for which the size of the loss has not yet been fully determined.

Summary of changes in the allowance for credit losses

| Six months ended June 30, (in millions) | 2006 | | | 2005 | | |
|--|-------------------------|-------------------------|-----------------------|-------------------------|-------------------------|-----------------------|
| | Wholesale | Consumer | Total | Wholesale | Consumer | Total |
| Loans: | | | | | | |
| Beginning balance at January 1, | \$ 2,453 | \$ 4,637 | \$ 7,090 | \$ 3,098 | \$ 4,222 | \$ 7,320 |
| Gross charge-offs | (62) | (1,668) | (1,730) | (92) | (1,950) | (2,042) |
| Gross recoveries | 101 | 307 | 408 | 153 | 300 | 453 |
| Net (charge-offs) recoveries | 39 | (1,361) | (1,322) | 61 | (1,650) | (1,589) |
| Provision for loan losses | 77 | 1,223 | 1,300 | (550) | 1,617 | 1,067 |
| Other | | 8 | 8 | (5) | 1 | (4) |
| Ending balance | \$ 2,569 ^(a) | \$ 4,507 ^(b) | \$ 7,076 | \$ 2,604 ^(a) | \$ 4,190 ^(b) | \$ 6,794 |
| Components: | | | | | | |
| Asset specific | \$ 160 | \$ | \$ 160 | \$ 314 | \$ | \$ 314 |
| Statistical component | 1,639 | 3,217 | 4,856 | 1,604 | 3,064 | 4,668 |
| Adjustment to statistical component | 770 | 1,290 | 2,060 | 686 | 1,126 | 1,812 |
| Total Allowance for loan losses | \$ 2,569 | \$ 4,507 | \$ 7,076 | \$ 2,604 | \$ 4,190 | \$ 6,794 |
| Lending-related commitments: | | | | | | |
| Beginning balance at January 1, | \$ 385 | \$ 15 | \$ 400 | \$ 480 | \$ 12 | \$ 492 |
| Provision for lending-related commitments | 25 | (1) | 24 | (54) | 1 | (53) |
| Ending balance | \$ 410 | \$ 14 | \$ 424 ^(c) | \$ 426 | \$ 13 | \$ 439 ^(d) |

(a) The ratio of the wholesale allowance for loan losses to total wholesale loans was 1.67% and 1.95%, excluding wholesale HFS loans of \$24 billion and \$16 billion at June 30, 2006 and 2005, respectively.

(b) The ratio of the consumer allowance for loan losses to total consumer loans was 1.70% and 1.65%, excluding consumer HFS loans of \$12 billion and \$13 billion at June 30, 2006 and 2005, respectively.

(c) Includes \$45 million of asset-specific and \$379 million of formula-based allowance at June 30, 2006. The formula-based allowance for lending-related commitments is based upon a statistical calculation. There is no adjustment to the statistical calculation for lending-related commitments.

(d) Includes \$104 million of asset-specific and \$335 million of formula-based allowance at June 30, 2005. The formula-based allowance for lending-related commitments is based upon a statistical calculation. There is no adjustment to the statistical calculation for lending-related commitments.

Excluding held-for-sale loans, the total allowance for loan losses represented 1.69% of total loans at June 30, 2006, compared with 1.84% at December 31, 2005. The wholesale component of the allowance increased slightly to \$2.6 billion as of June 30, 2006, from \$2.5 billion at year-end 2005, primarily due to portfolio activity, mostly in the Investment Bank. The consumer allowance decreased to \$4.5 billion from \$4.6 billion at year-end 2005, as a result of Card Services releasing \$90 million of Allowance for loan losses related to Hurricane Katrina.

To provide for the risk of loss inherent in the Firm's process of extending credit, management also computes an asset-specific component and a formula-based component for lending-related commitments. These components are computed using a methodology similar to that used for the wholesale loan portfolio, but modified for expected maturities and probabilities of drawdown. This allowance, which is reported in Other liabilities, was \$424 million and \$400 million at June 30, 2006, and December 31, 2005, respectively.

Table of Contents**Provision for credit losses**

For a discussion of the reported Provision for credit losses, see page 9 of this Form 10 Q. The managed provision for credit losses includes credit card securitizations. For the three and six months ended June 30, 2006, securitized credit card losses were lower compared with the prior year periods, primarily as a result of lower bankruptcy-related charge-offs.

| Three months ended June 30, (in millions) | Provision for loan losses | | Provision for lending-related commitments | | Total provision for credit losses | |
|--|---------------------------|-----------------|---|----------------|-----------------------------------|-----------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| | Investment Bank | \$ (91) | \$ (271) | \$ 29 | \$ (72) | \$ (62) |
| Commercial Banking | (24) | 116 | 12 | 26 | (12) | 142 |
| Treasury & Securities Services | 4 | 2 | | | 4 | 2 |
| Asset & Wealth Management | (7) | (18) | | (2) | (7) | (20) |
| Corporate | | 1 | | | | 1 |
| Total Wholesale | (118) | (170) | 41 | (48) | (77) | (218) |
| Retail Financial Services | 101 | 95 | (1) | (1) | 100 | 94 |
| Card Services | 470 | 711 | | | 470 | 711 |
| Total Consumer | 571 | 806 | (1) | (1) | 570 | 805 |
| Total provision for credit losses | 453 | 636 | 40 | (49) | 493 | 587 |
| Credit card securitizations | 561 | 930 | | | 561 | 930 |
| Total managed provision for credit losses | \$ 1,014 | \$ 1,566 | \$ 40 | \$ (49) | \$ 1,054 | \$ 1,517 |

| Six months ended June 30, (in millions) | Provision for loan losses | | Provision for lending-related commitments | | Total provision for credit losses | |
|--|---------------------------|--------------|---|-------------|-----------------------------------|--------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| | Investment Bank | \$ 98 | \$ (627) | \$ 23 | \$ (82) | \$ 121 |
| Commercial Banking | (8) | 108 | 3 | 28 | (5) | 136 |
| Treasury & Securities Services | | (3) | | 2 | | (1) |
| Asset & Wealth Management | (13) | (25) | (1) | (2) | (14) | (27) |
| Corporate | | (3) | | | | (3) |
| Total Wholesale | 77 | (550) | 25 | (54) | 102 | (604) |
| Retail Financial Services | 186 | 187 | (1) | 1 | 185 | 188 |
| Card Services | 1,037 | 1,430 | | | 1,037 | 1,430 |
| Total Consumer | 1,223 | 1,617 | (1) | 1 | 1,222 | 1,618 |
| Total provision for credit losses | 1,300 | 1,067 | 24 | (53) | 1,324 | 1,014 |
| Credit card securitizations | 1,010 | 1,847 | | | 1,010 | 1,847 |

| | | | | | | |
|--|-----------------|----------|--------------|---------|-----------------|----------|
| Total managed provision for credit losses | \$ 2,310 | \$ 2,914 | \$ 24 | \$ (53) | \$ 2,334 | \$ 2,861 |
|--|-----------------|----------|--------------|---------|-----------------|----------|

Table of Contents**MARKET RISK MANAGEMENT**

For a discussion of the Firm's market risk management organization, see pages 75-78 of JPMorgan Chase's 2005 Annual Report.

Value-at-risk (VAR)

JPMorgan Chase's primary statistical risk measure, VAR, estimates the potential loss from adverse market moves in an ordinary market environment and provides a consistent cross-business measure of risk profiles and levels of diversification. VAR is used for comparing risks across businesses, monitoring limits, one-off approvals, and as an input to economic capital calculations. VAR provides risk transparency in a normal trading environment. Each business day the Firm undertakes a comprehensive VAR calculation that includes both its trading and its nontrading activities. VAR for nontrading activities measures the amount of potential change in the fair values of the exposures related to these activities; however, for such activities, VAR is not a measure of reported revenue since nontrading activities are generally not marked to market through earnings. The Firm calculates VAR using a one-day time horizon and an expected tail-loss methodology, which approximates a 99% confidence level. This means the Firm would expect to incur losses greater than that predicted by VAR estimates only once in every 100 trading days, or about 2.5 times a year. For a further discussion of the Firm's VAR methodology, see pages 75-77 of JPMorgan Chase's Annual Report.

Trading VAR**IB trading VAR by risk type and credit portfolio VAR**

| June 30, (in millions) | Three months | | | | | | Period end | | Six months | |
|--|---------------------|-------------------|-------------------|---------------------|-------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| | Avg VAR | 2006 | | Avg VAR | 2005 | | June 30, 2006 | June 30, 2005 | 2006 | 2005 |
| | | Min VAR | Max VAR | | Min VAR | Max VAR | VAR | VAR | Avg VAR | Avg VAR |
| By risk type: | | | | | | | | | | |
| Fixed income | \$ 52 | \$ 38 | \$ 66 | \$ 82 | \$ 44 | \$ 110 | \$ 38 | \$ 94 | \$ 56 | \$ 70 |
| Foreign exchange | 25 | 15 | 37 | 21 | 17 | 26 | 22 | 20 | 22 | 22 |
| Equities | 24 | 18 | 33 | 45 | 18 | 65 | 21 | 46 | 28 | 32 |
| Commodities and other | 52 | 39 | 76 | 15 | 10 | 23 | 46 | 21 | 50 | 12 |
| Less: portfolio diversification | (74) ^(c) | NM ^(d) | NM ^(d) | (61) ^(c) | NM ^(d) | NM ^(d) | (65) ^(c) | (69) ^(c) | (71) ^(c) | (52) ^(c) |
| Trading VAR ^(a) | \$ 79 | \$ 57 | \$ 99 | \$ 102 | \$ 66 | \$ 130 | \$ 62 | \$ 112 | \$ 85 | \$ 84 |
| Credit portfolio VAR ^(b) | 14 | 13 | 19 | 13 | 11 | 17 | 15 | 17 | 14 | 13 |
| Less: portfolio diversification | (9) ^(c) | NM ^(d) | NM ^(d) | (13) ^(c) | NM ^(d) | NM ^(d) | (10) ^(c) | (16) ^(c) | (10) ^(c) | (11) ^(c) |
| Total trading and credit portfolio VAR | \$ 84 | \$ 65 | \$ 105 | \$ 102 | \$ 70 | \$ 130 | \$ 67 | \$ 113 | \$ 89 | \$ 86 |

(a) Trading VAR
excludes VAR
related to the

Firm's private equity business and certain exposures used to manage MSRs. For a discussion of Private equity risk management and MSRs, see page 65 and Note 15 on page 88 of this Form 10-Q, respectively. Trading VAR includes substantially all trading activities in the IB; however, particular risk parameters of certain products are not fully captured, for example, correlation risk.

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

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

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

IB's average Total Trading and Credit Portfolio VAR for the second quarter of 2006 was \$84 million, an \$18 million decrease from the second quarter of 2005. The decrease was driven by declines in both fixed income and equities offset by higher VAR for commodities. Average Trading VAR diversification increased to \$74 million, or 48% of the sum of the components, from \$61 million, or 37% of the sum of the components. In general, over the course of the year, VAR exposures can vary significantly as trading positions change, market volatility fluctuates and diversification benefits change.

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VAR backtesting

To evaluate the soundness of its VAR model, the Firm conducts daily backtesting of VAR against daily market risk-related revenue, which is defined as the change in value of the trading portfolios plus any trading-related net interest income, brokerage commissions, underwriting fees or other revenue. The following histogram illustrates the daily market risk-related gains and losses for the IB trading businesses for the six months ended June 30, 2006. The chart shows that the IB posted market risk-related gains on 114 out of 130 days in this period, with 16 days exceeding \$100 million. The inset graph looks at those days on which the IB experienced losses and depicts the amount by which VAR exceeded the actual loss on each of those days. Losses were sustained on 16 days, with four days having losses greater than \$40 million, and with no loss exceeding the VAR measure.

Economic value stress testing

While VAR reflects the risk of loss due to unlikely events in normal markets, stress testing captures the Firm's exposure to unlikely but plausible events in abnormal markets. The Firm conducts economic-value stress tests for both its trading and its nontrading activities using multiple scenarios for both types of activities. Periodically, scenarios are reviewed and updated to reflect changes in the Firm's risk profile and economic events. Stress testing is as important as VAR in measuring and controlling risk. Stress testing enhances the understanding of the Firm's risk profile and loss potential, and is used for monitoring limits, one-off approvals and cross-business risk measurement, as well as an input to economic capital allocation.

Based upon the Firm's stress scenarios, the average stress test loss (pre-tax) in the IB's trading portfolio for the second quarter of 2006 was \$1.4 billion compared with \$885 million for the second quarter of 2005. For the first half of 2006, the average stress test loss was \$1.2 billion, compared with \$755 million for the same period in 2005.

Table of Contents**Earnings-at-risk stress testing**

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

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

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

JPMorgan Chase's 12-month pre-tax earnings sensitivity profile as of June 30, 2006, and December 31, 2005, were as follows:

| (in millions) | Immediate change in rates | | |
|----------------------|---------------------------|--------------|----------------|
| | +200bp | +100bp | -100bp |
| June 30, 2006 | \$ 23 | \$ 40 | \$ (90) |
| December 31, 2005 | 265 | 172 | (162) |

The primary change in earnings-at-risk from December 31, 2005, reflects a higher level of AFS securities and other Treasury repositioning. The Firm's risk to rising and falling interest rates is due primarily to corresponding increases and decreases in short-term funding costs.

OPERATIONAL RISK MANAGEMENT

For a discussion of JPMorgan Chase's operational risk management, refer to page 79 of JPMorgan Chase's 2005 Annual Report.

REPUTATION AND FIDUCIARY RISK MANAGEMENT

For a discussion of the Firm's Reputation and Fiduciary Risk Management, see page 80 of JPMorgan Chase's 2005 Annual Report.

PRIVATE EQUITY RISK MANAGEMENT

For a discussion of Private Equity Risk Management, see page 80 of JPMorgan Chase's 2005 Annual Report. At June 30, 2006, the carrying value of the private equity portfolios of the JPMorgan Partners and ONE Equity Partners businesses was \$5.6 billion, of which \$589 million represented positions in publicly-held securities.

SUPERVISION AND REGULATION

The following discussion should be read in conjunction with the Supervision and Regulation section on pages 1 4 of JPMorgan Chase s 2005 Form 10 K.

Dividends

At June 30, 2006, JPMorgan Chase s bank subsidiaries could pay, in the aggregate, \$11.5 billion in dividends to their respective bank holding companies without prior approval of their relevant banking regulators.

Table of Contents**CRITICAL ACCOUNTING ESTIMATES USED BY THE FIRM**

JPMorgan Chase's accounting policies and use of estimates are integral to understanding its reported results. The Firm's most complex accounting estimates require management's judgment to ascertain the valuation of assets and liabilities. The Firm has established detailed policies and control procedures intended to ensure that valuation methods, including any judgments made as part of such methods, are well controlled, independently reviewed and applied consistently from period to period. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. The Firm believes its estimates for determining the valuation of its assets and liabilities are appropriate. For a further description of the Firm's critical accounting estimates involving significant management valuation judgments, see pages 81-83 and the Notes to consolidated financial statements in JPMorgan Chase's 2005 Annual Report.

Allowance for credit losses

JPMorgan Chase's allowance for credit losses covers the wholesale and consumer loan portfolios as well as the Firm's portfolio of wholesale lending-related commitments. The Allowance for loan losses is intended to adjust the value of the Firm's loan assets for probable credit losses as of the balance sheet date. For a further discussion of the methodologies used in establishing the Firm's allowance for credit losses, see Note 12 on pages 107-108 of JPMorgan Chase's 2005 Annual Report. The methodology for calculating the Allowance for loan losses and the Allowance for lending-related commitments involves significant judgment. For a further description of these judgments, see Allowance for credit losses on page 81 of JPMorgan Chase's 2005 Annual Report; for amounts recorded as of June 30, 2006 and 2005, see allowance for credit losses on page 61, and Note 12 on page 82 of this Form 10-Q.

Fair value of financial instruments

A portion of JPMorgan Chase's assets and liabilities are carried at fair value, including trading assets and liabilities, AFS securities, private equity investments and mortgage servicing rights. Held-for-sale loans and physical commodities are carried at the lower of cost or fair value. At June 30, 2006, approximately \$478 billion of the Firm's assets were recorded at fair value.

Trading and available-for-sale portfolios

The following table summarizes the Firm's trading and available-for-sale portfolios by valuation methodology at June 30, 2006:

| | Trading assets | | Trading liabilities | | AFS securities |
|---|-------------------------------------|----------------------------|--------------------------------|----------------------------|----------------|
| | Securities purchased ^(a) | Derivatives ^(b) | Securities sold ^(a) | Derivatives ^(b) | |
| Fair value based upon: | | | | | |
| Quoted market prices | 86% | 1% | 98% | 1% | 97% |
| Internal models with significant observable market parameters | 11 | 97 | 2 | 96 | 3 |
| Internal models with significant unobservable market parameters | 3 | 2 | | 3 | |
| Total | 100% | 100% | 100% | 100% | 100% |

(a) Reflected as debt and equity instruments on the Firm's Consolidated

balance sheets.

*(b) Based upon
gross
mark-to-market
valuations of the
Firm's
derivatives
portfolio prior
to netting
positions
pursuant to FIN
39, as
cross-product
netting is not
relevant to an
analysis based
upon valuation
methodologies.*

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ACCOUNTING AND REPORTING DEVELOPMENTS

Accounting for Share-Based Payments

Effective January 1, 2006, the Firm adopted SFAS 123R and all related interpretations using the modified prospective transition method. For additional information related to SFAS 123R, see Note 7 on pages 76-79 of this Form 10-Q.

Accounting for Certain Hybrid Financial Instruments – an Amendment of FASB Statements No. 133 and 140

In February 2006, the FASB issued SFAS 155, which applies to certain hybrid financial instruments, which are instruments that contain embedded derivatives. The new standard establishes a requirement to evaluate beneficial interests in securitized financial assets to determine if the interests represent freestanding derivatives or are hybrid financial instruments containing embedded derivatives requiring bifurcation. It also permits an election for fair value remeasurement of any hybrid financial instrument containing an embedded derivative that otherwise would require bifurcation under SFAS 133. The Firm adopted this standard effective January 1, 2006. For additional information related to SFAS 155, see Note 1 on page 72 of this Form 10-Q.

Accounting for Servicing of Financial Assets

In the first quarter of 2006, the FASB issued SFAS 156, which is effective as of the beginning of the first fiscal year beginning after September 15, 2006, with early adoption permitted. JPMorgan Chase has elected to adopt the standard effective January 1, 2006. The standard permits an entity a one-time irrevocable election to adopt fair value accounting for a class of servicing assets. The Firm has defined MSR as one class of servicing assets for this election. For additional information related to the Firm's adoption of SFAS 156 with respect to MSRs, see Note 15 on page 88 of this Form 10-Q.

Accounting for Uncertainty in Income Taxes and Changes in Timing of Cash Flows Related to Income Taxes Generated by a Leveraged Lease

In July 2006, the FASB issued two pronouncements: FIN 48, which clarifies the accounting for uncertainty in income taxes recognized under SFAS 109, and the related FSP FAS 13-2. FIN 48 addresses the recognition and measurement of tax positions taken or expected to be taken, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. FSP FAS 13-2 requires the recalculation of returns on leveraged leases if there is a change or projected change in the timing of cash flows relating to income taxes generated by a leveraged lease. The Firm will apply FIN 48 to all of its income tax positions at the required effective date of January 1, 2007 under the transition provisions of the Interpretation. Any implementation impact of FIN 48 will generally be reported as a cumulative effect adjustment to the opening balance of retained earnings. JPMorgan Chase is currently assessing the provisions of FIN 48 and, at this time, cannot reasonably estimate its impact on the Firm's financial statements. The guidance in FSP FAS 13-2 will also be effective for the Firm on January 1, 2007. Implementation of FSP FAS 13-2 is expected to result in immaterial adjustments.

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JPMORGAN CHASE & CO.
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(in millions, except per share data)

| | Three months ended June | | Six months ended June | |
|---|-------------------------|--------|-----------------------|----------|
| | 30, | | 30, | |
| | 2006 | 2005 | 2006 | 2005 |
| Revenue | | | | |
| Investment banking fees | \$ 1,370 | \$ 961 | \$ 2,539 | \$ 1,954 |
| Principal transactions | 2,628 | 724 | 5,230 | 3,360 |
| Lending & deposit related fees | 865 | 851 | 1,706 | 1,671 |
| Asset management, administration and commissions | 2,933 | 2,416 | 5,782 | 4,786 |
| Securities gains (losses) | (502) | 70 | (618) | (752) |
| Mortgage fees and related income | 213 | 336 | 454 | 698 |
| Credit card income | 1,791 | 1,763 | 3,701 | 3,497 |
| Other income | 464 | 495 | 1,018 | 693 |
| Noninterest revenue | 9,762 | 7,616 | 19,812 | 15,907 |
| | | | | |
| Interest income | 14,413 | 10,816 | 27,478 | 21,329 |
| Interest expense | 9,235 | 5,884 | 17,307 | 11,235 |
| Net interest income | 5,178 | 4,932 | 10,171 | 10,094 |
| | | | | |
| Total net revenue | 14,940 | 12,548 | 29,983 | 26,001 |
| | | | | |
| Provision for credit losses | 493 | 587 | 1,324 | 1,014 |
| | | | | |
| Noninterest expense | | | | |
| Compensation expense | 5,268 | 4,220 | 10,816 | 8,874 |
| Occupancy expense | 553 | 572 | 1,147 | 1,090 |
| Technology, communications and equipment expense | 876 | 891 | 1,745 | 1,806 |
| Professional & outside services | 939 | 1,115 | 1,815 | 2,176 |
| Marketing | 526 | 537 | 1,045 | 1,020 |
| Other expense | 631 | 2,808 | 1,447 | 4,496 |
| Amortization of intangibles | 357 | 376 | 712 | 751 |
| Merger costs | 86 | 279 | 157 | 424 |
| Total noninterest expense | 9,236 | 10,798 | 18,884 | 20,637 |
| | | | | |
| Income from continuing operations before income tax expense | 5,211 | 1,163 | 9,775 | 4,350 |
| Income tax expense | 1,727 | 226 | 3,264 | 1,207 |

| | | | | |
|--|-----------------|---------|-----------------|----------|
| Income from continuing operations (after-tax) | 3,484 | 937 | 6,511 | 3,143 |
| Income from discontinued operations (after-tax) | 56 | 57 | 110 | 115 |
| Net income | \$ 3,540 | \$ 994 | \$ 6,621 | \$ 3,258 |
| Net income applicable to common stock | \$ 3,540 | \$ 991 | \$ 6,617 | \$ 3,250 |
| Per common share data | | | | |
| Basic earnings per share | | | | |
| Income from continuing operations | \$ 1.00 | \$ 0.27 | \$ 1.87 | \$ 0.89 |
| Net income | 1.02 | 0.28 | 1.91 | 0.93 |
| Diluted earnings per share | | | | |
| Income from continuing operations | \$ 0.98 | \$ 0.26 | \$ 1.82 | \$ 0.88 |
| Net income | 0.99 | 0.28 | 1.85 | 0.91 |
| Average basic shares | 3,473.8 | 3,493.0 | 3,473.3 | 3,505.2 |
| Average diluted shares | 3,572.2 | 3,548.3 | 3,571.5 | 3,559.0 |
| Cash dividends per common share | \$ 0.34 | \$ 0.34 | \$ 0.68 | \$ 0.68 |

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

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JPMORGAN CHASE & CO.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(in millions, except share data)

| | June 30, 2006 | December 31, 2005 |
|---|---------------------|----------------------|
| Assets | | |
| Cash and due from banks | \$ 38,390 | \$ 36,670 |
| Deposits with banks | 14,437 | 21,661 |
| Federal funds sold and securities purchased under resale agreements | 157,438 | 133,981 |
| Securities borrowed | 87,377 | 74,604 |
| Trading assets (including assets pledged of \$76,937 at June 30, 2006, and \$79,657 at December 31, 2005) | 349,679 | 298,377 |
| Securities: | | |
| Available-for-sale (including assets pledged of \$39,275 at June 30, 2006, and \$17,614 at December 31, 2005) | 77,955 | 47,523 |
| Held-to-maturity (fair value: \$69 at June 30, 2006, and \$80 at December 31, 2005) | 67 | 77 |
| Interests in purchased receivables | | 29,740 |
| Loans | 455,104 | 419,148 |
| Allowance for loan losses | (7,076) | (7,090) |
| Loans, net of Allowance for loan losses | 448,028 | 412,058 |
| Private equity investments | 5,974 | 6,374 |
| Accrued interest and accounts receivable | 24,418 | 22,421 |
| Premises and equipment | 8,910 | 9,081 |
| Goodwill | 43,498 | 43,621 |
| Other intangible assets: | | |
| Mortgage servicing rights | 8,247 | 6,452 |
| Purchased credit card relationships | 3,138 | 3,275 |
| All other intangibles | 4,231 | 4,832 |
| Other assets | 54,981 | 48,195 |
| Assets of discontinued operations held-for-sale | 1,233 | |
| Total assets | \$ 1,328,001 | \$ 1,198,942 |
| Liabilities | | |
| Deposits: | | |
| U.S. offices: | | |
| Noninterest-bearing | \$ 127,311 | \$ 135,599 |
| Interest-bearing | 312,517 | 287,774 |
| Non-U.S. offices: | | |
| Noninterest-bearing | 6,442 | 7,476 |
| Interest-bearing | 147,446 | 124,142 |

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| | | |
|--|---------------------|--------------|
| Total deposits | 593,716 | 554,991 |
| Federal funds purchased and securities sold under repurchase agreements | 175,055 | 125,925 |
| Commercial paper | 18,554 | 13,863 |
| Other borrowed funds | 10,921 | 10,479 |
| Trading liabilities | 158,075 | 145,930 |
| Accounts payable, accrued expenses and other liabilities (including the Allowance for lending-related commitments of \$424 at June 30, 2006, and \$400 at December 31, 2005) | 82,569 | 78,460 |
| Beneficial interests issued by consolidated VIEs | 15,432 | 42,197 |
| Long-term debt (including structured notes accounted for at fair value of \$13,423 at June 30, 2006) | 125,280 | 108,357 |
| Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities | 10,827 | 11,529 |
| Liabilities of discontinued operations held-for-sale | 26,888 | |
| Total liabilities | 1,217,317 | 1,091,731 |
| Commitments and contingencies (see Note 17 of this Form 10 Q) | | |
| Stockholders equity | | |
| Preferred stock | | 139 |
| Common stock (\$1 par value; authorized 9,000,000,000 shares; issued 3,658,057,794 shares and 3,618,189,597 shares at June 30, 2006, and December 31, 2005, respectively) | 3,658 | 3,618 |
| Capital surplus | 77,098 | 74,994 |
| Retained earnings | 38,208 | 33,848 |
| Accumulated other comprehensive income (loss) | (1,218) | (626) |
| Treasury stock, at cost (187,476,060 shares at June 30, 2006, and 131,500,350 shares at December 31, 2005) | (7,062) | (4,762) |
| Total stockholders equity | 110,684 | 107,211 |
| Total liabilities and stockholders equity | \$ 1,328,001 | \$ 1,198,942 |

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

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JPMORGAN CHASE & CO.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)
(in millions, except per share data)

| | Six months ended June 30, | |
|--|---------------------------|---------|
| | 2006 | 2005 |
| Preferred stock | | |
| Balance at beginning of the year | \$ 139 | \$ 339 |
| Redemption of preferred stock | (139) | (200) |
| Balance at end of period | | 139 |
| Common stock | | |
| Balance at beginning of year | 3,618 | 3,585 |
| Issuance of common stock | 40 | 19 |
| Balance at end of period | 3,658 | 3,604 |
| Capital surplus | | |
| Balance at beginning of year | 74,994 | 72,801 |
| Issuance of common stock and commitments to issue common stock for employee stock-based awards and related tax effects | 2,104 | 1,110 |
| Balance at end of period | 77,098 | 73,911 |
| Retained earnings | | |
| Balance at beginning of year | 33,848 | 30,209 |
| Cumulative effect of change in accounting principles | 172 | |
| Balance at beginning of year, adjusted | 34,020 | 30,209 |
| Net income | 6,621 | 3,258 |
| Cash dividends declared: | | |
| Preferred stock | (4) | (8) |
| Common stock (\$0.68 per share each period) | (2,429) | (2,427) |
| Balance at end of period | 38,208 | 31,032 |
| Accumulated other comprehensive income (loss) | | |
| Balance at beginning of year | (626) | (208) |
| Other comprehensive income (loss) | (592) | 147 |
| Balance at end of period | (1,218) | (61) |

| | | |
|--|-------------------|------------|
| Treasury stock, at cost | | |
| Balance at beginning of year | (4,762) | (1,073) |
| Purchase of treasury stock | (2,036) | (1,910) |
| Reissuance from treasury stock | 79 | |
| Share repurchases related to employee stock-based awards | (343) | (257) |
| Balance at end of period | (7,062) | (3,240) |
| Total stockholders' equity at end of period | \$ 110,684 | \$ 105,385 |
| Comprehensive income | | |
| Net income | \$ 6,621 | \$ 3,258 |
| Other comprehensive income (loss) | (592) | 147 |
| Comprehensive income | \$ 6,029 | \$ 3,405 |

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

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JPMORGAN CHASE & CO.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in millions)

| | Six months ended June 30, | |
|---|---------------------------|--------------------|
| | 2006 | 2005 (Restated) |
| Operating activities | | |
| Net income | \$ 6,621 | \$ 3,258 |
| Adjustments to reconcile net income to net cash (used in) operating activities: | | |
| Provision for credit losses | 1,324 | 1,014 |
| Depreciation and amortization | 1,720 | 2,221 |
| Deferred tax provision (benefit) | 1,630 | (1,038) |
| Investment securities (gains) losses | 618 | 752 |
| Private equity unrealized (gains) losses | (190) | (35) |
| Stock-based compensation | 1,377 | 739 |
| Proceeds from sales and securitizations of loans held-for-sale | 70,366 | 39,357 |
| Originations and purchases of loans held-for-sale | (76,671) | (45,147) |
| Net change in: | | |
| Trading assets | (46,130) | (1,499) |
| Securities borrowed | (12,773) | (11,029) |
| Accrued interest and accounts receivable | (1,913) | (2,787) |
| Other assets | (9,045) | (6,813) |
| Trading liabilities | 7,692 | (18,300) |
| Accounts payable, accrued expenses and other liabilities | 2,011 | 1,164 |
| Other operating adjustments | (377) | |
| Net cash (used in) operating activities | (53,740) | (38,143) |
| Investing activities | | |
| Net change in: | | |
| Deposits with banks | 7,513 | 12,717 |
| Federal funds sold and securities purchased under resale agreements | (23,846) | (29,273) |
| Held-to-maturity securities: | | |
| Proceeds | 10 | 18 |
| Available-for-sale securities: | | |
| Proceeds from maturities | 12,465 | 17,008 |
| Proceeds from sales | 67,364 | 45,146 |
| Purchases | (113,252) | (31,731) |
| Proceeds from sales and securitizations of loans held-for-investment | 10,079 | 11,761 |
| Originations and other changes in loans, net | (37,479) | (21,463) |
| Net cash (used) received in business acquisitions | (663) | (413) |
| All other investing activities, net | 3,648 | 2,489 |
| Net cash (used in) provided by investing activities | (74,161) | 6,259 |
| Financing activities | | |
| Net change in: | | |

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| | | |
|--|----------------------|---------------|
| Deposits | 60,983 | 13,301 |
| Federal funds purchased and securities sold under repurchase agreements | 49,515 | 9,563 |
| Commercial paper and other borrowed funds | 4,833 | 3,914 |
| Proceeds from the issuance of long-term debt and capital debt securities | 32,170 | 23,068 |
| Repayments of long-term debt and capital debt securities | (16,729) | (14,033) |
| Net issuance of stock and stock-based awards | 703 | 337 |
| Excess tax benefits related to stock-based compensation | 177 | |
| Redemption of preferred stock | (139) | (200) |
| Treasury stock purchased | (2,036) | (1,910) |
| Cash dividends paid | (2,428) | (2,449) |
| All other financing activities, net | 2,391 | 435 |
| Net cash provided by financing activities | 129,440 | 32,026 |
| Effect of exchange rate changes on cash and due from banks | 181 | (218) |
| Net increase (decrease) in cash and due from banks | 1,720 | (76) |
| Cash and due from banks at the beginning of the year | 36,670 | 35,168 |
| Cash and due from banks at the end of the period | \$ 38,390 | \$ 35,092 |
| Cash interest paid | \$ 16,861 | \$ 11,056 |
| Cash income taxes paid | 1,199 | 2,432 |

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

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See Glossary of Terms on pages 99-100 of this Form 10-Q for definitions of terms used throughout the Notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**NOTE 1 BASIS OF PRESENTATION**

JPMorgan Chase & Co. (JPMorgan Chase or the Firm), a financial holding company incorporated under Delaware law in 1968, is a leading global financial services firm and one of the largest banking institutions in the United States, with operations worldwide. The Firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing, investment management, private banking and private equity. For a discussion of the Firm's business segment information, see Note 21 on pages 92-96 of this Form 10-Q.

The accounting and financial reporting policies of JPMorgan Chase and its subsidiaries conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and prevailing industry practices. Additionally, where applicable, the policies conform to the accounting and reporting guidelines prescribed by bank regulatory authorities. The unaudited consolidated financial statements prepared in conformity with U.S. GAAP require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and disclosures of contingent assets and liabilities. Actual results could be different from these estimates. In the opinion of management, all normal recurring adjustments have been included for a fair statement of this interim financial information. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in JPMorgan Chase's Annual Report on Form 10-K for the year ended December 31, 2005 (2005 Annual Report).

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

Accounting for certain hybrid financial instruments

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

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

The substantial majority of the structured notes to which the fair value election has been applied are classified in Long-term debt on the Consolidated balance sheets. The change in fair value associated with structured notes is classified within Principal transactions on the Consolidated statements of income.

Restatement of the Consolidated Statements of Cash Flows

On August 3, 2006, the Firm filed an amended 2005 Form 10-K to restate the Consolidated statements of cash flows for the annual periods of 2005, 2004 and 2003 and an amended Form 10-Q to restate the Consolidated statements of cash flows for each of the quarterly periods of 2005 and the first quarter of 2006. The restatements did not affect the Firm's Consolidated statements of income, Consolidated balance sheets or Consolidated statements of changes in stockholders' equity for any of the affected periods. Accordingly, the Firm's historical revenues, net income, earnings per share, total assets and regulatory capital remained unchanged.

The restatements resulted solely from the misclassification of cash flows related to certain residential mortgages and other loans that had been originated or purchased with the intent to sell. The cash flows from these loans had been classified as investing activities. However, in accordance with Statement of Financial Accounting Standards No. 102, Statement of Cash Flows - Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities

Acquired for Resale, cash flows from these loans should have been, and in the future will be, classified as operating activities, rather than investing activities. Accordingly, the restatements solely affected the classification of these activities and the subtotals of cash flows from operating and investing activities presented in the affected Consolidated statements of cash flows, but they had no impact on the net increase (decrease) in total Cash and due from banks set forth in the Consolidated statements of cash flows for any of the previously reported periods.

Table of Contents**NOTE 2 BUSINESS CHANGES AND DEVELOPMENTS****Acquisition of the consumer, small-business and middle-market banking businesses of The Bank of New York in exchange for certain portions of the corporate trust business, including trustee, paying agent, loan agency services and document management businesses**

On April 8, 2006, JPMorgan Chase announced an agreement to acquire The Bank of New York's consumer, small-business and middle-market banking businesses in exchange for certain portions of the Firm's corporate trust business plus a cash payment of \$150 million. The Bank of New York businesses being acquired are valued at a premium of \$2.30 billion; the Firm's corporate trust businesses being transferred (i.e., trustee, paying agent, loan agency services and document management businesses) are valued at a premium of \$2.15 billion. The Firm may also make a future payment to The Bank of New York of up to \$50 million depending on certain new account openings. JPMorgan Chase expects to recognize an after-tax gain of approximately \$600-\$700 million. The transaction has been approved by both companies' boards of directors and is subject to regulatory approvals. It is expected to close in the fourth quarter of 2006.

Sale of insurance underwriting business

On July 3, 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. The sale included both the heritage Chase insurance business and the insurance business that Bank One had bought from Zurich Insurance in 2003. The sale is not expected to have a material impact on earnings.

NOTE 3 DISCONTINUED OPERATIONS

The pending transfer of certain of the corporate trust businesses to The Bank of New York (see Note 2 on page 73 of this Form 10-Q) includes the trustee, paying agent, loan agency services and document management businesses. JPMorgan Chase expects to recognize an after-tax gain of approximately \$600-\$700 million. The results of operations of such corporate trust businesses have been transferred from the Treasury & Securities Services (TSS) business to the Corporate segment, and are currently reported as discontinued operations. Condensed financial information of the corporate trust business follows:

| (in millions) | Three months ended June | | Six months ended June | |
|---|-------------------------|--------|-----------------------|--------|
| | 2006 | 2005 | 2006 | 2005 |
| Noninterest revenue | \$ 118 | \$ 126 | \$ 244 | \$ 257 |
| Net interest income | 80 | 69 | 147 | 132 |
| Total net revenue | 198 | 195 | 391 | 389 |
| Noninterest expense | 107 | 101 | 211 | 199 |
| Income from discontinued operations before income taxes | 91 | 94 | 180 | 190 |
| Income tax expense | 35 | 37 | 70 | 75 |
| Income from discontinued operations | \$ 56 | \$ 57 | \$ 110 | \$ 115 |

Selected balance sheet data

| (in millions) | June 30, 2006 |
|--------------------------------|------------------|
| Goodwill and other intangibles | \$ 845 |
| Other assets | 388 |

| | |
|--|------------------|
| Total Assets of discontinued operations held-for-sale | 1,233 |
| Deposits | \$ 26,503 |
| Other liabilities | 385 |
| Total Liabilities of discontinued operations held-for-sale | \$ 26,888 |

In connection with the above-mentioned exchange of the corporate trust businesses, JPMorgan Chase will transfer to The Bank of New York on the closing date certain customer assets. Because the exact amount of the customer assets to be transferred will not be known until the closing date, JPMorgan Chase did not reclassify any customer assets to Assets of discontinued operations held-for-sale in the Consolidated balance sheet as of June 30, 2006.

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

Table of Contents**NOTE 4 PRINCIPAL TRANSACTIONS**

Principal transactions is a new caption, effective January 1, 2006, in the Consolidated income statements. 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 market, primarily in the Investment Bank, and Private equity gains and losses, primarily in the private equity business of Corporate. The prior period presentation of Trading revenue and Private equity gains (losses) have been reclassified to this new caption. The following table presents Principal transactions revenue:

| (in millions) | Three months ended June 30, | | Six months ended June 30, | |
|-------------------------------|--------------------------------|---------------|------------------------------|-----------------|
| | 2006 | 2005 | 2006 | 2005 |
| Trading revenue | \$ 2,071 | \$ 387 | \$ 4,414 | \$ 2,246 |
| Private equity gains (losses) | 557 | 337 | 816 | 1,114 |
| Principal transactions | \$ 2,628 | \$ 724 | \$ 5,230 | \$ 3,360 |

For a discussion of the accounting policies related to Trading assets and Trading liabilities, and Private equity investments, see Notes 3 and 9 on pages 94 and 103-105, respectively, of JPMorgan Chase's 2005 Annual Report.

Trading assets and liabilities

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

| (in millions) | June 30, 2006 | December 31, 2005 |
|--|-------------------|-------------------------|
| Trading assets | | |
| Debt and equity instruments: | | |
| U.S. government and federal agency obligations | \$ 23,290 | \$ 16,283 |
| U.S. government-sponsored enterprise obligations | 28,346 | 24,172 |
| Obligations of state and political subdivisions | 9,019 | 9,887 |
| Certificates of deposit, bankers' acceptances and commercial paper | 8,089 | 5,652 |
| Debt securities issued by non-U.S. governments | 64,192 | 48,671 |
| Corporate securities and other | 162,668 | 143,925 |
| Total debt and equity instruments | 295,604 | 248,590 |
| Derivative receivables: ^(a) | | |
| Interest rate | 34,699 | 30,416 |
| Foreign exchange | 3,468 | 2,855 |
| Equity | 5,973 | 5,575 |
| Credit derivatives | 3,877 | 3,464 |
| Commodity | 6,058 | 7,477 |
| Total derivative receivables | 54,075 | 49,787 |
| Total Trading assets | \$ 349,679 | \$ 298,377 |

Trading liabilities

| | | |
|--|-------------------|------------|
| Debt and equity instruments ^(b) | \$ 105,445 | \$ 94,157 |
| Derivative payables: ^(a) | | |
| Interest rate | 27,109 | 28,488 |
| Foreign exchange | 4,844 | 3,453 |
| Equity | 11,948 | 11,539 |
| Credit derivatives | 3,609 | 2,445 |
| Commodity | 5,120 | 5,848 |
| Total derivative payables | 52,630 | 51,773 |
| Total Trading liabilities | \$ 158,075 | \$ 145,930 |

(a) *Included in Trading assets and Trading liabilities are the reported receivables (unrealized gains) and payables (unrealized losses) related to derivatives. These amounts include the derivative assets and liabilities net of cash received and paid of \$22.4 billion and \$16.6 billion at June 30, 2006, and \$26.7 billion and \$18.9 billion at December 31, 2005, respectively, under legally enforceable master netting agreements.*

(b) *Primarily represents securities sold,*

*not yet
purchased.*

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

| (in millions) | June 30, 2006 | | December 31, 2005 | |
|---|---------------------------|-----------------|-------------------|----------|
| | Carrying value | Cost | Carrying value | Cost |
| Total private equity investments | \$ 5,974 | \$ 7,427 | \$ 6,374 | \$ 8,036 |

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Table of Contents**NOTE 5 INTEREST INCOME AND INTEREST EXPENSE**

Details of Interest income and Interest expense were as follows:

| (in millions) | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|-----------------|------------------------------|-----------------|
| | 2006 | 2005 | 2006 | 2005 |
| Interest income | | | | |
| Loans | \$ 8,034 | \$ 6,293 | \$ 15,528 | \$ 12,327 |
| Securities | 1,087 | 610 | 1,835 | 1,688 |
| Trading assets | 2,675 | 2,384 | 5,197 | 4,616 |
| Federal funds sold and securities purchased under resale agreements | 1,020 | 760 | 2,042 | 1,324 |
| Securities borrowed | 842 | 363 | 1,570 | 628 |
| Deposits with banks | 434 | 190 | 654 | 344 |
| Interests in purchased receivables | 321 | 216 | 652 | 402 |
| Total Interest income | 14,413 | 10,816 | 27,478 | 21,329 |
| Interest expense | | | | |
| Interest-bearing deposits | 4,118 | 2,288 | 7,669 | 4,229 |
| Short-term and other liabilities | 3,231 | 2,262 | 6,110 | 4,476 |
| Long-term debt | 1,359 | 1,015 | 2,594 | 1,939 |
| Beneficial interests issued by consolidated VIEs | 527 | 319 | 934 | 591 |
| Total Interest expense | 9,235 | 5,884 | 17,307 | 11,235 |
| Net interest income | 5,178 | 4,932 | 10,171 | 10,094 |
| Provision for credit losses | 493 | 587 | 1,324 | 1,014 |
| Net Interest income after provision for credit losses | \$ 4,685 | \$ 4,345 | \$ 8,847 | \$ 9,080 |

NOTE 6 PENSION AND OTHER POSTRETIREMENT EMPLOYEE BENEFIT PLANS

For a discussion of JPMorgan Chase's pension and other postretirement employee benefit (OPEB) plans, see Note 6 on pages 96-100 of JPMorgan Chase's 2005 Annual Report. The following table presents the components of net periodic benefit costs reported in the Consolidated statements of income for the Firm's U.S. and non-U.S. pension and OPEB plans:

| Three months ended June 30, (in millions) | Pension plans | | | | OPEB | |
|--|---------------|-------|------------------|------|------|------|
| | U.S. 2006 | 2005 | Non-U.S. 2006 | 2005 | 2006 | 2005 |
| Components of net periodic benefit cost | | | | | | |
| Benefits earned during the period | \$ 67 | \$ 75 | \$ 7 | \$ 7 | \$ 2 | \$ 4 |
| Interest cost on benefit obligations | 108 | 107 | 28 | 27 | 20 | 21 |
| Expected return on plan assets | (173) | (173) | (30) | (28) | (24) | (22) |
| Amortization of unrecognized amounts: | | | | | | |
| Prior service cost | 1 | 2 | | | (4) | 1 |

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| | | | | | | |
|---|--------------|-------|--------------|-------|---------------|------|
| Net actuarial loss | 3 | | 11 | 10 | 5 | |
| Curtailment loss | | | | | | |
| Settlement loss | | | 3 | | | |
| Subtotal | 6 | 11 | 19 | 16 | (1) | 4 |
| Other defined benefit pension plans ^(a) | 5 | 6 | 17 | 11 | | |
| Total defined benefit pension plans | 11 | 17 | 36 | 27 | (1) | 4 |
| Defined contribution plans | 61 | 61 | 45 | 43 | | |
| Total pension and other postretirement benefit expense | \$ 72 | \$ 78 | \$ 81 | \$ 70 | \$ (1) | \$ 4 |

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| | Pension plans | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|-------------|
| | U.S. | | Non-U.S. | | OPEB | |
| Six months ended June 30, (in millions) | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Components of net periodic benefit cost | | | | | | |
| Benefits earned during the period | \$ 135 | \$ 150 | \$ 14 | \$ 12 | \$ 4 | \$ 8 |
| Interest cost on benefit obligations | 215 | 215 | 56 | 53 | 38 | 42 |
| Expected return on plan assets | (346) | (346) | (59) | (55) | (47) | (44) |
| Amortization of unrecognized amounts: | | | | | | |
| Prior service cost | 2 | 4 | | | (9) | 2 |
| Net actuarial loss | 6 | | 21 | 20 | 11 | |
| Curtailement loss | | | 1 | | | |
| Settlement loss | | | 3 | | | |
| Subtotal | 12 | 23 | 36 | 30 | (3) | 8 |
| Other defined benefit pension plans ^(a) | 11 | 13 | 27 | 20 | | |
| Total defined benefit pension plans | 23 | 36 | 63 | 50 | (3) | 8 |
| Defined contribution plans | 120 | 122 | 89 | 88 | | |
| Total pension and other postretirement benefit expense | \$ 143 | \$ 158 | \$ 152 | \$ 138 | \$ (3) | \$ 8 |

(a) Includes U.S. defined benefit pension plans not subject to Title IV of the Employee Retirement Income Security Act of 1974 (e.g., Excess Retirement Plan) and immaterial non-U.S. defined benefit pension plans.

The fair value of plan assets for the U.S. defined benefit pension and OPEB plans and material non-U.S. defined benefit pension plans was \$10.7 billion and \$2.3 billion, respectively, as of June 30, 2006, and \$10.9 billion and \$2.2 billion, respectively, as of December 31, 2005.

NOTE 7 EMPLOYEE STOCK BASED INCENTIVES

The Firm has granted restricted stock, restricted stock units (RSUs), stock options, and stock-settled stock appreciation rights (SARs) to certain of its employees, as further discussed in Note 7 on pages 100-102 of JPMorgan Chase s 2005 Annual Report. The Firm s policy for issuing shares upon settlement of employee share-based payment awards is to issue either new shares of common stock or treasury shares. During the six months ended June 30, 2006, the Firm issued new shares of common stock from January 1, 2006 through May 31, 2006, and treasury shares from

June 1, 2006 through June 30, 2006.

Restricted stock and restricted stock units

Compensation expense for restricted stock and RSUs is measured based upon the number of shares granted multiplied by the stock price at the grant date, and is recognized in earnings over the required service period on a straight-line basis. The following table summarizes JPMorgan Chase's restricted stock and RSU activity for the six months ended June 30, 2006:

| (in thousands, except weighted average data) | Shares | Weighted-average grant date fair value |
|--|----------|--|
| Restricted stock / RSUs outstanding, January 1 | 84,604 | \$ 35.22 |
| Granted | 42,685 | 39.21 |
| Lapsed ^(a) | (31,348) | 30.58 |
| Forfeited | (4,681) | 41.24 |
| Restricted stock / RSUs outstanding, June 30 | 91,260 | \$ 38.37 |

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

The total fair value of shares vested during the three months ended June 30, 2006 and 2005, was \$26.7 million and \$65.0 million, respectively. The total fair value of shares vested during the six months ended June 30, 2006 and 2005, was \$792.3 million and \$958.6 million, respectively.

Key employee stock options and SARs

Compensation expense, which is measured at the grant-date as the fair value of stock options and SARs, is recognized in earnings on a straight-line basis over the required service period.

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The following table summarizes JPMorgan Chase's option and SARs activity for the six months ended June 30, 2006:

| (in thousands, except weighted-average data) | Number of options/SARs | Weighted-average exercise price | Weighted-average remaining contractual life (in years) | Aggregate intrinsic value |
|---|---------------------------|------------------------------------|---|---------------------------------|
| Outstanding, January 1 | 338,575 | \$ 37.93 | | |
| Granted | 3,125 | 42.47 | | |
| Exercised | (33,399) | 28.96 | | |
| Forfeited | (849) | 36.89 | | |
| Cancelled | (4,265) | 48.26 | | |
| Outstanding, June 30 | 303,187 | \$ 38.82 | 4.7 | \$ 1,955,195 |
| Exercisable, June 30 | 270,506 | 39.23 | 4.4 | 1,722,979 |

The weighted-average grant date fair value of options granted during the three months ended June 30, 2006 and 2005, was \$12.76 and \$10.93, respectively. The total intrinsic value of options exercised during the three months ended June 30, 2006 and 2005, was \$223.5 million and \$87.6 million, respectively. The weighted-average grant date fair value of options granted during the six months ended June 30, 2006 and 2005, was \$12.55 and \$12.05, respectively. The total intrinsic value of options exercised during the six months ended June 30, 2006 and 2005, was \$437.2 million and \$182.0 million, respectively.

Broad-based employee stock options

The following table presents a summary of JPMorgan Chase's broad-based employee stock option activity for the six months ended June 30, 2006:

| (in thousands, except weighted-average data) | Number of options | Weighted-average exercise price | Weighted-average remaining contractual life (in years) | Aggregate intrinsic value |
|---|-------------------------|------------------------------------|---|---------------------------------|
| Outstanding, January 1 | 105,582 | \$ 40.78 | | |
| Granted | | | | |
| Exercised | (4,135) | 27.40 | | |
| Forfeited | (904) | 37.52 | | |
| Cancelled | (847) | 46.86 | | |
| Outstanding, June 30 | 99,696 | \$ 41.30 | 4.1 | \$ 425,435 |
| Exercisable, June 30 | 74,791 | 42.68 | 3.5 | 292,093 |

The total intrinsic value of options exercised during the three months ended June 30, 2006 and 2005, was \$22.1 million and \$3.4 million, respectively; the total intrinsic value of options exercised during the six months ended June 30, 2006 and 2005, was \$58.5 million and \$18.5 million, respectively.

Compensation expense related to stock-based incentives

JPMorgan Chase adopted SFAS 123, effective January 1, 2003, using the prospective transition method. SFAS 123 requires all stock-based compensation awards, including stock options and SARs, to be accounted for at fair value. Unmodified stock options that were outstanding as of December 31, 2002, continued to be accounted for under APB 25 through December 31, 2005, using the intrinsic value method. Under this method, no expense was recognized for stock options or SARs granted at an exercise price equal to the stock price on the grant date, since such options have

no intrinsic value.

Effective January 1, 2006, the Firm adopted SFAS 123R and all related interpretations using the modified prospective transition method. SFAS 123R requires all share-based payments to employees, including employee stock options and SARs, to be measured at their grant date fair values. Results for prior periods have not been restated. The Firm also adopted the transition election provided by FSP FAS 123(R)-3. Upon adopting SFAS 123R, the Firm began to recognize in the income statement compensation expense for unvested stock options previously accounted for under APB 25. Additionally, the Firm recognized as compensation expense an immaterial cumulative effect adjustment resulting from the requirement to estimate forfeitures at the grant date instead of recognizing them as incurred.

Prior to adopting SFAS 123R, the Firm's accounting policy for share-based payment awards granted to retirement-eligible employees was to recognize compensation cost over the awards' stated service period. For awards granted to retirement-eligible employees in January 2006, which are subject to SFAS 123R, the Firm recognized compensation expense on the grant date without giving consideration to the impact of post-employment restrictions. The Firm also began to accrue in the first quarter of 2006 the estimated cost of stock awards to be granted to retirement-eligible employees in January 2007. During the second quarter and first half of 2006, the incremental expense related to the Firm's adoption of SFAS 123R was \$106.0 million and \$564.7 million, respectively. These amounts represent an accelerated noncash recognition of costs that would otherwise have been incurred in future periods.

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The Firm's share-based compensation awards generally have graded vesting schedules, with typically two vesting tranches: 50 percent vests in two years, and 50 percent vests in three years. The Firm separately recognizes compensation expense for each tranche of each award as if it were a separate award with its own vesting date. For each tranche granted (other than those granted to employees who either are or will become retirement eligible during the stated vesting period), compensation expense is recognized on a straight-line basis from the grant date until the vesting date of the respective tranche.

The Firm recognized noncash compensation expense related to its various employee stock-based incentive awards of \$538.3 million (including the \$106.0 million incremental impact of adopting SFAS 123R) and \$358.3 million for the quarters ended June 30, 2006 and 2005, respectively, and \$1.4 billion (including the \$564.7 million incremental impact of adopting SFAS 123R) and \$739.2 million during the first six months of 2006 and 2005, respectively, in its Consolidated statements of income. The total income tax benefit related to stock-based compensation arrangements recognized in the Firm's Consolidated statements of income for the quarters ended June 30, 2006 and 2005, was \$215.3 million and \$143.3 million, respectively, and for the first half of 2006 and 2005, was \$551.0 million and \$295.7 million, respectively. At June 30, 2006, approximately \$1.5 billion of compensation cost related to unvested awards has not yet been charged to earnings. That cost is expected to be recognized over a weighted average period of 1.4 years. The Firm does not capitalize any compensation cost related to share-based compensation awards to employees.

As a result of adopting SFAS 123R on January 1, 2006, the Firm's Income from continuing operations for the three and six months ended June 30, 2006, was lower by \$106.0 million and \$564.7 million, respectively, and Net income for the three and six months ended June 30, 2006, was lower by \$66 million and \$350 million, respectively, than if the Firm had continued to account for share-based compensation under APB 25 and SFAS 123. The Firm's reported basic and diluted earnings per share from continuing operations for the three months ended June 30, 2006, were \$1.00 and \$0.98, respectively, and for the first half of 2006, were \$1.87 and \$1.82, respectively. Had the Firm not adopted SFAS 123R, basic and diluted earnings per share from continuing operations for the three months ended June 30, 2006, would have been \$1.02 and \$0.99, respectively, and for the first half of 2006, would have been \$1.98 and \$1.92, respectively.

Cash flows and tax benefits

Prior to adopting SFAS 123R, the Firm presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in its Consolidated statements of cash flows. SFAS 123R requires the cash flows resulting from the tax benefits of tax deductions in excess of the compensation expense recognized for those options (i.e., excess tax benefits) to be classified as financing cash flows. The \$176.6 million of excess tax benefits classified as a financing cash inflow during the first six months of 2006 would have been classified as an operating cash inflow if the Firm had not adopted SFAS 123R.

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

| (in millions) | Six months ended June 30, | |
|-------------------------------------|---------------------------|----------|
| | 2006 | 2005 |
| Cash received for options exercised | \$ 967.9 | \$ 312.1 |
| Tax benefit realized | 90.7 | 38.0 |

Comparison of the fair and intrinsic value measurement methods

The following table presents net income and basic and diluted earnings per share as reported, and as if all outstanding awards were accounted for at fair value for 2005 only, as all share-based payments in 2006 were accounted for at fair value.

| | Three months | Six months |
|--|-----------------|------------|
|--|-----------------|------------|

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| (in millions, except per share data) | ended June 30, 2005 | ended June 30, 2005 |
|--|---------------------------|---------------------------|
| Net income as reported | \$ 994 | \$ 3,258 |
| Add: Employee stock-based compensation expense included in reported net income, net of related tax effects | 215 | 444 |
| Deduct: Employee stock-based compensation expense determined under the fair-value method for all awards, net of related tax effects | (248) | (537) |
| Pro forma net income | \$ 961 | \$ 3,165 |
| Earnings per share: | | |
| Basic: As reported | \$ 0.28 | \$ 0.93 |
| Pro forma | 0.27 | 0.90 |
| Diluted: As reported | \$ 0.28 | \$ 0.91 |
| Pro forma | 0.27 | 0.89 |

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

| | Three months ended June | | Six months ended June | |
|--|-------------------------|-------------|-----------------------|-------------|
| | 2006 | 30, 2005 | 2006 | 30, 2005 |
| Weighted-average annualized valuation assumptions | | | | |
| Risk-free interest rate | 5.17% | 4.20% | 4.76% | 4.23% |
| Expected dividend yield | 3.10 | 3.80 | 3.26 | 3.56 |
| Expected common stock price volatility | 36 | 41 | 36 | 41 |
| Expected life (in years) | 7.0 | 6.8 | 7.0 | 6.8 |

Prior to the adoption of SFAS 123R, the Firm used the historical volatility of its common stock price as the expected volatility assumption in valuing options. The Firm is currently evaluating whether the implied volatility of actively traded options on its own stock would represent a better valuation assumption. The impact of any change is expected to be immaterial.

The expected life assumption is an estimate of the length of time that an employee might hold an option before option exercise or cancellation. The expected life assumption was developed using historical experience.

NOTE 8 NONINTEREST EXPENSE

In the second quarter and first half of 2006, Other expense included insurance recoveries relating to certain material litigation of \$260 million and \$358 million, respectively. In the first half of 2005, litigation reserve charges of \$2.8 billion were included in Other expense; these included a \$1.9 billion nonoperating litigation charge in the second quarter of 2005 related to the settlement of the Enron class action litigation as well as to certain of the Firm's other material legal proceedings, and a \$900 million charge relating to the settlement of WorldCom class action litigation in the first quarter of 2005.

Merger costs

A summary of Merger costs by expense category is shown in the following table:

| (in millions) | Three months ended June | | Six months ended June | |
|---|-------------------------|-------------|-----------------------|-------------|
| | 2006 | 30, 2005 | 2006 | 30, 2005 |
| Expense category | | | | |
| Compensation | \$ 2 | \$ 109 | \$ 6 | \$ 164 |
| Occupancy | 14 | 25 | 14 | 25 |
| Technology and communications and other | 70 | 145 | 137 | 235 |
| Total ^(a) | \$ 86 | \$ 279 | \$ 157 | \$ 424 |

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

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

| (in millions) | 2006 | 2005 |
|------------------------------|--------|--------|
| Liability balance, January 1 | \$ 797 | \$ 952 |
| Recorded as merger costs | 157 | 424 |
| Recorded as goodwill | | 26 |
| Liability utilized | (264) | (496) |
| Liability balance, June 30 | \$ 690 | \$ 906 |

NOTE 9 SECURITIES

For a discussion of accounting policies relating to Securities, see Note 9 on pages 103-105 of JPMorgan Chase's 2005 Annual Report. The following table presents realized gains and losses from AFS securities:

| (in millions) | Three months ended June | | Six months ended June | |
|---------------------------|-------------------------|--------|-----------------------|----------|
| | 30, 2006 | 2005 | 30, 2006 | 2005 |
| Realized gains | \$ 49 | \$ 137 | \$ 150 | \$ 238 |
| Realized losses | (551) | (67) | (768) | (990) |
| Securities gains (losses) | \$ (502) | \$ 70 | \$ (618) | \$ (752) |

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The amortized cost and estimated fair value of AFS and held-to-maturity securities were as follows for the dates indicated:

| (in millions) | June 30, 2006 | | | December 31, 2005 | | | Fair value | |
|---|----------------|------------------------|-------------------------|-------------------|------------------------|-------------------------|------------|--|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Amortized cost | Gross unrealized gains | Gross unrealized losses | | |
| Available-for-sale securities | | | | | | | | |
| U.S. government and federal agency obligations: | | | | | | | | |
| U.S. treasuries | \$ 670 | \$ 3 | \$ 667 | \$ 4,245 | \$ 24 | \$ 2 | \$ 4,267 | |
| Mortgage-backed securities | 66 | 2 | 67 | 80 | 3 | | 83 | |
| Agency obligations | 80 | 6 | 86 | 165 | 16 | | 181 | |
| Collateralized mortgage obligations | 22 | | 22 | 4 | | | 4 | |
| U.S. government-sponsored enterprise obligations | 58,797 | 45 | 1,459 | 22,604 | 9 | 596 | 22,017 | |
| Obligations of state and political subdivisions | 651 | 15 | 654 | 712 | 21 | 7 | 726 | |
| Debt securities issued by non-U.S. governments | 6,990 | 3 | 6,945 | 5,512 | 12 | 18 | 5,506 | |
| Corporate debt securities | 5,970 | 4 | 5,779 | 5,754 | 39 | 74 | 5,719 | |
| Equity securities | 2,991 | 107 | 3,093 | 3,179 | 110 | 7 | 3,282 | |
| Other, primarily asset-backed securities ^(a) | 3,219 | 69 | 3,259 | 5,738 | 23 | 23 | 5,738 | |
| Total available-for-sale securities | \$ 79,456 | \$ 251 | \$ 1,752 | \$ 47,993 | \$ 257 | \$ 727 | \$ 47,523 | |
| Held-to-maturity securities^(b) | | | | | | | | |
| Total held-to-maturity securities | \$ 67 | \$ 2 | \$ 69 | \$ 77 | \$ 3 | \$ | \$ 80 | |

(a) Includes collateralized mortgage obligations of private issuers, which generally have underlying collateral consisting of obligations of the U.S. government

and federal agencies and corporations.

(b) Consists primarily of mortgage-backed securities.

Included in the \$1.8 billion of gross unrealized losses on AFS securities at June 30, 2006, was \$439 million of unrealized losses that have existed for a period greater than 12 months. These securities are predominately rated AAA and the unrealized losses are primarily due to overall increases in market interest rates and not concerns regarding the underlying credit of the issuers. The majority of the securities with unrealized losses aged greater than 12 months are obligations of U.S. government-sponsored enterprises and have a market value at June 30, 2006, that is within 6% of their amortized cost basis.

NOTE 10 SECURITIES FINANCING ACTIVITIES

For a discussion of the accounting policies relating to Securities financing activities, see Note 10 on pages 105-106 of JPMorgan Chase's 2005 Annual Report. The following table details the components of Securities financing activities at each of the dates indicated:

| (in millions) | June 30, 2006 | December 31, 2005 |
|--|--------------------------|----------------------|
| Securities purchased under resale agreements | \$ 156,099 | \$ 129,570 |
| Securities borrowed | 87,377 | 74,604 |
| Securities sold under repurchase agreements | \$ 147,421 | \$ 103,052 |
| Securities loaned | 14,836 | 14,072 |

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

At June 30, 2006, the Firm had received securities as collateral that could be repledged, delivered or otherwise used with a fair value of approximately \$355 billion. This collateral was generally obtained under resale or securities borrowing agreements. Of these securities, approximately \$337 billion were repledged, delivered or otherwise used, generally as collateral under repurchase agreements, securities lending agreements or to cover short sales.

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For a discussion of the accounting policies relating to Loans, see Note 11 on pages 106-107 of JPMorgan Chase's 2005 Annual Report. The composition of the loan portfolio at each of the dates indicated was as follows:

| (in millions) | June 30, 2006 | December 31, 2005 |
|---|-------------------|----------------------|
| U.S. wholesale loans: | | |
| Commercial and industrial | \$ 78,369 | \$ 70,233 |
| Real estate | 11,455 | 13,612 |
| Financial institutions | 15,187 | 11,100 |
| Lease financing receivables | 2,659 | 2,621 |
| Other | 18,200 | 14,499 |
| Total U.S. wholesale loans | 125,870 | 112,065 |
| Non-U.S. wholesale loans: | | |
| Commercial and industrial | 33,076 | 27,452 |
| Real estate | 3,429 | 1,475 |
| Financial institutions | 14,738 | 7,975 |
| Lease financing receivables | 1,102 | 1,144 |
| Total non-U.S. wholesale loans | 52,345 | 38,046 |
| Total wholesale loans:^(a) | | |
| Commercial and industrial | 111,445 | 97,685 |
| Real estate ^(b) | 14,884 | 15,087 |
| Financial institutions | 29,925 | 19,075 |
| Lease financing receivables | 3,761 | 3,765 |
| Other | 18,200 | 14,499 |
| Total wholesale loans | 178,215 | 150,111 |
| Total consumer loans:^(c) | | |
| Home equity | 77,826 | 73,866 |
| Mortgage | 60,014 | 58,959 |
| Auto loans and leases | 42,184 | 46,081 |
| All other loans | 23,904 | 18,393 |
| Credit card receivables ^(d) | 72,961 | 71,738 |
| Total consumer loans | 276,889 | 269,037 |
| Total loans^{(e)(f)} | \$ 455,104 | \$ 419,148 |

(a) Includes
Investment
Bank,
Commercial
Banking,

*Treasury &
Securities
Services and
Asset & Wealth
Management.*

- (b) Represents credits extended for real estate related purposes to borrowers who are primarily in the real estate development or investment businesses and for which the primary repayment is from the sale, lease, management, operations or refinancing of the property.*
- (c) Includes Retail Financial Services and Card Services.*
- (d) Includes billed finance charges and fees net of an allowance for uncollectible amounts.*
- (e) Loans are presented net of unearned income of \$2.6 billion and \$3.0 billion at June 30, 2006, and December 31, 2005, respectively.*
- (f) Includes loans held-for-sale (primarily related to*

securitization
and syndication
activities) of
\$36.4 billion
and
\$34.2 billion at
June 30, 2006,
and
December 31,
2005,
respectively.

The following table reflects information about the Firm's loans held-for-sale, principally mortgage-related:

| (in millions) | Three months ended June | | Six months ended June | |
|---|-------------------------|-------------|-----------------------|-------------|
| | 2006 | 30, 2005 | 2006 | 30, 2005 |
| Net gains on sales of loans held-for-sale | \$ 66 | \$ 149 | \$ 230 | \$ 301 |
| Lower of cost or market adjustments | (45) | 9 | (130) | (117) |

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Table of Contents**NOTE 12 ALLOWANCE FOR CREDIT LOSSES**

For a discussion of the Allowance for credit losses and the related accounting policies, see Note 12 on pages 107-108 of JPMorgan Chase's 2005 Annual Report. The table below summarizes the changes in the Allowance for loan losses:

| (in millions) | Six months ended June 30, | |
|--|---------------------------|-------------------------|
| | 2006 | 2005 |
| Allowance for loan losses at January 1 | \$ 7,090 | \$ 7,320 |
| Gross charge-offs | (1,730) | (2,042) |
| Gross recoveries | 408 | 453 |
| Net charge-offs | (1,322) | (1,589) |
| Provision for loan losses | 1,300 | 1,067 |
| Other | 8 | (4) |
| Allowance for loan losses at June 30 | \$ 7,076 ^(a) | \$ 6,794 ^(b) |

(a) Includes \$160 million of asset-specific and \$6.9 billion of formula-based allowance. Included within the formula-based allowance was \$4.8 billion related to a statistical calculation and an adjustment to the statistical calculation of \$2.1 billion.

(b) Includes \$314 million of asset-specific and \$6.5 billion of formula-based allowance. Included within the formula-based allowance was \$4.7 billion

related to a statistical calculation and an adjustment to the statistical calculation of \$1.8 billion.

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

| (in millions) | Six months ended June | |
|---|-----------------------|--------|
| | 2006 | 2005 |
| Allowance for lending-related commitments at January 1 | \$ 400 | \$ 492 |
| Provision for lending-related commitments | 24 | (53) |
| Allowance for lending-related commitments at June 30 ^(a) | \$ 424 | \$ 439 |

(a) At June 30, 2006, includes \$45 million of asset-specific and \$379 million of formula-based allowance. At June 30, 2005, includes \$104 million of asset-specific and \$335 million of formula-based allowance. The formula-based allowance for lending-related commitments is based upon a statistical calculation. There is no adjustment to the statistical calculation for lending-related commitments.

NOTE 13 LOAN SECURITIZATIONS

For a discussion of the accounting policies relating to loan securitizations, see Note 13 on pages 108-111 of JPMorgan Chase's 2005 Annual Report. JPMorgan Chase securitizes, sells and services various consumer loans, such as consumer real estate, credit card and automobile loans, as well as certain wholesale loans (primarily commercial real

estate) originated by the Investment Bank. In addition, the Investment Bank purchases, packages and securitizes wholesale and consumer loans. All IB activity is collectively referred to below as Wholesale activities. JPMorgan Chase sponsored securitizations utilize special purpose entities (SPEs) as part of the securitization process. These SPEs meet the definition of a qualifying special purpose entity (QSPE), as discussed in Note 1 on page 91 of JPMorgan Chase s 2005 Annual Report; accordingly, the assets and liabilities of securitization-related QSPEs are included on the balance sheet of the QSPE purchasing the assets and are not reflected in the Firm s Consolidated balance sheets (except for retained interests, as described below). Assets held by securitization related QSPEs as of June 30, 2006, and December 31, 2005, were as follows:

| (in billions) | June 30, 2006 | December 31, 2005 |
|-------------------------------------|--------------------------|----------------------|
| Credit card receivables | \$ 84.6 | \$ 96.0 |
| Residential mortgage receivables | 33.9 | 29.8 |
| Wholesale activities ^(a) | 97.2 | 72.9 |
| Automobile loans | 5.2 | 5.5 |
| Total | \$ 220.9 | \$ 204.2 |

(a) Includes co-sponsored securitizations, which include non-JPMorgan Chase originated assets.

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The following tables summarize new securitization transactions that were completed during the second quarter and first six months of 2006 and 2005, the resulting gains arising from such securitizations, certain cash flows received from such securitizations, and the key economic assumptions used in measuring the retained interests, as of the dates of such sales:

| (in millions) | Three months ended June 30, | | | | | | | |
|---|------------------------------------|------------------------|-------------------|---|---------------------------------|------------------------|-------------------|---|
| | 2006 | | | | 2005 | | | |
| | Residential mortgage | Credit card | Automobile | Wholesale activities^(b) | Residential mortgage | Credit card | Automobile | Wholesale activities^(b) |
| Principal securitized | \$ 3,915 | \$ 1,175 | \$ 1,223 | \$ 11,053 | \$ 2,707 | \$ 4,850 | \$ 2,300 | \$ 3,632 |
| Pre-tax gains (losses) | (1) | 8 | | 46 | 10 | 33 | 10 ^(c) | 18 |
| Cash flow information: | | | | | | | | |
| Proceeds from securitizations | \$ 3,879 | \$ 1,175 | \$ 833 | \$ 11,154 | \$ 2,706 | \$ 4,850 | \$ 1,618 | \$ 3,642 |
| Servicing fees collected | 4 | 20 | 1 | | 3 | 12 | 2 | |
| Other cash flows received | | 96 | | | | 51 | | |
| Proceeds from collections reinvested in revolving securitizations | | 24,750 | | | | 31,042 | | |
| Key assumptions (rates per annum): | | | | | | | | |
| Prepayment rate ^(a) | | 22.2% | 1.5% | 39-42% | | 16.7% | 1.5% | 50% |
| | | PPR | ABS | | | PPR | ABS | |
| Weighted-average life (in years) | | 0.4 | 1.4 | 1.7-3.6 | | 0.5 | 1.5 | 1.0 |
| Expected credit losses | | 4.2% | 0.7% | 1.1-3.3% | | 5.3% | 0.6% | % |
| Discount rate | | 12.0% | 7.8% | 17.5-26.2% | | 12.0% | 6.3% | 0.6% |

| (in millions) | Six months ended June 30, | | | | | | | |
|-------------------------------|----------------------------------|------------------------|-------------------|---|---------------------------------|--------------------|-------------------|---|
| | 2006 | | | | 2005 | | | |
| | Residential mortgage | Credit card | Automobile | Wholesale activities^(b) | Residential mortgage | Credit card | Automobile | Wholesale activities^(b) |
| Principal securitized | \$ 7,093 | \$ 5,700 | \$ 1,223 | \$ 20,997 | \$ 6,281 | \$ 5,275 | \$ 2,300 | \$ 6,396 |
| Pre-tax gains | 1 | 38 | | 93 | 20 | 35 | 10 ^(c) | 54 |
| Cash flow information: | | | | | | | | |
| Proceeds from securitizations | \$ 7,019 | \$ 5,700 | \$ 833 | \$ 19,273 | \$ 6,302 | \$ 5,275 | \$ 1,618 | \$ 6,445 |

| | | | | | | |
|---|----------|---------------|----------|---|--------|---|
| Servicing fees collected | 4 | 32 | 1 | 4 | 13 | 2 |
| Other cash flows received | | 165 | | | 55 | |
| Proceeds from collections reinvested in revolving securitizations | | 76,646 | | | 62,506 | |

**Key assumptions
(rates per annum):**

| | | | | | | |
|----------------------------------|----------------------------|---------------------------|-------------------|--------------|-------------|------|
| Prepayment rate ^(a) | 22.2% PPR | 1.5% ABS | 35-45% | 16.7% PPR | 1.5% ABS | 50% |
| Weighted-average life (in years) | 0.4 | 1.4 | 1.5-4.0 | 0.5 | 1.5 | 1.0 |
| Expected credit losses | 3.3-4.2% | 0.7% | 1.1-3.3% | 5.3-5.7% | 0.6% | % |
| Discount rate | 12.0% | 7.8% | 14.5-26.2% | 12.0% | 6.3% | 0.6% |

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

(b) *Wholesale activities consist of wholesale loans (primarily commercial real estate) originated by the Investment Bank as well as \$9.0 billion and \$15.7 billion of consumer loans purchased from the market for the three and six months ended June 30, 2006, respectively, and \$1.4 billion and \$1.9 billion of consumer loans purchased from the market for the three and six months ended June 30, 2005,*

*respectively,
and then
packaged and
securitized by
the Investment
Bank.*

- (c) *The auto
securitization
gain of
\$10 million does
not include the
write-down of
loans
transferred to
held-for-sale in
the first quarter
of 2005 and risk
management
activities
intended to
protect the
economic value
of loans while
held-for-sale.*

In addition to securitization transactions, the Firm sold residential mortgage loans totaling \$13.5 billion and \$11.8 billion during the three months ended June 30, 2006 and 2005, respectively, primarily as GNMA, FNMA and Freddie Mac mortgage-backed securities; these sales resulted in pre-tax gains of \$108 million and \$72 million, respectively. During the first six months of 2006 and 2005, JPMorgan Chase sold residential mortgage loans totaling \$27.1 billion and \$23.1 billion, respectively, primarily as GNMA, FNMA and Freddie Mac mortgage-backed securities; these sales resulted in pre-tax gains of \$170 million and \$109 million, respectively.

At June 30, 2006, and December 31, 2005, the Firm had, with respect to its credit card master trusts, \$18.1 billion and \$24.8 billion, respectively, related to undivided interests, and \$2.4 billion and \$2.2 billion, respectively, related to subordinated interests in accrued interest and fees on the securitized receivables, net of an allowance for uncollectible amounts. Credit card securitization trusts require the Firm to maintain a minimum undivided interest of 4% to 12% of the principal receivables in the trusts. The Firm maintained an average undivided interest in principal receivables in the trusts of approximately 21% for the six months ended June 30, 2006, and 23% for the year ended December 31, 2005.

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The Firm also maintains escrow accounts up to predetermined limits for some credit card and automobile securitizations in the unlikely event of deficiencies in cash flows owed to investors. The amounts available in such escrow accounts are recorded in Other assets and, as of June 30, 2006, amounted to \$185 million and \$58 million for credit card and automobile securitizations, respectively; as of December 31, 2005, these amounts were \$754 million and \$76 million for credit card and automobile securitizations, respectively.

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

| (in millions) | June 30, 2006 | December 31, 2005 |
|-------------------------------------|--------------------------|----------------------|
| Residential mortgage ^(a) | \$ 172 | \$ 182 |
| Credit card ^(a) | 750 | 808 |
| Automobile ^{(a)(b)} | 160 | 150 |
| Wholesale activities ^(c) | 495 | 265 |
| Total | \$ 1,577 | \$ 1,405 |

(a) *Pre-tax unrealized gains recorded in Stockholders equity that relate to retained securitization interests totaled \$66 million and \$60 million for Residential mortgage, and \$3 million and \$6 million for Credit card at June 30, 2006, and December 31, 2005, respectively; and \$3 million and \$5 million for Automobile at June 30, 2006, and December 31, 2005, respectively.*

(b) *In addition to the automobile retained interest*

amounts noted above, the Firm also retained senior securities totaling \$399 million at June 30, 2006, and \$490 million at December 31, 2005, from auto securitizations that are classified as AFS securities. These securities are valued using quoted market prices and are therefore not included in the key economic assumption and sensitivities table that follows.

- (c) *In addition to the wholesale retained interest amounts noted above, the Firm also retained subordinated securities totaling \$63 million at June 30, 2006, and \$51 million at December 31, 2005, predominantly from re-securitization activities. These securities are valued using quoted market prices and are therefore not included in the key assumptions and sensitivities table that*

follows.

The table below outlines the key economic assumptions used to determine the fair value of the other retained interests at June 30, 2006, and December 31, 2005, respectively, and outlines the sensitivities of those fair values to immediate 10% and 20% adverse changes in those assumptions:

| June 30, 2006 (in millions) | Residential | | | Wholesale activities |
|----------------------------------|---------------------------------|-----------------------|-----------------|--------------------------------|
| | Mortgage | Credit card | Automobile | |
| Weighted-average life (in years) | 0.4-3.9 | 0.4-0.5 | 1.1 | 0.2-3.8 |
| Prepayment rate ^(a) | 13.4-40.7% CPR | 18.2-22.2% PPR | 1.4% ABS | 0.0-44.3%^(d) |
| Impact of 10% adverse change | \$ (1) | \$ (44) | \$ (1) | \$ (10) |
| Impact of 20% adverse change | (2) | (88) | (2) | (18) |
| Loss assumption | 0.0-4.3%^(b) | 3.0-4.8% | 0.8% | 1.4-2.9%^(b) |
| Impact of 10% adverse change | \$ (6) | \$ (90) | \$ (4) | \$ (33) |
| Impact of 20% adverse change | (12) | (181) | (9) | (59) |
| Discount rate | 12.2-30.0%^(c) | 5.6-12.0% | 7.9% | 0.2-24.1% |
| Impact of 10% adverse change | \$ (3) | \$ (2) | \$ (1) | \$ (18) |
| Impact of 20% adverse change | (6) | (3) | (3) | (37) |

| December 31, 2005 (in millions) | Residential | | | Wholesale activities |
|----------------------------------|---------------------------|----------------|------------|--------------------------|
| | Mortgage | Credit card | Automobile | |
| Weighted-average life (in years) | 0.5 3.5 | 0.4 0.7 | 1.2 | 0.2 4.1 |
| Prepayment rate ^(a) | 20.1 43.7% CPR | 11.9 20.8% PPR | 1.5% ABS | 0.0 50.0% ^(d) |
| Impact of 10% adverse change | \$ (3) | \$ (44) | \$ (2) | \$ (5) |
| Impact of 20% adverse change | (5) | (88) | (2) | (6) |
| Loss assumption | 0.0 5.2% ^(b) | 3.2 8.1% | 0.7% | 0.0 2.0% ^(b) |
| Impact of 10% adverse change | \$ (10) | \$ (77) | \$ (4) | \$ (6) |
| Impact of 20% adverse change | (19) | (153) | (9) | (11) |
| Discount rate | 12.7 30.0% ^(c) | 6.9 12.0% | 7.2% | 0.2 18.5% |
| Impact of 10% adverse change | \$ (4) | \$ (2) | \$ (1) | \$ (6) |
| Impact of 20% adverse change | (8) | (4) | (3) | (12) |

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

(b) Expected credit losses for prime residential

mortgage and certain wholesale securitizations are minimal and are incorporated into other assumptions.

(c) The Firm sold certain residual interests from sub-prime mortgage securitizations via Net Interest Margin (NIM) securitizations and retained residual interests in these NIM transactions, which are valued using a 30% discount rate.

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

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

The table below presents information about delinquencies, net credit losses and components of reported and securitized financial assets at June 30, 2006, and December 31, 2005:

| (in millions) | Total Loans | | Nonaccrual and 90 days or more past due | | Net loan charge-offs | | | |
|---|-------------------|-------------------|---|-----------------|-----------------------------|-----------------|---------------------------|-----------------|
| | June 30, 2006 | Dec. 31, 2005 | June 30, 2006 | Dec. 31, 2005 | Three months ended June 30, | | Six months ended June 30, | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Home equity | \$ 77,826 | \$ 73,866 | \$ 403 | \$ 422 | \$ 30 | \$ 32 | \$ 63 | \$ 67 |
| Mortgage | 60,014 | 58,959 | 503 | 442 | 9 | 8 | 21 | 14 |
| Auto loans and leases | 42,184 | 46,081 | 133 | 193 | 45 | 47 | 96 | 130 |
| All other loans | 23,904 | 18,393 | 300 | 281 | 29 | 27 | 54 | 55 |
| Credit card receivables | 72,961 | 71,738 | 1,146 | 1,091 | 560 | 711 | 1,127 | 1,384 |
| Total consumer loans | 276,889 | 269,037 | 2,485 | 2,429 | 673 | 825 | 1,361 | 1,650 |
| Total wholesale loans | 178,215 | 150,111 | 851 | 1,042 | (19) | (52) | (39) | (61) |
| Total loans reported | 455,104 | 419,148 | 3,336 | 3,471 | 654 | 773 | 1,322 | 1,589 |
| Securitized loans: | | | | | | | | |
| Residential mortgage ^(a) | 6,772 | 8,061 | 251 | 370 | 16 | 27 | 31 | 59 |
| Automobile | 5,173 | 5,439 | 7 | 11 | 3 | 2 | 7 | 7 |
| Credit card | 66,349 | 70,527 | 977 | 730 | 561 | 930 | 1,010 | 1,847 |
| Total consumer loans securitized | 78,294 | 84,027 | 1,235 | 1,111 | 580 | 959 | 1,048 | 1,913 |
| Securitized wholesale activities | 22,082 | 9,049 | 303 | 4 | | | | |
| Total loans securitized ^(b) | 100,376 | 93,076 | 1,538 | 1,115 | 580 | 959 | 1,048 | 1,913 |
| Total loans reported and securitized^(c) | \$ 555,480 | \$ 512,224 | \$ 4,874 | \$ 4,586 | \$ 1,234 | \$ 1,732 | \$ 2,370 | \$ 3,502 |

(a) Includes \$4.8 billion and \$5.9 billion of outstanding principal balances on securitized sub-prime 1-4 family residential mortgage loans as of

*June 30, 2006, and
December 31, 2005,
respectively.*

- (b) Total assets held in
securitization-related
SPEs were
\$220.9 billion and
\$204.2 billion at
June 30, 2006, and
December 31, 2005,
respectively. The
\$100.4 billion and
\$93.1 billion of loans
securitized at
June 30, 2006, and
December 31, 2005,
respectively,
excludes:
\$102.2 billion and
\$85.6 billion of
securitized loans,
respectively, in which
the Firm's only
continuing
involvement is the
servicing of the
assets; \$18.1 billion
and \$24.8 billion of
seller's interests in
credit card master
trusts, respectively;
and \$0.2 billion and
\$0.7 billion of escrow
accounts and other
assets, respectively.*

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

NOTE 14 VARIABLE INTEREST ENTITIES

Refer to Note 1 on page 91 and Note 14 on pages 111-113 of JPMorgan Chase's 2005 Annual Report for a further description of JPMorgan Chase's policies regarding consolidation of variable interest entities (VIEs) as well as the

utilization of VIEs by the Firm.

Multi-seller conduits

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

| (in billions) | Consolidated | | Nonconsolidated | | Total | |
|--|----------------------|---------------|----------------------|---------------|----------------------|---------------|
| | June 30, 2006 | Dec. 31, 2005 | June 30, 2006 | Dec. 31, 2005 | June 30, 2006 | Dec. 31, 2005 |
| Total commercial paper issued by conduits | \$ 3.1 | \$ 35.2 | \$ 42.1 | \$ 8.9 | \$ 45.2 | \$ 44.1 |
| Commitments | | | | | | |
| Asset-purchase agreements | \$ 0.2 | \$ 47.9 | \$ 62.7 | \$ 14.3 | \$ 62.9 | \$ 62.2 |
| Program-wide liquidity commitments | 1.0 | 5.0 | 5.0 | 1.0 | 6.0 | 6.0 |
| Program-wide limited credit enhancements | | 1.3 | 1.5 | 1.0 | 1.5 | 2.3 |
| Maximum exposure to loss^(a) | 1.0 | 48.4 | 63.7 | 14.8 | 64.7 | 63.2 |

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(a) *The Firm's maximum exposure to loss is limited to the amount of drawn commitments (i.e., sellers assets held by the multi-seller conduits for which the Firm provides liquidity support) of \$41.2 billion and \$41.6 billion at June 30, 2006, and December 31, 2005, respectively, plus contractual but undrawn commitments of \$23.5 billion and \$21.6 billion at June 30, 2006, and December 31, 2005, respectively. Certain of the Firm's administered multi-seller conduits were deconsolidated as of June 30, 2006; the assets deconsolidated were approximately \$33 billion. Since the Firm provides credit enhancement*

and liquidity to these multi-seller conduits, the maximum exposure is not adjusted to exclude exposure absorbed by third-party liquidity providers.

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

Client intermediation

Assets held by credit-linked note vehicles and municipal bond vehicles at June 30, 2006, and December 31, 2005, were as follows:

| (in billions) | June 30, 2006 | December 31, 2005 |
|--|--------------------------|----------------------|
| Credit-linked note vehicles ^(a) | \$ 17.7 | \$ 13.5 |
| Municipal bond vehicles ^(b) | 13.1 | 13.7 |

(a) Assets of \$2.0 billion and \$1.8 billion reported in the table above were recorded on the Firm's Consolidated balance sheets at June 30, 2006, and December 31, 2005, respectively, due to contractual relationships held by the Firm that relate to collateral held by the VIE.

(b)

Total amounts consolidated due to the Firm owning residual interests were \$4.6 billion and \$4.9 billion at June 30, 2006, and December 31, 2005, respectively, and are reported in the table. Total liquidity commitments were \$7.0 billion and \$5.8 billion at June 30, 2006, and December 31, 2005, respectively. The Firm's maximum credit exposure to all municipal bond vehicles was \$11.6 billion and \$10.7 billion at June 30, 2006, and December 31, 2005, respectively.

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

Consolidated VIE assets

The following table summarizes the Firm's total consolidated VIE assets, by classification, on the Consolidated balance sheets, as of June 30, 2006, and December 31, 2005:

| (in billions) | June 30, 2006^(c) | December 31, 2005 |
|---------------|--|----------------------|
|---------------|--|----------------------|

| | | |
|--|---------|---------|
| Consolidated VIE assets ^(a) | | |
| Investment securities | \$ 0.1 | \$ 1.9 |
| Trading assets ^(b) | 8.8 | 9.3 |
| Loans | 14.9 | 8.1 |
| Interests in purchased receivables | | 29.6 |
| Other assets | 8.9 | 3.0 |
| Total consolidated assets | \$ 32.7 | \$ 51.9 |

(a) *The Firm also holds \$3.5 billion and \$3.9 billion of assets, at June 30, 2006, and December 31, 2005, respectively, primarily as a seller's interest, in certain consumer securitizations in a segregated entity, as part of a two-step securitization transaction. This interest is included in the securitization activities disclosed in Note 13 on pages 82-85 of this Form 10-Q.*

(b) *Includes the fair value of securities and derivatives.*

(c) *Certain multi-seller conduits administered by the Firm were deconsolidated*

*as of June 30,
2006; the assets
deconsolidated
consisted of
\$29 billion of
Interests in
purchased
receivables, \$3
billion of Loans
and \$1 billion of
investment
securities.*

The interest-bearing beneficial interest liabilities issued by consolidated VIEs are classified in the line item titled, Beneficial interests issued by consolidated variable interest entities on the Consolidated balance sheets. The holders of these beneficial interests do not have recourse to the general credit of JPMorgan Chase.

In April 2006, the FASB issued FSP FIN 46(R)-6, which requires an analysis of the design of a VIE in determining the variability to be considered in the application of FIN 46(R). The Firm expects to arrive at similar consolidation conclusions under the FSP as those reached currently under FIN 46(R).

Table of Contents**NOTE 15 GOODWILL AND OTHER INTANGIBLE ASSETS**

For a discussion of accounting policies related to Goodwill and Other intangible assets, see Note 15 on pages 114-116 of JPMorgan Chase's 2005 Annual Report.

Goodwill and other intangible assets consist of the following:

| (in millions) | June 30, 2006 | December 31, 2005 |
|---------------------------------------|--------------------------|----------------------|
| Goodwill | \$ 43,498 | \$ 43,621 |
| Mortgage servicing rights | 8,247 | 6,452 |
| Purchased credit card relationships | 3,138 | 3,275 |
| All other intangibles: | | |
| Other credit card related intangibles | \$ 299 | \$ 124 |
| Core deposit intangibles | 2,429 | 2,705 |
| Other intangibles | 1,503 | 2,003 |
| Total All other intangible assets | \$ 4,231 | \$ 4,832 |

Goodwill

As of June 30, 2006, goodwill decreased by \$123 million compared with December 31, 2005, principally resulting from the transfer of \$402 million of goodwill to Assets of discontinued operations held-for-sale, related to the pending transfer of the Corporate trust business to The Bank of New York, and from purchase accounting adjustments related to the acquisition of the Sears Canada credit card business. The decrease was partially offset by an increase in Goodwill in connection with the acquisition of Collegiate Funding Services.

Goodwill was not impaired at June 30, 2006, or December 31, 2005, nor was any goodwill written off due to impairment during either the six months ended June 30, 2006, or June 30, 2005.

Goodwill attributed to the business segments was as follows:

| (in millions) | June 30, 2006 | December 31, 2005 |
|--------------------------------|--------------------------|----------------------|
| Investment Bank | \$ 3,531 | \$ 3,531 |
| Retail Financial Services | 15,507 | 14,991 |
| Card Services | 12,703 | 12,984 |
| Commercial Banking | 2,650 | 2,651 |
| Treasury & Securities Services | 1,675 | 2,062 |
| Asset & Wealth Management | 7,055 | 7,025 |
| Corporate (Private Equity) | 377 | 377 |
| Total goodwill | \$ 43,498 | \$ 43,621 |

Table of Contents**Mortgage servicing rights**

For a further description of the mortgage servicing rights (MSRs) asset, interest rate risk management, and valuation methodology of MSRs, see Note 15 on pages 114-116 of JPMorgan Chase's 2005 Annual Report. The following tables summarize MSR activity during the six months ended June 30, 2006 and 2005.

| Six months ended June 30, (in millions) | 2006 |
|--|-------------|
| Balance at beginning of period after valuation allowance | \$ 6,452 |
| Cumulative effect of change in accounting principle | 230 |
| Fair value at beginning of period | 6,682 |
| Originations of MSRs | 754 |
| Purchase of MSRs | 350 |
| Total additions | 1,104 |
| Sales | |
| Change in valuation due to inputs and assumptions ^(a) | 1,202 |
| Change in valuation due to runoff and other ^(b) | (741) |
| Fair value at June 30 | \$ 8,247 |
| Weighted-average prepayment speed assumption (CPR) | 13.54% |
| Weighted-average discount rate | 9.59% |
| Six months ended June 30, (in millions) | 2005 |
| Balance at beginning of period | \$ 6,111 |
| Additions | 763 |
| Sales | |
| Other-than-temporary impairment | |
| Amortization | (664) |
| SFAS 133 hedge valuation adjustments | (510) |
| Balance at June 30 | 5,700 |
| Valuation allowance at beginning of period | 1,031 |
| SFAS 140 impairment (recovery) adjustment | (357) |
| Less: Valuation allowance at end of period | 674 |
| Balance at June 30, after valuation allowance | \$ 5,026 |
| Estimated fair value at June 30 | \$ 5,026 |
| Weighted-average prepayment speed assumption (CPR) | 18.13% |
| Weighted-average discount rate | 8.54% |

CPR: Constant prepayment rate

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

JPMorgan Chase uses a combination of derivatives, AFS securities and trading instruments to manage changes in the fair value of MSR. The intent is to offset any changes in the fair value of MSR with changes in the fair value of the related risk management instruments. MSR decrease in value when interest rates decline. Conversely, securities (such as mortgage backed securities), principal-only certificates and certain derivatives (when the Firm receives fixed rate interest payments) increase in value when interest rates decline. Contractual service fees, late fees and other ancillary fees earned for the three months and six months ended June 30, 2006, were \$494 million and \$984 million, respectively. These fees are recorded in Mortgage fees and related income.

In the first quarter of 2006, the FASB issued SFAS 156. The standard is effective as of the beginning of the first fiscal year beginning after September 15, 2006, with early adoption permitted. JPMorgan Chase elected to adopt the standard effective January 1, 2006. The standard permits an entity a one-time irrevocable election to adopt fair value accounting for a class of servicing assets. The Firm has defined MSR as one class of servicing assets for this election. This election is accounted for as a change in accounting principle. The difference between the fair value and the carrying amount, net of any related valuation allowance, of the MSR as of the date of the initial application of the subsequent fair value measurement was recorded as a cumulative effect adjustment to retained earnings of \$150 million as of January 1, 2006. With the adoption of SFAS 156, changes in the fair values of the MSR will be recorded in Mortgage fees and related income.

For the six months ended June 30, 2005, MSR were accounted for under SFAS 140, using a lower of cost or market method, with applicable hedging activity accounted for under SFAS 133. Changes to the valuation allowance represented the extent to which the carrying value of the MSR asset exceeded its estimated fair value for its applicable SFAS 140 strata. Changes in the

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valuation allowance were the result of recognition of impairment, or the recovery of previously recognized impairment charges due to changes in market conditions during the period. The changes in the valuation allowance for MSRs are identified above.

Purchased credit card relationships and All other intangible assets

For the six months ended June 30, 2006, Purchased credit card relationship intangibles decreased by \$137 million as a result of \$371 million in amortization expense, partially offset by increases from purchase accounting adjustments related to the November 2005 acquisition of the Sears Canada credit card business. During the six months ended June 30, 2006, All other intangible assets declined \$601 million primarily as a result of amortization and the transfer of \$443 million of the corporate trust business intangibles to Assets of discontinued operations held-for-sale as a result of the pending transaction with The Bank of New York, offset partially by increases from further purchase accounting adjustment related to the acquisition of the Sears Canada credit card business.

Except for \$513 million of indefinite-lived intangibles related to asset management advisory contracts which are not amortized but instead are tested for impairment at least annually, the remainder of the Firm's other acquired intangible assets are subject to amortization.

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

| (in millions) | June 30, 2006 | | | December 31, 2005 | | |
|---------------------------------------|---------------|--------------------------|--------------------|-------------------|--------------------------|--------------------|
| | Gross amount | Accumulated amortization | Net carrying value | Gross amount | Accumulated amortization | Net carrying value |
| Purchased credit card relationships | \$ 5,559 | \$ 2,421 | \$ 3,138 | \$ 5,325 | \$ 2,050 | \$ 3,275 |
| All other intangibles: | | | | | | |
| Other credit card related intangibles | \$ 360 | \$ 61 | \$ 299 | \$ 183 | \$ 59 | \$ 124 |
| Core deposit intangibles | 3,796 | 1,367 | 2,429 | 3,797 | 1,092 | 2,705 |
| Other intangibles ^(a) | 1,953 | 450 ^(b) | 1,503 | 2,582 | 579 ^(b) | 2,003 |
| Total All other intangibles | \$ 6,109 | \$ 1,878 | \$ 4,231 | \$ 6,562 | \$ 1,730 | \$ 4,832 |

(a) Amounts at June 30, 2006, exclude other intangibles and related accumulated amortization of the corporate trust business transferred to Assets of discontinued operations held-for-sale as a result of the pending transaction with

The Bank of
New York.

(b) Includes \$5 million and \$8 million of amortization expense related to servicing assets on securitized automobile loans, which is recorded in Asset management, administration and commissions, for the six months ended June 30, 2006 and 2005.

| Amortization expense (in millions) | Three months ended June 30, | | Six months ended June 30, | |
|---------------------------------------|--------------------------------|--------|------------------------------|--------|
| | 2006 | 2005 | 2006 | 2005 |
| Purchased credit card relationships | \$ 186 | \$ 175 | \$ 371 | \$ 350 |
| Other credit card related intangibles | 1 | 11 | 2 | 22 |
| Core deposit intangibles | 137 | 155 | 275 | 312 |
| Other intangibles | 33 | 35 | 64 | 67 |
| Total amortization expense | \$ 357 | \$ 376 | \$ 712 | \$ 751 |

Future amortization expense

The following table presents estimated amortization expenses related to credit card relationships, core deposits and All other intangible assets at June 30, 2006:

| For the year: (in millions) | Purchased credit card relationships | Other credit card related intangibles | Core deposit intangibles | Other intangibles ^(a) | Total |
|-----------------------------|---|--|--------------------------------|-------------------------------------|----------|
| 2006 ^(a) | \$ 721 | \$ 7 | \$ 547 | \$ 118 | \$ 1,393 |
| 2007 | 656 | 10 | 469 | 106 | 1,241 |
| 2008 | 550 | 17 | 402 | 97 | 1,066 |
| 2009 | 403 | 22 | 329 | 89 | 843 |
| 2010 | 340 | 27 | 276 | 76 | 719 |

(a)

Includes \$371 million, \$2 million, \$275 million and \$64 million of amortization expense related to purchased credit card relationships, other credit card-related intangibles, core deposit intangibles and other intangibles, respectively, recognized during the first six months of 2006.

(b) Excludes future amortization expense on Other intangibles of the corporate trust business transferred to Assets of discontinued operations held-for-sale as a result of the pending transaction with The Bank of New York.

Table of Contents**NOTE 16 EARNINGS PER SHARE**

For a discussion of the computation of basic and diluted earnings per share (EPS) see Note 20 on page 119 of JPMorgan Chase s 2005 Annual Report. The following table presents the calculation of basic and diluted EPS for the three and six months ended June 30, 2006 and 2005:

| (in millions, except per share amounts) | Three months ended June | | Six months ended June | |
|---|-------------------------|---------|-----------------------|----------|
| | 30, 2006 | 2005 | 30, 2006 | 2005 |
| Basic earnings per share | | | | |
| Income from continuing operations | \$ 3,484 | \$ 937 | \$ 6,511 | \$ 3,143 |
| Discontinued operations | 56 | 57 | 110 | 115 |
| Net income | \$ 3,540 | \$ 994 | \$ 6,621 | \$ 3,258 |
| Less: preferred stock dividends | | 3 | 4 | 8 |
| Net income applicable to common stock | \$ 3,540 | \$ 991 | \$ 6,617 | \$ 3,250 |
| Weighted-average basic shares outstanding | 3,473.8 | 3,493.0 | 3,473.3 | 3,505.2 |
| Income from continuing operations | \$ 1.00 | \$ 0.27 | \$ 1.87 | \$ 0.89 |
| Discontinued operations | 0.02 | 0.01 | 0.04 | 0.04 |
| Net income per share | \$ 1.02 | \$ 0.28 | \$ 1.91 | \$ 0.93 |
| Diluted earnings per share | | | | |
| Net income applicable to common stock | \$ 3,540 | \$ 991 | \$ 6,617 | \$ 3,250 |
| Weighted-average basic shares outstanding | 3,473.8 | 3,493.0 | 3,473.3 | 3,505.2 |
| Add: Broad-based options | 6.8 | 3.4 | 6.0 | 3.6 |
| Restricted stock, restricted stock units and key employee options | 91.6 | 51.9 | 92.2 | 50.2 |
| Weighted-average diluted shares outstanding | 3,572.2 | 3,548.3 | 3,571.5 | 3,559.0 |
| Income from continuing operations | \$ 0.98 | \$ 0.26 | \$ 1.82 | \$ 0.88 |
| Discontinued operations | 0.01 | 0.02 | 0.03 | 0.03 |
| Net income per share ^(a) | \$ 0.99 | \$ 0.28 | \$ 1.85 | \$ 0.91 |

(a) Options issued under employee benefit plans to purchase 147 million and 379 million shares of common stock were outstanding for the three months

ended June 30, 2006 and 2005, respectively, but were not included in the computation of diluted EPS because the options were anti-dilutive. For the six months ended June 30, 2006 and 2005, options issued under employee benefit plans to purchase common stock excluded from the computation were 154 million and 370 million shares, respectively.

NOTE 17 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss) includes the after-tax change in unrealized gains and losses on AFS securities, cash flow hedging activities and foreign currency translation adjustments (including the impact of related derivatives).

| (in millions) | Unrealized gains (losses) on AFS securities ^(a) | Translation adjustments | Cash flow hedges | Accumulated other comprehensive income (loss) |
|---------------------------------------|--|-------------------------|--------------------|---|
| Six months ended June 30, 2006 | | | | |
| Balance at January 1, 2006 | \$ (224) | \$ (8) | \$ (394) | \$ (626) |
| Net change | (727) ^(b) | 6 ^(c) | 129 ^(d) | (592) |
| Balance at June 30, 2006 | \$ (951) | \$ (2) | \$ (265) | \$ (1,218) |

| (in millions) | Unrealized gains (losses) on AFS securities ^(a) | Translation adjustments | Cash flow hedges | Accumulated other comprehensive income (loss) |
|---------------------------------------|--|-------------------------|---------------------|---|
| Six months ended June 30, 2005 | | | | |
| Balance at January 1, 2005 | \$ (61) | \$ (8) | \$ (139) | \$ (208) |
| Net change | 190 ^(b) | (c) | (43) ^(d) | 147 |

| | | | | |
|--------------------------|--------|--------|----------|---------|
| Balance at June 30, 2005 | \$ 129 | \$ (8) | \$ (182) | \$ (61) |
|--------------------------|--------|--------|----------|---------|

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

(b) *The net change for the six months ended June 30, 2006 was due primarily to an increase in rates, partially offset by sales of investment securities at losses. The net change for the six months ended June 30, 2005 was primarily due to sales of investment securities at losses, partially offset by higher interest rates.*

(c) *At June 30, 2006 and 2005, included \$203 million and \$(270) million, respectively, of after-tax gains (losses) on*

foreign currency translation from operations for which the functional currency is other than the U.S. dollar offset by \$(197) million and \$270 million, respectively, of after-tax gains (losses) on hedges.

- (d) *The net change for the six months ended June 30, 2006, included \$23 million of after-tax losses recognized in income and \$106 million of after tax gains representing the net change in derivative fair value that was reported in comprehensive income. The net change for the six months ended June 30, 2005, included \$50 million of after-tax losses recognized in income and \$93 million of after-tax losses representing the net change in derivative fair values that were reported in comprehensive income.*

Table of Contents**NOTE 18 COMMITMENTS AND CONTINGENCIES****Litigation reserve**

The Firm maintains litigation reserves for certain of its outstanding litigation, including material legal proceedings. While the outcome of litigation is inherently uncertain, management believes, in light of all information known to it at June 30, 2006, the Firm's litigation reserves were adequate at such date. Management reviews litigation reserves periodically, and the reserves may be increased or decreased in the future to reflect further litigation developments. The Firm believes it has meritorious defenses to claims asserted against it in its currently outstanding litigation and, with respect to such litigation, intends to continue to defend itself vigorously, litigating or settling cases according to management's judgment as to what is in the best interest of stockholders.

NOTE 19 ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The majority of JPMorgan Chase's derivatives are entered into for trading purposes. Derivatives are also utilized by the Firm as an end-user to hedge market exposures, to modify the interest rate characteristics of related balance sheet instruments or to meet longer-term investment objectives. Both trading and end-user derivatives are recorded in Trading assets and Trading liabilities. For a further discussion of the Firm's use of and accounting policies regarding derivative instruments, see pages 67-70 and Note 26 on page 123 of JPMorgan Chase's 2005 Annual Report. The following table presents derivative instrument hedging-related activities for the periods indicated:

| (in millions) | Three months ended June | | Six months ended June | |
|--|-------------------------|-------|-----------------------|---------|
| | 2006 | 2005 | 2006 | 2005 |
| Fair value hedge ineffective net gains/(losses) ^(a) | \$ (29) | \$ 60 | \$ (59) | \$ (41) |
| Cash flow hedge ineffective net gains/(losses) ^(a) | 6 | | 4 | |
| Cash flow hedging gains/(losses) on forecasted transactions that failed to occur | | | | |

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

Over the next 12 months, it is expected that \$46 million (after-tax) of net gains recorded in Accumulated other comprehensive income (loss) at June 30, 2006, will be recognized in earnings. The maximum length of time over which forecasted transactions are hedged is 10 years, and such transactions primarily relate to core lending and borrowing activities.

NOTE 20 OFF BALANCE SHEET LENDING-RELATED FINANCIAL INSTRUMENTS AND GUARANTEES

For a discussion of off-balance sheet lending-related financial instruments and guarantees, and the Firm's related accounting policies, see Note 27 on pages 124-125 of JPMorgan Chase's 2005 Annual Report. To provide for the risk of loss inherent in wholesale-related contracts, an allowance for credit losses on lending-related commitments is maintained. See Note 12 on page 82 of this Form 10-Q for a further discussion regarding the allowance for credit losses on lending-related commitments.

The following table summarizes the contractual amounts of off balance sheet lending-related financial instruments and guarantees and the related allowance for credit losses on lending-related commitments at June 30, 2006, and December 31, 2005:

Off balance sheet lending-related financial instruments and guarantees

| (in millions) | Contractual amount | | Allowance for lending-related commitments | |
|--|--------------------|-------------------|---|-------------------|
| | June 30, 2006 | December 31, 2005 | June 30, 2006 | December 31, 2005 |
| Lending-related | | | | |
| Consumer ^(a) | \$ 710,614 | \$ 655,596 | \$ 14 | \$ 15 |
| Wholesale: | | | | |
| Other unfunded commitments to extend credit ^{(b)(c)(d)} | 209,979 | 208,469 | 241 | 208 |
| Asset purchase agreements ^(e) | 63,999 | 31,095 | 6 | 3 |
| Standby letters of credit and guarantees ^{(c)(f)(g)} | 88,483 | 77,199 | 162 | 173 |
| Other letters of credit ^(c) | 4,453 | 4,346 | 1 | 1 |
| Total wholesale | 366,914 | 321,109 | 410 | 385 |
| Total lending-related | \$ 1,077,528 | \$ 976,705 | \$ 424 | \$ 400 |
| Other guarantees | | | | |
| Securities lending guarantees ^(h) | \$ 297,862 | \$ 244,316 | NA | NA |
| Derivatives qualifying as guarantees ⁽ⁱ⁾ | 64,400 | 61,759 | NA | NA |

(a) Includes Credit card lending-related commitments of \$627 billion at June 30, 2006, and \$579 billion at December 31, 2005, which represent the total available credit to the Firm's cardholders. The Firm has not experienced, and does not anticipate, that all of its cardholders will utilize their entire available

lines of credit at the same time. The Firm can reduce or cancel a credit card commitment by providing the cardholder prior notice or, in some cases, without notice as permitted by law.

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- (b) *Includes unused advised lines of credit totaling \$31.6 billion at June 30, 2006, and \$28.3 billion at December 31, 2005, which are not legally binding. In regulatory filings with the FRB, unused advised lines are not reportable.*
- (c) *Represents contractual amount net of risk participations totaling \$37.4 billion at June 30, 2006, and \$29.3 billion at December 31, 2005.*
- (d) *Excludes unfunded commitments to private third-party equity funds of \$235 million and \$242 million at June 30, 2006, and December 31, 2005, respectively.*
- (e) *Represents asset purchase agreements with*

the Firm s administered multi-seller asset-backed commercial paper conduits, which excludes \$0.1 billion and \$32.4 billion at June 30, 2006, and December 31, 2005, respectively, related to conduits that were consolidated in accordance with FIN 46R, as the underlying assets of the conduits are reported in the Firm s Consolidated balance sheets. It also includes \$1.2 billion and \$1.3 billion of asset purchase agreements to other third-party entities at June 30, 2006, and December 31, 2005, respectively. Certain of the Firm s administered multi-seller conduits were deconsolidated as of June 30, 2006; the assets deconsolidated were approximately

\$33 billion.

- (f) *JPMorgan Chase held collateral relating to \$12.8 billion and \$9.0 billion of these arrangements at June 30, 2006, and December 31, 2005, respectively.*
- (g) *Includes unused commitments to issue standby letters of credit of \$43.5 billion and \$37.5 billion at June 30, 2006, and December 31, 2005, respectively.*
- (h) *Collateral held by the Firm in support of securities lending indemnification agreements was \$296 billion at June 30, 2006, and \$245 billion at December 31, 2005, respectively.*
- (i) *Represents notional amounts of derivative guarantees. For a further discussion of guarantees, see*

*Note 27 on
pages 124-125
of JPMorgan
Chase's 2005
Annual Report.*

For a discussion of the off-balance sheet lending-related arrangements the Firm considers to be guarantees under FIN 45, and the related accounting policies, see Note 27 on pages 124-125 of JPMorgan Chase's 2005 Annual Report. The amount of the liability related to FIN 45 guarantees recorded at June 30, 2006, and December 31, 2005, excluding commitments and derivative contracts discussed above, was \$307 million and \$313 million, respectively.

In addition to the contracts described above, there are certain derivative contracts to which the Firm is a counterparty that meet the characteristics of a guarantee under FIN 45. For a discussion of the derivatives the Firm considers to be guarantees, and the related accounting policies, see Note 27 on pages 124-125 of JPMorgan Chase's 2005 Annual Report. The total notional value of the derivatives that the Firm deems to be guarantees was \$64 billion and \$62 billion at June 30, 2006, and December 31, 2005, respectively. The fair value related to these contracts was a derivative receivable of \$202 million and \$198 million, and a derivative payable of \$1.5 billion and \$767 million at June 30, 2006, and December 31, 2005, respectively.

NOTE 21 BUSINESS SEGMENTS

JPMorgan Chase is organized into six major reportable business segments (the Investment Bank (IB), Retail Financial Services (RFS), Card Services (CS), Commercial Banking (CB), Treasury & Securities Services (TSS) and Asset Wealth Management (AWM)), as well as a Corporate segment. The segments are based upon the products and services provided or the type of customer served, and they reflect the manner in which financial information is currently evaluated by management. Results of these lines of business are presented on a managed basis. For a definition of managed basis, see the footnotes to the table below. For a further discussion concerning JPMorgan Chase's business segments, see Business segment results on page 14 of this Form 10-Q, and pages 34-35 and Note 31 on pages 130-131 of JPMorgan Chase's 2005 Annual Report.

Business segment financial disclosures

Effective January 1, 2006, JPMorgan Chase modified certain of its financial disclosures to reflect more closely the manner in which the Firm's business segments are managed and to provide improved comparability with competitors. These financial disclosure revisions are reflected in this Form 10-Q, and the financial information for prior periods has been revised to reflect the disclosure changes as if they had been in effect throughout 2005. A summary of the changes are described below.

Reported versus Operating Basis Changes

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

Business Segment Disclosures

Various wholesale banking clients, together with the related revenue and expense, have been transferred between CB, the IB and TSS. In the first quarter of 2006, the primary client transfer was corporate mortgage finance from CB to the IB.

Certain expenses that are managed by the business segments, but that had been previously recorded in Corporate and allocated to the businesses, are now recorded as direct expenses within the businesses.

Table of Contents**Capital allocation changes**

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

Discontinued operations

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

The following table provides a summary of the Firm's segment results for the three and six months ended June 30, 2006 and 2005, on a managed basis. The impact of credit card securitization adjustments have been included in Reconciling items so that the total Firm results are on a reported basis. Finally, Total net revenue (Noninterest revenue and Net interest income) for each of the segments is presented on a tax-equivalent basis. Accordingly, revenue from tax exempt securities and investments that receive tax credits are presented in the managed results on a basis comparable to taxable securities and investments. This approach 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 (benefit). The following table summarizes the business segment results and reconciliation to reported U.S. GAAP results.

Segment results and reconciliation^(a)

| (in millions, except ratios) | Investment Bank | Retail Financial Services^(d) | Card Services^(e) | Commercial Banking |
|---|----------------------------|--|--|-------------------------------|
| Three months ended June 30, 2006 | | | | |
| Net interest income | \$ 84 | \$ 2,566 | \$ 2,962 | \$ 675 |
| Noninterest revenue | 4,100 | 1,213 | 702 | 274 |
| Total net revenue | 4,184 | 3,779 | 3,664 | 949 |
| Provision for credit losses | (62) | 100 | 1,031 | (12) |
| Credit reimbursement (to)/from TSS ^(b) | 30 | | | |
| Merger costs ^(c) | | | | |
| Other noninterest expense | 2,946 | 2,259 | 1,249 | 496 |
| Income (loss) from continuing operations before income tax expense | 1,330 | 1,420 | 1,384 | 465 |
| Income tax expense (benefit) | 491 | 552 | 509 | 182 |
| Income (loss) from continuing operations (after-tax) | 839 | 868 | 875 | 283 |
| Income from discontinued operations (after-tax) | | | | |
| Net income (loss) | \$ 839 | \$ 868 | \$ 875 | \$ 283 |

| | | | | |
|--------------------------|-----------|-----------|-----------|----------|
| Average equity | \$ 21,000 | \$ 14,300 | \$ 14,100 | \$ 5,500 |
| Average assets | 672,056 | 234,097 | 144,284 | 56,561 |
| Return on average equity | 16% | 24% | 25% | 21% |
| Overhead ratio | 70 | 60 | 34 | 52 |

| (in millions, except ratios) | Treasury & Securities Services | Asset & Wealth Management | Corporate | Reconciling Items ^{(e)(f)} | Total |
|--|---|---------------------------------|-----------|--|------------|
| Three months ended June 30, 2006 | | | | | |
| Net interest income | \$ 543 | \$ 248 | \$ (355) | \$ (1,545) | \$ 5,178 |
| Noninterest revenue | 1,045 | 1,372 | 289 | 767 | 9,762 |
| Total net revenue | 1,588 | 1,620 | (66) | (778) | 14,940 |
| Provision for credit losses | 4 | (7) | | (561) | 493 |
| Credit reimbursement (to)/from TSS ^(b) | (30) | | | | |
| Merger costs ^(c) | | | 86 | | 86 |
| Other noninterest expense | 1,050 | 1,081 | 69 | | 9,150 |
| Income (loss) from continuing operations before income tax expense | 504 | 546 | (221) | (217) | 5,211 |
| Income tax expense (benefit) | 188 | 203 | (181) | (217) | 1,727 |
| Income (loss) from continuing operations (after-tax) | 316 | 343 | (40) | | 3,484 |
| Income from discontinued operations (after-tax) | | | 56 | | 56 |
| Net income (loss) | \$ 316 | \$ 343 | \$ 16 | \$ | \$ 3,540 |
| Average equity | \$ 2,200 | \$ 3,500 | \$ 48,357 | \$ | \$ 108,957 |
| Average assets | 31,774 | 43,228 | 218,782 | (66,913) | 1,333,869 |
| Return on average equity | 58% | 39% | NM | NM | 13% |
| Overhead ratio | 66 | 67 | NM | NM | 62 |

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| (in millions, except ratios) Three months ended June 30, 2005 | Investment Bank | Retail Financial Services^(d) | Card Services^(e) | Commercial Banking |
|---|----------------------------|--|--|-------------------------------|
| Net interest income | \$ 557 | \$ 2,558 | \$ 2,976 | \$ 616 |
| Noninterest revenue | 2,203 | 1,241 | 910 | 252 |
| Total net revenue | 2,760 | 3,799 | 3,886 | 868 |
| Provision for credit losses | (343) | 94 | 1,641 | 142 |
| Credit reimbursement (to)/from TSS ^(b) | 38 | | | |
| Merger costs ^(c) | | | | |
| Other noninterest expense | 2,181 | 2,126 | 1,383 | 469 |
| Income (loss) from continuing operations before income tax expense | 960 | 1,579 | 862 | 257 |
| Income tax expense (benefit) | 349 | 599 | 320 | 100 |
| Income (loss) from continuing operations (after-tax) | 611 | 980 | 542 | 157 |
| Income from discontinued operations (after-tax) | | | | |
| Net income (loss) | \$ 611 | \$ 980 | \$ 542 | \$ 157 |
| Average equity | \$ 20,000 | \$ 13,250 | \$ 11,800 | \$ 3,400 |
| Average assets | 594,186 | 225,574 | 140,741 | 52,073 |
| Return on average equity | 12% | 30% | 18% | 19% |
| Overhead ratio | 79 | 56 | 36 | 54 |

| (in millions, except ratios) Three months ended June 30, 2005 | Treasury & Securities Services | Asset & Wealth Management | Corporate | Reconciling Items^{(e)(f)} | Total |
|---|---|--|------------------|---|--------------|
| Net interest income | \$ 468 | \$ 274 | \$ (775) | \$ (1,742) | \$ 4,932 |
| Noninterest revenue | 949 | 1,069 | 407 | 585 | 7,616 |
| Total net revenue | 1,417 | 1,343 | (368) | (1,157) | 12,548 |
| Provision for credit losses | 2 | (20) | 1 | (930) | 587 |
| Credit reimbursement (to)/from TSS ^(b) | (38) | | | | |
| Merger costs ^(c) | | | 279 | | 279 |
| Other noninterest expense | 1,090 | 917 | 2,353 | | 10,519 |
| Income (loss) from continuing operations before income tax expense | 287 | 446 | (3,001) | (227) | 1,163 |
| Income tax expense (benefit) | 99 | 163 | (1,177) | (227) | 226 |

| | | | | | |
|--|----------|----------|------------|----------|------------|
| Income (loss) from continuing operations (after-tax) | 188 | 283 | (1,824) | | 937 |
| Income from discontinued operations (after-tax) | | | 57 | | 57 |
| Net income | \$ 188 | \$ 283 | \$ (1,767) | \$ | \$ 994 |
| Average equity | \$ 1,525 | \$ 2,400 | \$ 52,894 | \$ | \$ 105,269 |
| Average assets | 27,364 | 42,001 | 160,320 | (66,226) | 1,176,033 |
| Return on average equity | 49% | 47% | NM | NM | 4% |
| Overhead ratio | 77 | 68 | NM | NM | 86 |

| (in millions, except ratios) Six months ended June 30, 2006 | Investment Bank | Retail Financial Services ^(d) | Card Services ^(e) | Commercial Banking |
|--|-----------------|--|------------------------------|--------------------|
| Net interest income | \$ 274 | \$ 5,128 | \$ 5,975 | \$ 1,342 |
| Noninterest revenue | 8,609 | 2,414 | 1,374 | 507 |
| Total net revenue | 8,883 | 7,542 | 7,349 | 1,849 |
| Provision for credit losses | 121 | 185 | 2,047 | (5) |
| Credit reimbursement (to)/from TSS ^(b) | 60 | | | |
| Merger costs ^(c) | | | | |
| Other noninterest expense | 6,137 | 4,497 | 2,492 | 994 |
| Income (loss) from continuing operations before income tax expense | 2,685 | 2,860 | 2,810 | 860 |
| Income tax expense (benefit) | 996 | 1,111 | 1,034 | 337 |
| Income (loss) from continuing operations (after-tax) | 1,689 | 1,749 | 1,776 | 523 |
| Income from discontinued operations (after-tax) | | | | |
| Net income | \$ 1,689 | \$ 1,749 | \$ 1,776 | \$ 523 |
| Average equity | \$ 20,503 | \$ 14,099 | \$ 14,100 | \$ 5,500 |
| Average assets | 659,209 | 232,849 | 145,134 | 55,671 |
| Return on average equity | 17% | 25% | 25% | 19% |
| Overhead ratio | 69 | 60 | 34 | 54 |

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| (in millions, except ratios) | Treasury & Securities Services | Asset & Wealth Management | Corporate | Reconciling Items^{(e)(f)} | Total |
|--|---|--|------------------|---|--------------|
| Six months ended June 30, 2006 | | | | | |
| Net interest income | \$ 1,050 | \$ 494 | \$ (902) | \$ (3,190) | \$ 10,171 |
| Noninterest revenue | 2,023 | 2,710 | 429 | 1,746 | 19,812 |
| Total net revenue | 3,073 | 3,204 | (473) | (1,444) | 29,983 |
| Provision for credit losses | | (14) | | (1,010) | 1,324 |
| Credit reimbursement (to)/from TSS ^(b) | (60) | | | | |
| Merger costs ^(c) | | | 157 | | 157 |
| Other noninterest expense | 2,098 | 2,179 | 330 | | 18,727 |
| Income (loss) from continuing operations before income tax expense | 915 | 1,039 | (960) | (434) | 9,775 |
| Income tax expense (benefit) | 337 | 383 | (500) | (434) | 3,264 |
| Income (loss) from continuing operations (after-tax) | 578 | 656 | (460) | | 6,511 |
| Income from discontinued operations (after-tax) | | | 110 | | 110 |
| Net income | \$ 578 | \$ 656 | \$ (350) | \$ | \$ 6,621 |
| Average equity | \$ 2,372 | \$ 3,500 | \$ 47,993 | \$ | \$ 108,067 |
| Average assets | 30,509 | 42,126 | 193,084 | (67,233) | 1,291,349 |
| Return on average equity | 49% | 38% | NM | NM | 12% |
| Overhead ratio | 68 | 68 | NM | NM | 63 |

| (in millions, except ratios) | Investment Bank | Retail Financial Services^(d) | Card Services^(e) | Commercial Banking |
|--|----------------------------|--|--|-------------------------------|
| Six months ended June 30, 2005 | | | | |
| Net interest income | \$ 1,191 | \$ 5,211 | \$ 5,983 | \$ 1,216 |
| Noninterest revenue | 5,756 | 2,435 | 1,682 | 479 |
| Total net revenue | 6,947 | 7,646 | 7,665 | 1,695 |
| Provision for credit losses | | (709) | 188 | 136 |
| Credit reimbursement (to)/from TSS ^(b) | 76 | | 3,277 | |
| Merger costs ^(c) | | | | |
| Other noninterest expense | 4,708 | 4,288 | 2,696 | 923 |
| Income (loss) from continuing operations before income tax expense | 3,024 | 3,170 | 1,692 | 636 |

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| | | | | |
|---|-----------|-----------|-----------|----------|
| Income tax expense (benefit) | 1,085 | 1,202 | 628 | 248 |
| Income (loss) from continuing operations (after-tax) | 1,939 | 1,968 | 1,064 | 388 |
| Income from discontinued operations (after-tax) | | | | |
| Net income | \$ 1,939 | \$ 1,968 | \$ 1,064 | \$ 388 |
| Average equity | \$ 20,000 | \$ 13,175 | \$ 11,800 | \$ 3,400 |
| Average assets | 581,276 | 225,348 | 139,632 | 51,607 |
| Return on average equity | 20% | 30% | 18% | 23% |
| Overhead ratio | 68 | 56 | 35 | 54 |

| (in millions, except ratios) | Treasury & Securities Services | Asset & Wealth Management | Corporate | Reconciling Items ^{(e)(f)} | Total |
|---|--------------------------------------|---------------------------------|------------|--|------------|
| Six months ended June 30, 2005 | | | | | |
| Net interest income | \$ 922 | \$ 556 | \$ (1,450) | \$ (3,535) | \$ 10,094 |
| Noninterest revenue | 1,801 | 2,148 | 321 | 1,285 | 15,907 |
| Total net revenue | 2,723 | 2,704 | (1,129) | (2,250) | 26,001 |
| Provision for credit losses | (1) | (27) | (3) | (1,847) | 1,014 |
| Credit reimbursement (to)/from TSS ^(b) | (76) | | | | |
| Merger costs ^(c) | | | 424 | | 424 |
| Other noninterest expense | 2,054 | 1,851 | 3,693 | | 20,213 |
| Income (loss) from continuing operations before income tax expense | 594 | 880 | (5,243) | (403) | 4,350 |
| Income tax expense (benefit) | 207 | 321 | (2,081) | (403) | 1,207 |
| Income (loss) from continuing operations (after-tax) | 387 | 559 | (3,162) | | 3,143 |
| Income from discontinued operations (after-tax) | | | 115 | | 115 |
| Net income | \$ 387 | \$ 559 | \$ (3,047) | \$ | \$ 3,258 |
| Average equity | \$ 1,525 | \$ 2,400 | \$ 53,007 | \$ | \$ 105,307 |
| Average assets | 27,932 | 40,865 | 169,666 | (66,864) | 1,169,462 |
| Return on average equity | 51% | 47% | NM | NM | 6% |
| Overhead ratio | 75 | 68 | NM | NM | 79 |

(a) 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 do not have any impact on Net income as reported by the lines of business or by the Firm as a whole.

- (b) TSS reimburses the IB for credit portfolio exposures the IB manages on behalf of clients the segments share.*

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(c) *All Merger costs are reported in the Corporate business segment. Merger costs attributed to the business segments for 2006 and 2005 were as follows:*

| (in millions) | Three months ended June | | Six months ended June | |
|--------------------------------|-------------------------|--------|-----------------------|--------|
| | 30, 2006 | 2005 | 30, 2006 | 2005 |
| Investment Bank | \$ (1) | \$ 9 | \$ 1 | \$ 14 |
| Retail Financial Services | 3 | 51 | 10 | 77 |
| Card Services | 3 | 74 | 16 | 85 |
| Commercial Banking | 1 | (3) | 1 | (1) |
| Treasury & Securities Services | 29 | 23 | 55 | 43 |
| Asset & Wealth Management | 8 | 24 | 14 | 38 |
| Corporate | 43 | 101 | 60 | 168 |
| Total Merger costs | \$ 86 | \$ 279 | \$ 157 | \$ 424 |

(d) *Effective January 1, 2006, Retail Financial Services was reorganized into three businesses: Regional Banking, Mortgage Banking and Auto Finance. For a further discussion see page 14 of this Form 10 Q.*

(e) *Managed results for Card Services exclude the impact of credit card*

*securitizations
 on Total net
 revenue,
 Provision for
 credit losses
 and Average
 assets, as
 JPMorgan
 Chase treats the
 sold receivables
 as if they were
 still on the
 balance sheet in
 evaluating the
 overall
 performance of
 the net
 charge-offs and
 receivables.
 These
 adjustments are
 eliminated in
 Reconciling
 items to arrive
 at the Firm's
 reported U.S.
 GAAP results.
 The related
 securitization
 adjustments
 were as follows:*

| (in millions) | Three months ended June | | Six months ended June | |
|-----------------------------|-------------------------|----------|-----------------------|----------|
| | 2006 | 2005 | 2006 | 2005 |
| Net interest income | \$ 1,498 | \$ 1,658 | \$ 3,072 | \$ 3,390 |
| Noninterest revenue | (937) | (728) | (2,062) | (1,543) |
| Provision for credit losses | 561 | 930 | 1,010 | 1,847 |
| Average assets | 66,913 | 66,226 | 67,233 | 66,864 |

(f) *Segment
 managed results
 reflect revenues
 on a
 tax-equivalent
 basis with the
 corresponding
 income tax
 impact recorded
 within income*

*tax expense.
These
adjustments are
eliminated in
Reconciling
items to arrive
at the Firm's
reported U.S.
GAAP results.
Tax-equivalent
adjustments
were as follows:*

| (in millions) | Three months ended June | | Six months ended June | |
|---------------------|-------------------------|-------|-----------------------|--------|
| | 2006 | 2005 | 2006 | 2005 |
| Net interest income | \$ 47 | \$ 84 | \$ 118 | \$ 145 |
| Noninterest revenue | 170 | 143 | 316 | 258 |
| Income tax expense | 217 | 227 | 434 | 403 |

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JPMORGAN CHASE & CO.
CONSOLIDATED AVERAGE BALANCE SHEETS, INTEREST AND RATES
(Taxable-Equivalent Interest and Rates; in millions, except rates)

| | Three months ended June 30, 2006 | | | Three months ended June 30, 2005 | | |
|---|----------------------------------|----------|----------------------|----------------------------------|----------|----------------------|
| | Average Balance | Interest | Rate (Annualized) | Average Balance | Interest | Rate (Annualized) |
| ASSETS | | | | | | |
| Deposits with Banks | \$ 39,193 | \$ 434 | 4.43% | \$ 18,646 | \$ 190 | 4.08% |
| Federal Funds Sold and Securities Purchased under Resale Agreements | 128,740 | 1,020 | 3.18 | 123,104 | 760 | 2.48 |
| Securities Borrowed | 86,742 | 842 | 3.89 | 60,207 | 363 | 2.42 |
| Trading Assets Debt Instruments | 204,551 | 2,720 | 5.33 | 193,384 | 2,445 | 5.07 |
| Securities: | | | | | | |
| Available-for-Sale | 82,772 | 1,125 | 5.45 ^(c) | 67,601 | 634 | 3.76 ^(c) |
| Held-to-Maturity | 73 | 1 | 6.44 | 97 | 2 | 9.36 |
| Interests in Purchased Receivables | 26,221 | 321 | 4.92 | 28,082 | 216 | 3.08 |
| Loans | 442,601 | 7,997 | 7.25 | 404,219 | 6,290 | 6.24 |
| Total Interest-Earning Assets | 1,010,893 | 14,460 | 5.74 | 895,340 | 10,900 | 4.88 |
| Allowance for Loan Losses | (7,224) | | | (6,958) | | |
| Cash and Due from Banks | 32,438 | | | 29,241 | | |
| Trading assets Equity instruments | 70,045 | | | 43,935 | | |
| Trading assets Derivative receivables | 60,340 | | | 58,304 | | |
| Other assets | 144,344 | | | 137,850 | | |
| Assets of discontinued operations held-for-sale ^(a) | 23,033 | | | 18,321 | | |
| Total Assets | \$ 1,333,869 | | | \$ 1,176,033 | | |
| LIABILITIES | | | | | | |
| Interest-Bearing Deposits | \$ 449,782 | \$ 4,118 | 3.67% | \$ 382,127 | \$ 2,288 | 2.40% |
| Federal Funds Purchased and Securities Sold under Repurchase Agreements | 184,943 | 1,776 | 3.85 | 158,175 | 1,061 | 2.69 |
| Commercial Paper | 17,484 | 188 | 4.31 | 12,496 | 76 | 2.42 |
| Other Borrowings ^(b) | 103,150 | 1,267 | 4.93 | 87,506 | 1,125 | 5.16 |
| Beneficial Interests Issued by Consolidated VIEs | 43,470 | 527 | 4.86 | 43,743 | 319 | 2.92 |
| Long-term Debt | 125,723 | 1,359 | 4.34 | 111,858 | 1,015 | 3.64 |
| | 924,552 | 9,235 | 4.01 | 795,905 | 5,884 | 2.97 |

| | | | | |
|--|---------------------|-------|---------------------|-------|
| Total Interest-Bearing Liabilities | | | | |
| Noninterest-Bearing Deposits | 125,999 | | 123,402 | |
| Trading liabilities | | | | |
| Derivative Payables | 61,385 | | 55,511 | |
| All Other Liabilities, including the Allowance for Lending-related Commitments | 90,845 | | 78,627 | |
| Liabilities of discontinued operations held-for-sale ^(a) | 22,131 | | 17,103 | |
| Total Liabilities | 1,224,912 | | 1,070,548 | |
| STOCKHOLDERS EQUITY | | | | |
| Preferred Stock | | | 216 | |
| Common Stockholders Equity | 108,957 | | 105,269 | |
| Total Stockholders Equity | 108,957 | | 105,485 | |
| Total Liabilities, Preferred Stock and Stockholders Equity | \$ 1,333,869 | | \$ 1,176,033 | |
| INTEREST RATE SPREAD | | | | |
| | | 1.73% | | 1.91% |
| NET INTEREST INCOME AND MARGIN ON INTEREST-EARNING ASSETS | | | | |
| | \$ 5,225 | 2.07% | \$ 5,016 | 2.25% |

(a) For purposes of the consolidated average balance sheet for assets and liabilities transferred to discontinued operations, JPMorgan Chase used Federal funds sold interest income as a reasonable estimate of the earnings on corporate trust deposits;

*therefore,
JPMorgan Chase
transferred to
Assets of
discontinued
operations
held-for-sale
average Federal
funds sold, along
with the related
interest income
earned, and
transferred to
Liabilities of
discontinued
operations
held-for-sale
average corporate
trust deposits.*

*(b) Includes securities
sold but not yet
purchased.*

*(c) For the three
months ended
June 30, 2006 and
2005, the
annualized rate
for
available-for-sale
securities based
upon amortized
cost was 5.37%
and 3.75%,
respectively.*

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JPMORGAN CHASE & CO.
CONSOLIDATED AVERAGE BALANCE SHEETS, INTEREST AND RATES
(Taxable-Equivalent Interest and Rates; in millions, except rates)

| | Six months ended June 30, 2006 | | | Six months ended June 30, 2005 | | |
|---|--------------------------------|----------|----------------------|--------------------------------|----------|----------------------|
| | Average Balance | Interest | Rate (Annualized) | Average Balance | Interest | Rate (Annualized) |
| ASSETS | | | | | | |
| Deposits with Banks | \$ 29,984 | \$ 654 | 4.40% | \$ 16,948 | \$ 344 | 4.09% |
| Federal Funds Sold and Securities Purchased under Resale Agreements | 129,003 | 2,042 | 3.19 | 114,096 | 1,324 | 2.34 |
| Securities Borrowed | 85,488 | 1,570 | 3.70 | 56,349 | 628 | 2.25 |
| Trading Assets Debt Instruments | 195,167 | 5,289 | 5.46 | 190,424 | 4,709 | 4.99 |
| Securities: | | | | | | |
| Available-for-Sale | 71,518 | 1,917 | 5.40 ^(c) | 80,392 | 1,767 | 4.43 ^(c) |
| Held-to-Maturity | 75 | 2 | 6.54 | 101 | 5 | 9.55 |
| Interests in Purchased Receivables | 28,114 | 652 | 4.68 | 28,676 | 402 | 2.83 |
| Loans | 435,859 | 15,470 | 7.18 | 401,331 | 12,295 | 6.18 |
| Total Interest-Earning Assets | 975,208 | 27,596 | 5.71 | 888,317 | 21,474 | 4.87 |
| Allowance for Loan Losses | (7,173) | | | (7,074) | | |
| Cash and Due from Banks | 32,325 | | | 29,513 | | |
| Trading assets Equity instruments | 70,402 | | | 43,827 | | |
| Trading assets Derivative receivables | 56,209 | | | 61,751 | | |
| Other assets | 143,139 | | | 135,149 | | |
| Assets of discontinued operations held-for-sale ^(a) | 21,239 | | | 17,979 | | |
| Total Assets | \$ 1,291,349 | | | \$ 1,169,462 | | |
| LIABILITIES | | | | | | |
| Interest-Bearing Deposits | \$ 434,925 | \$ 7,669 | 3.56% | \$ 379,274 | \$ 4,229 | 2.25% |
| Federal Funds Purchased and Securities Sold under Repurchase Agreements | 171,953 | 3,134 | 3.68 | 154,774 | 1,985 | 2.59 |
| Commercial Paper | 16,403 | 338 | 4.15 | 12,580 | 138 | 2.21 |
| Other Borrowings ^(b) | 105,413 | 2,638 | 5.05 | 87,995 | 2,353 | 5.39 |
| Beneficial Interests Issued by Consolidated VIEs | 42,835 | 934 | 4.40 | 44,514 | 591 | 2.68 |
| Long-term Debt | 122,318 | 2,594 | 4.28 | 109,941 | 1,939 | 3.56 |
| | 893,847 | 17,307 | 3.90 | 789,078 | 11,235 | 2.87 |

| | | | | |
|--|---------------------|-------|---------------------|-------|
| Total Interest-Bearing Liabilities | | | | |
| Noninterest-Bearing Deposits | 125,318 | | 123,286 | |
| Trading liabilities | | | | |
| Derivative Payables | 58,132 | | 59,603 | |
| All Other Liabilities, including the Allowance for Lending-related Commitments | 85,683 | | 75,122 | |
| Liabilities of discontinued operations held-for-sale ^(a) | 20,234 | | 16,789 | |
| Total Liabilities | 1,183,214 | | 1,063,878 | |
| STOCKHOLDERS EQUITY | | | | |
| Preferred Stock | 68 | | 277 | |
| Common Stockholders Equity | 108,067 | | 105,307 | |
| Total Stockholders Equity | 108,135 | | 105,584 | |
| Total Liabilities, Preferred Stock and Stockholders Equity | \$ 1,291,349 | | \$ 1,169,462 | |
| INTEREST RATE SPREAD | | | | |
| | | 1.81% | | 2.00% |
| NET INTEREST INCOME AND MARGIN ON INTEREST-EARNING ASSETS | | | | |
| | \$ 10,289 | 2.13% | \$ 10,239 | 2.32% |

(a) For purposes of the consolidated average balance sheet for assets and liabilities transferred to discontinued operations, JPMorgan Chase used Federal funds sold interest income as a reasonable estimate of the earnings on corporate trust deposits;

*therefore,
JPMorgan Chase
transferred to
Assets of
discontinued
operations
held-for-sale
average Federal
funds sold, along
with the related
interest income
earned, and
transferred to
Liabilities of
discontinued
operations
held-for-sale
average corporate
trust deposits.*

*(b) Includes securities
sold but not yet
purchased.*

*(c) For the six months
ended June 30,
2006 and 2005,
the annualized
rate for
available-for-sale
securities based
upon amortized
cost was 5.31%
and 4.42%,
respectively.*

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GLOSSARY OF TERMS

ACH: Automated Clearing House.

APB: Accounting Principles Board Opinion.

APB 25: Accounting for Stock Issued to Employees.

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

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

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

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

Credit derivatives are contractual agreements that provide protection against a credit event of one or more referenced credits. The nature of a credit event is established by the protection buyer and protection seller at the inception of a transaction, and such events include bankruptcy, insolvency or failure to meet payment obligations when due. The buyer of the credit derivative pays a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of a credit event.

Credit cycle: a period of time over which credit quality improves, deteriorates and then improves again. While portfolios may differ in terms of risk, the credit cycle is typically driven by many factors, including market events and the economy. The duration of a credit cycle can vary from a couple of years to several years.

Discontinued operations: A component of an entity that is classified as held-for-sale or that has been disposed of from ongoing operations in its entirety or piecemeal, and for which the entity will not have any significant continuing involvement. A discontinued operation may be a separate major business segment, a component of a major business segment or a geographical area of operations of the entity that can be separately distinguished operationally and for financial reporting purposes.

FASB: Financial Accounting Standards Board.

FIN 39: FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts.

FIN 45: FASB Interpretation No. 45, Guarantors Accounting and Disclosure Requirement for Guarantees, including Indirect Guarantees of Indebtedness of Others.

FIN 48: FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109.

FIN 46(R): FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51.

FSP FIN 46(R)-6: Determining the Variability to be Considered in Applying FASB Interpretation No. 46(R).

FSP FAS 123(R)-3: Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards.

FSP FAS 13-2: Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction.

Interests in Purchased Receivables: Represent an ownership interest in a percentage of cash flows of an underlying pool of receivables transferred by a third-party seller into a bankruptcy remote entity, generally a trust, and then financed through a commercial paper conduit.

Investment-grade: An indication of credit quality based upon JPMorgan Chase's internal risk assessment system. Investment-grade generally represents a risk profile similar to a rating of a BBB-/Baa3 or better, as defined by independent rating agencies.

Litigation reserve charges and recoveries: Includes insurance recoveries relating to certain material litigation of \$260 million, \$98 million and \$208 million in the second quarter of 2006, first quarter of 2006 and fourth quarter of

2005, respectively. In the second and first quarters of 2005, \$1,872 million and \$900 million, respectively, were recorded related to the settlement of the Enron and WorldCom class action litigations and certain other material legal proceedings.

Managed Basis: Includes reclassifications related to credit card securitizations and taxable equivalents. Management uses certain non-GAAP financial measures at the segment level because it believes these non-GAAP financial measures provide information to investors in understanding the underlying operational performance and trends of the particular business segment and facilitate a comparison of the business segment with the performance of competitors.

Managed Credit Card Receivables: Refers to credit card receivables on the Firm's balance sheet plus credit card receivables that have been securitized.

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Mark-to-market exposure: A measure, at a point in time, of the value of a derivative or foreign exchange contract in the open market. When the mark-to-market value is positive, it indicates the counterparty owes JPMorgan Chase and, therefore, creates a repayment risk for the Firm. When the mark-to-market value is negative, JPMorgan Chase owes the counterparty. In this situation, the Firm does not have repayment risk.

Master netting agreement: An agreement between two counterparties that have multiple derivative contracts with each other that provides for the net settlement of all contracts through a single payment, in a single currency, in the event of default on or termination of any one contract. See FIN 39.

MSR risk management revenue: Includes changes in MSR asset fair value due to inputs or assumptions in model and derivative valuation adjustments and other.

NA: Data is not applicable or available for the period presented.

Net yield on interest-earning assets: The average rate for interest-earning assets less the average rate paid for all sources of funds.

NM: Not meaningful.

OPEB: Other postretirement employee benefits.

Overhead ratio: Noninterest expense as a percentage of total net revenue.

Principal Transactions: Represents Trading revenue (which includes physical commodities carried at the lower of cost or market), primarily in the Investment Bank, plus Private equity gains (losses), primarily in the Private Equity business of Corporate.

Reported Basis: Financial statements prepared under accounting principles generally accepted in the United States of America (U.S. GAAP). The reported basis includes the impact of credit card securitizations, but excludes the impact of taxable equivalent adjustments.

Return on common equity less goodwill: Represents net income applicable to common stock divided by total average common equity (net of goodwill). The Firm uses return on equity less goodwill, a non-GAAP financial measure, to evaluate the operating performance of the Firm. The Firm also utilizes this measure to facilitate comparisons to other competitors.

SFAS: Statement of Financial Accounting Standards.

SFAS 109: Accounting for Income Taxes.

SFAS 123: Accounting for Stock-Based Compensation.

SFAS 123R: Share-Based Payment.

SFAS 133: Accounting for Derivative Instruments and Hedging Activities.

SFAS 140: Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement No. 125.

SFAS 142: Goodwill and Other Intangible Assets.

SFAS 149: Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities.

SFAS 155: Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140.

SFAS 156: Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140.

Stress testing: A scenario that measures market risk under unlikely but plausible events in abnormal markets.

Unaudited: The financial statements and information included throughout this document are unaudited and have not been subjected to auditing procedures sufficient to permit an independent certified public accountant to express an opinion.

U.S. GAAP: Accounting principles generally accepted in the United States of America.

U.S. government and federal agency obligations: Obligations of the U.S. government or an instrumentality of the U.S. government whose obligations are fully and explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.

U.S. government-sponsored enterprise obligations: Obligations of agencies originally established or chartered by the U.S. government to serve public purposes as specified by the U.S. Congress; these obligations are not explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.

Value-at-Risk (VAR): A measure of the dollar amount of potential loss from adverse market moves in an ordinary market environment.

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Table of Contents**LINE OF BUSINESS METRICS****Investment Banking**

IB's revenues comprise the following:

Investment banking fees includes advisory, equity underwriting, bond underwriting and loan syndication fees.

Fixed income markets includes client and portfolio management revenue related to both market-making and proprietary risk-taking across global fixed income markets, including government and corporate debt, foreign exchange, interest rate and commodities markets.

Equity 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.

Credit portfolio revenue includes Net interest income, fees and loan sale activity for IB's credit portfolio. Credit portfolio revenue also includes gains or losses on securities received as part of a loan restructuring, 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. Credit portfolio revenue also includes the results of risk management related to the Firm's lending and derivative activities.

Retail Financial Services

Description of selected business metrics within 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 office personnel who specialize in the marketing of a single product, including mortgages, investments and business banking, by partnering with the personal bankers.

Mortgage banking revenues comprise the following:

Production revenue includes Mortgage Servicing Rights created from the sales of loans, net gains or losses on the sales of loans, and other production-related fees. Also includes revenue associated with originations of subprime mortgage loans.

Net mortgage servicing revenue

(a) Servicing revenue represents all gross income earned from servicing third-party mortgage loans including stated service fees, excess service fees, late fees, and other ancillary fees. Also includes income associated with the servicing of subprime mortgages.

(b) Changes in MSR asset fair value due to:

inputs or assumptions in the model include interest rates and other market-based factors. Also includes updates to assumption used in the MSR valuation process and changes in the value of servicing assets associated with subprime loans.

other changes in fair value include any factors other than those noted in the definition above. The single largest component of this line item is the change in MSR value due to servicing portfolio runoff (or time decay). For periods prior to January 1, 2006, this amount represents MSR asset amortization expense under SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125. Includes the results of both prime and subprime servicing assets.

derivative valuation adjustments and other represents fair value adjustments to the derivatives and other instruments used to hedge the MSR asset.

Mortgage Banking's origination channels comprise the following:

Retail Borrowers who are buying or refinancing a home are directly contacted by 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 (including negotiated transactions) Correspondents are banks, thrifts, other mortgage banks and other financial institutions that sell closed loans to the Firm. Correspondent negotiated transactions occur when 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.

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Card Services

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 the merchants.

Total transactions Represents the number of transactions and authorizations processed for the merchants.

Commercial Banking

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-backed structures, and 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, and deposit products, sweeps and money market mutual funds.

Investment banking products provide clients with sophisticated capital-raising alternatives, as well as balance sheet and risk management tools through loan syndications, investment-grade debt, asset-backed securities, private placements, high-yield bonds, equity underwriting, advisory, interest rate derivatives, and foreign exchange hedges.

Description of selected business metrics within Commercial Banking:

Liability balances include deposits and deposits that are swept to on balance sheet liabilities (e.g., commercial paper, Fed funds purchased, and repurchase agreements).

IB revenues, gross Represents 100% of the revenue related to investment banking products for which there is a sharing agreement between Commercial Banking and the Investment Bank and for the investment banking products that are sold through Commercial Banking.

Treasury & Securities Services

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

Description of selected business metrics within Treasury & Securities Services:

Liability balances include deposits and deposits that are swept to on balance sheet liabilities (e.g., commercial paper, Fed funds purchased, and repurchase agreements).

Asset & Wealth Management

Alternative Assets: The following types of assets constitute alternative investments hedge funds, currency, real estate and private equity.

AWM's client segments comprise the following:

Institutional serves large and mid-size corporate and public institutions, endowments and foundations, and governments globally. AWM offers these institutions comprehensive global investment services, including investment management across asset classes, pension analytics, asset-liability management, active risk budgeting and overlay strategies.

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

Retail provides customers worldwide with investment management services and retirement planning and administration through third-party and direct distribution channels.

Private client services offers high-net-worth individuals, families and business owners comprehensive wealth management solutions that include financial planning, personal trust, investment and banking products and services.

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Table of Contents**FORWARD-LOOKING STATEMENTS**

From time to time, the Firm has made and will make forward-looking statements. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often use words such as anticipate, target, expect, estimate, intend, plan, goal, believe or other words of similar nature. Forward-looking statements provide JPMorgan Chase's current expectations or forecasts of future events, circumstances, results or aspirations. JPMorgan Chase's disclosures in this report contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Firm also may make forward-looking statements in its other documents filed or furnished with the Securities and Exchange Commission (SEC). In addition, the Firm's senior management may make forward-looking statements orally to analysts, investors, representatives of the media and others.

All forward-looking statements, by their nature, are subject to risks and uncertainties. JPMorgan Chase's actual future results may differ materially from those set forth in its forward-looking statements. Factors that could cause this difference many of which are beyond the Firm's control include the following: local, regional and international business, political or economic conditions; changes in trade, monetary and fiscal policies and laws; technological changes instituted by the Firm and by other entities which may affect the Firm's business; mergers and acquisitions, including the Firm's ability to integrate acquisitions; ability of the Firm to develop new products and services; acceptance of new products and services and the ability of the Firm to increase market share; ability of the Firm to control expenses; competitive pressures; changes in laws and regulatory requirements; changes in applicable accounting policies; costs, outcomes and effects of litigation and regulatory investigations; changes in the credit quality of the Firm's customers; and adequacy of the Firm's risk management framework.

Additional factors that may cause future results to differ materially from forward-looking statements are discussed in Part I, Item 1A: Risk Factors in the Firm's Annual Report on Form 10-K for the year ended December 31, 2005, to which reference is hereby made. There is no assurance that any list of risks and uncertainties or risk factors is complete.

Any forward-looking statements made by or on behalf of the Firm speak only as of the date they are made and JPMorgan Chase does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statement was made. The reader should, however, consult any further disclosures of a forward-looking nature the Firm may make in any subsequent Annual Reports on Form 10-K, its Quarterly Reports on Form 10-Q and its Current Reports on Form 8-K.

Table of Contents**Item 3 Quantitative and Qualitative Disclosures about Market Risk**

For a discussion of the quantitative and qualitative disclosures about market risk, see the Market Risk Management section of the MD&A on pages 63-65 of this Form 10-Q.

Item 4 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 Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). See Exhibits 31.1 and 31.2 for the Certification statements issued by the Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective. On August 3, 2006, the Firm filed an amended 2005 Form 10-K to restate the Consolidated statements of cash flows for the annual periods of 2005, 2004 and 2003 and an amended Form 10-Q to restate the Consolidated statements of cash flows for each of the quarterly periods of 2005 and the first quarter of 2006. The restatements did not affect the Firm's Consolidated statements of income, Consolidated balance sheets or Consolidated statements of changes in stockholders' equity for any of the affected periods. Accordingly, the Firm's historical revenues, net income, earnings per share, total assets and regulatory capital remained unchanged.

The restatements resulted solely from the misclassification of cash flows related to certain residential mortgages and other loans that had been originated or purchased with the intent to sell. The cash flows from these loans had been classified as investing activities. However, in accordance with Statement of Financial Accounting Standards No. 102, Statement of Cash Flows—Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale, cash flows from these loans should have been, and in the future will be, classified as operating activities, rather than investing activities. Accordingly, the restatements solely affected the classification of these activities and the subtotals of cash flows from operating and investing activities presented in the affected Consolidated statements of cash flows, but they had no impact on the net increase (decrease) in total Cash and due from banks set forth in the Consolidated statements of cash flows for any of the previously reported periods.

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 second quarter of 2006 that has materially affected, or is reasonably likely to materially affect, the Firm's internal control over financial reporting.

Part II Other Information**Item 1 Legal proceedings**

The following information supplements and amends the disclosure set forth under Part I, Item 3—Legal proceedings—in the Firm's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, and Part II, Item 1—Legal proceedings—in the Firm's Quarterly Report on Form 10-Q for the quarterly period ending March 31, 2006 (the Firm's SEC filings).

Enron litigation. On May 24, 2006, the United States District Court for the Southern District of Texas approved the previously described settlement of the lead class action captioned *Newby v. Enron Corp.*, and entered an order of final judgment and dismissal as to the JPMorgan Chase defendants. Certain plaintiffs have purported to appeal this final judgment to the United States Court of Appeals for the Fifth Circuit. Also, on May 8, 2006, JPMorgan Chase Bank filed motions to dismiss the two actions alleging state law claims relating to its role as indenture trustee in connection with certain Enron securities. Oral argument was heard on these motions on July 6, 2006.

IPO allocation litigation. The parties are in the process of drafting the requisite documents to effectuate the \$425 million settlement by the Firm described in the Memorandum of Understanding in contemplation of submission of the settlement for approval by the District Court. In addition, on April 24, 2006, the United States District Court for the Southern District of New York held a fairness hearing concerning the proposed issuer settlement. The request for final approval of the proposed issuer settlement is currently *sub judice* before the District Court. On June 6, 2006, the United States Court of Appeals for the Second Circuit heard oral argument on the underwriter defendants' appeal from the District Court's October 13, 2004 decision certifying classes in six focus cases in the securities litigation. The appeal is currently *sub judice* before the Second Circuit.

National Century Financial Enterprises litigation. On June 28, 2006, the JPMorgan entities, the Bank One entities and the Defendant Employees reached a settlement with the holders of \$89 million face value of Notes (the NYC Pension Funds Noteholders). The settlement is contingent upon the entry of certain orders by the MDL court and bankruptcy courts. Assuming the contingencies are met, the Firm has agreed to pay the NYC Pension Funds Noteholders the sum of approximately \$16 million for all claims and potential claims held by them.

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In addition to the various cases, proceedings and investigations discussed above, JPMorgan Chase and its subsidiaries are named as defendants in a number of other legal actions and governmental proceedings arising in connection with their businesses. Additional actions, investigations or proceedings may be brought 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 or penalties 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 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.

Item 1A Risk Factors

For a discussion of the risk factors affecting the Firm, see Part 1, Item 1A, Risk Factors, on pages 4-6 and Forward-Looking Statements on page 135 of JPMorgan Chase's 2005 Form 10-K.

Additionally, in connection with the announcement by the Firm on April 8, 2006, of its agreement to acquire the consumer, small-business and middle-market banking businesses of The Bank of New York, certain additional risks and uncertainties should be considered. These additional risks and uncertainties include: changes in the financial performance of the businesses the Firm is purchasing or the businesses it is selling; regulatory or legal issues, such as unanticipated difficulties in securing the regulatory or other approvals or consents required in connection with the transactions; difficulties or delays in converting the businesses between the parties' information systems, or any inability to integrate the businesses being purchased as fully, or in as timely or cost-efficient a manner, as expected; and costs associated with the transaction, or employee or customer attrition being greater than expected.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

During the second quarter of 2006, there were no shares of common stock of JPMorgan Chase & Co. issued in transactions exempt from registration under the Securities Act of 1933, pursuant to Section 4(2) thereof.

On March 21, 2006, the Board of Directors approved a stock repurchase program which authorizes the repurchase of up to \$8 billion of the Firm's common shares. The new stock repurchase program replaces the Firm's previous repurchase authorization. The amount authorized includes shares to be repurchased to offset issuances under the Firm's employee stock-based plans. The actual amount of shares repurchased will be 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 time tables; may be executed through open market purchases or privately negotiated transactions or utilizing Rule 10b5-1 programs; and may be suspended at any time.

For the three and six months ended June 30, 2006, under the respective stock repurchase programs then in effect, the Firm repurchased a total of 17.7 million shares and 49.5 million shares for \$745.5 million and \$2.0 billion at an average price per share of \$42.24 and \$41.14, respectively. Of the \$2.0 billion of shares repurchased in the first half of 2006, \$1.1 billion was repurchased during the first quarter under the original \$6 billion stock repurchase program, and \$888 million was repurchased in the first and second quarters under the new \$8 billion stock repurchase program. For the three and six months ended June 30, 2005, under the original \$6 billion stock repurchase program then in effect, the Firm repurchased 16.8 million shares and 52.8 million shares for \$593.7 million and \$1.9 billion at an average price per share of \$35.32 and \$36.17, respectively. As of June 30, 2006, \$7.1 billion of authorized repurchase capacity remained under the new stock repurchase program.

The Firm has determined that it may, from time to time, enter into written trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934 to facilitate the repurchase of common stock in accordance with the repurchase

program. A Rule 10b5-1 repurchase plan would allow the Firm to repurchase shares during periods when it would not otherwise be repurchasing common stock for example, during internal trading black-out periods. All purchases under a Rule 10b5-1 plan must be made according to a predefined plan that is established when the Firm is not aware of material nonpublic information.

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The Firm's repurchases of equity securities during the second quarter and the first half of 2006 were as follows:

| | Total open market shares repurchased | Average price paid per share ^(a) | Dollar value of remaining authorized repurchase program (in millions) |
|---|--|---|--|
| For the six months ended June 30, 2006 | | | |
| First quarter | 31,828,600 | \$40.54 | \$ 7,857 |
| April | 4,032,300 | 42.32 | 7,686 |
| May | 4,390,000 | 44.49 | 7,491 |
| June | 9,228,700 | 41.13 | 7,112 |
| Second quarter | 17,651,000 | 42.24 | |
| Year-to-date | 49,479,600 | \$41.14 | |

(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 the second quarter and the first half of 2006 were as follows:

| | Total shares repurchased | Average price paid per share |
|---|-----------------------------|------------------------------------|
| For the six months ended June 30, 2006 | | |
| First quarter | 7,724,733 | \$38.72 |
| April | 105,936 | 42.17 |
| May | 19,922 | 44.28 |
| June | 39,606 | 43.01 |
| Second quarter | 165,464 | 42.62 |
| Year-to-date | 7,890,197 | \$38.81 |

Item 3 Defaults Upon Senior Securities

None

Item 4 Submission of Matters to a Vote of Security Holders

The Annual Meeting of Stockholders of JPMorgan Chase was held on May 16, 2006. For a summary of the matters submitted to vote at the meeting, see the Firm's Current Report on Form 8-K dated May 18, 2006, which is incorporated herein by reference.

Item 5 Other Information

None

Item 6 Exhibits

| | |
|------|---|
| 31.1 | Certification |
| 31.2 | Certification |
| 32 | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

JPMORGAN CHASE & CO.

(Registrant)

Date: August 9, 2006

By

/s/ Joseph L. Sclafani
Joseph L. Sclafani

Executive Vice President and Controller
[Principal Accounting Officer]

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Table of Contents**INDEX TO EXHIBITS**
SEQUENTIALLY NUMBERED

| EXHIBIT NO. | EXHIBITS | PAGE AT WHICH LOCATED |
|--------------------|-----------------|----------------------------------|
| 31.1 | Certification | 109 |
| 31.2 | Certification | 110 |

The following exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that Section. In addition, Exhibit No. 32 shall not be deemed incorporated into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

| | | |
|----|--|-----|
| 32 | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | 111 |
| | 108 | |