This section of the Annual Report provides management's discussion and analysis ("MD&A") of the financial condition and results of operations for JPMorgan Chase. See the Glossary of terms on pages 134–135 for definitions of terms used throughout this Annual Report. The MD&A included in this Annual Report contains statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based upon the current beliefs and expectations of JPMorgan Chase's management and are subject to significant risks and uncertainties. These risks and uncertainties could cause JPMorgan Chase's results to differ materially from those set forth in such forward-looking statements. Certain of such risks and uncertainties are described herein (see Forward-looking statements on page 135 of this Annual Report) and in the JPMorgan Chase Annual Report on Form 10–K ("Form 10–K") for the year ended December 31, 2005, in Part I, Item 1A: Risk factors, to which reference is hereby made.

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 $1.2 trillion in assets, $107 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, Chase and Bank One 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. The Firm's consumer businesses comprise Retail Financial Services and Card Services. 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 Investment Bank also commits the Firm's own capital to proprietary investing and trading activities.

Retail Financial Services

Retail Financial Services ("RFS") includes Home Finance, Consumer & Small Business Banking, Auto & Education Finance and Insurance. Through this group of businesses, the Firm provides consumers and small businesses with a broad range of financial products and services including deposits, investments, loans and insurance. Home Finance is a leading provider of consumer real estate loan products and is one of the largest originators and servicers of home mortgages. Consumer & Small Business Banking offers one of the largest branch networks in the United States, covering 17 states with 2,641 branches and 7,312 automated teller machines ("ATMs"). Auto & Education Finance is the largest noncaptive originator of automobile loans as well as a top provider of loans for college students. Through its Insurance operations, the Firm sells and underwrites an extensive range of financial protection products and investment alternatives, including life insurance, annuities and debt protection products.

Card Services

Card Services ("CS") is one of the largest issuers of credit cards in the United States, with more than 110 million cards in circulation, and is the largest merchant acquirer. CS offers a wide variety of products to satisfy the needs of its cardmembers, including cards issued on behalf of many well-known partners, such as major airlines, hotels, universities, retailers and other financial institutions.

Commercial Banking

Commercial Banking ("CB") serves 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 within the Retail Financial Services footprint, CB also covers larger corporations, as well as local governments and financial institutions on a national basis. CB is a market leader with superior client penetration across the businesses it serves. Local market presence, coupled with industry expertise and excellent client service and risk management, enable CB to offer superior financial advice. Partnership with other JPMorgan Chase businesses positions CB to deliver broad product capabilities – including lending, treasury services, investment banking, and asset and wealth management – and meet its clients' financial needs.

Treasury & Securities Services

Treasury & Securities Services ("TSS") is a global leader in providing transaction, investment and information services to support the needs of 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. The Investor Services ("IS") business provides custody, fund services, securities lending, and performance measurement and execution products. The Institutional Trust Services ("ITS") business provides trustee, depository and administrative services for debt and equity issuers. TS partners with the Commercial Banking, Consumer & Small Business Banking and Asset & Wealth Management businesses to serve clients firmwide. As a result, certain TS revenues are included in other segments' results. TSS combined the management of the IS and ITS businesses under the name Worldwide Securities Services ("WSS") to create an integrated franchise which provides custody and investor services as well as securities clearance and trust services to clients globally. Beginning January 1, 2006, TSS will report results for two divisions: TS and WSS.

Asset & Wealth Management

Asset & Wealth Management ("AWM") provides investment advice and management for institutions and individuals. With Assets under supervision of $1.1 trillion, 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.

2005 Business events

Collegiate Funding Services

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

BrownCo

On November 30, 2005, JPMorgan Chase sold BrownCo, an on-line deep-discount brokerage business, to E*TRADE Financial for a cash purchase price of $1.6 billion. JPMorgan Chase recognized an after-tax gain of $752 million.

Sears Canada credit card business

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

Chase Merchant Services, Paymentech integration

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

Neovest Holdings, Inc.

On September 1, 2005, JPMorgan Chase completed its acquisition of Neovest Holdings, Inc., a provider of high-performance trading technology and direct market access. This transaction will enable the Investment Bank to offer a leading, broker-neutral trading platform across asset classes to institutional investors, asset managers and hedge funds.

Enron litigation settlement

On June 14, 2005, JPMorgan Chase announced that it had reached an agreement in principle to settle, for $2.2 billion, the Enron class action litigation captioned Newby v. Enron Corp. The Firm also recorded a nonoperating charge of $1.9 billion (pre-tax) to cover the settlement and to increase its reserves for certain other remaining material legal matters.

Vastera

On April 1, 2005, JPMorgan Chase acquired Vastera, a provider of global trade management solutions, for approximately $129 million. Vastera's business was combined with the Logistics and Trade Services businesses of TSS' Treasury Services unit. Vastera automates trade management processes associated with the physical movement of goods internationally; the acquisition enables TS to offer management of information and processes in support of physical goods movement, together with financial settlement.

WorldCom litigation settlement

On March 17, 2005, JPMorgan Chase settled, for $2.0 billion, the WorldCom, Inc. class action litigation. In connection with the settlement, JPMorgan Chase increased the Firm's Litigation reserve by $900 million.

JPMorgan Partners

On March 1, 2005, the Firm announced that the management team of JPMorgan Partners, LLC, a private equity unit of the Firm, will become independent when it completes the investment of the current $6.5 billion Global Fund, which it advises. The buyout and growth equity professionals of JPMorgan Partners will form a new independent firm, CCMP Capital, LLC, and the venture professionals will separately form a new independent firm, Panorama Capital, LLC. JPMorgan Chase has committed to invest the lesser of $875 million or 24.9% of the limited partnership interests in the fund to be raised by CCMP Capital, and has committed to invest the lesser of $50 million or 24.9% of the limited partnership interests in the fund to be raised by Panorama Capital. The investment professionals of CCMP and Panorama will continue to manage the JPMP investments pursuant to a management agreement with the Firm.

Cazenove

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

Subsequent events

Sale of insurance underwriting business

On February 7, 2006, JPMorgan Chase announced that the Firm has agreed to sell its life insurance and annuity underwriting businesses to Protective Life Corporation for a cash purchase price of approximately $1.2 billion. The sale, which includes both the heritage Chase insurance business and the life business that Bank One had bought from Zurich Insurance in 2003, is subject to normal regulatory approvals and is expected to close in the third quarter of 2006. JPMorgan Chase anticipates the transaction will have no material impact on earnings.

Executive overview

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

Financial performance of JPMorgan Chase

As of or for the year ended December 31, (in millions, except per share and ratio data)	2005	2004[(a)]	Change
Total net revenue	**$ 54,533**	$ 43,097	27%
Provision for credit losses	**3,483**	2,544	37
Total noninterest expense	**38,835**	34,359	13
Net income	**8,483**	4,466	90
Net income per share – diluted	**2.38**	1.55	54
Average common equity	**105,507**	75,641	39
Return on common equity ("ROE")	**8%**	6%	
Loans	**$ 419,148**	$ 402,114	4%
Total assets	**1,198,942**	1,157,248	4
Deposits	**554,991**	521,456	6
Tier 1 capital ratio	**8.5%**	8.7%	
Total capital ratio	**12.0**	12.2	

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

Business overview

2005 represented the Firm's first full year as a merged company; 2004 included six months of the combined Firm's results and six months of heritage JPMorgan Chase results. Therefore, comparisons between the two years are significantly affected by the Merger. In addition, other key factors affecting 2005 results included litigation charges to settle the Enron and Worldcom class actions, a special provision for credit losses related to Hurricane Katrina, the impact of the new bankruptcy legislation on credit card charge-offs and the sale of BrownCo, as well as the global economic and market environments.

In 2005, the Firm successfully completed a number of milestones in the execution of its Merger integration plan. Key accomplishments included: launching a national advertising campaign that introduced a modernized Chase brand; the conversion of 1,400 Bank One branches, 3,400 ATMs and millions of Bank One credit cards to the Chase brand; completing the operating platform conversion in Card Services; and executing a major systems conversion in Texas that united 400 Chase and Bank One branches and over 800 ATMs under common systems and branding. These accomplishments resulted in continued efficiencies from the Merger, and the Firm made significant progress toward reaching the merger-related savings target of approximately $3.0 billion by the end of 2007. The Firm realized approximately $1.5 billion of merger savings in 2005, bringing estimated cumulative savings to $1.9 billion, and the annualized run-rate of savings entering 2006 is approximately $2.2 billion. In order to achieve these savings, the Firm expensed merger-related costs of $722 million during the year, bringing the total cumulative amount expensed since the Merger announcement to $2.1 billion. Management continues to estimate remaining Merger costs of approximately $0.9 billion to $1.4 billion, which are expected to be expensed over the next two years.

The Board of Directors announced in the fourth quarter that James Dimon, President and Chief Operating Officer, would succeed Chairman and Chief Executive Officer William B. Harrison, Jr. as Chief Executive Officer on December 31, 2005. Mr. Harrison remains Chairman of the Board.

The Firm reported 2005 net income of $8.5 billion, or $2.38 per share, compared with net income of $4.5 billion, or $1.55 per share, for 2004. The return on common equity was 8% compared with 6% in 2004.

Results included $2.0 billion in after-tax charges, or $0.57 per share, which included nonoperating litigation charges of $1.6 billion and Merger costs of $448 million. Excluding these charges, operating earnings were $10.5 billion, or $2.95 per share, and return on common equity was 10%. Operating earnings represent business results without merger-related costs, nonoperating litigation-related charges and recoveries, and costs related to conformance of accounting policies.

In 2005, both the U.S. and global economies continued to expand. Gross domestic product increased by an estimated 3.0% globally with the U.S. economy growing at a slightly faster pace. The U.S. economy experienced continued rising short-term interest rates, which were driven by Federal Reserve Board actions during the course of the year. The federal funds rate increased from 2.25% to 4.25% during the year, and the yield curve flattened as long term interest rates remained broadly steady. Equity markets, both domestic and international, reflected positive performance, with the S&P 500 up 3% and international indices increasing over 20%. Capital markets activity was very strong during 2005, with debt and equity underwriting and merger and acquisition activity surpassing 2004 levels. The U.S. consumer sector showed continued strength buoyed by overall economic strength, which benefited from good levels of employment and retail sales that increased versus the prior year. This strength came despite slowing mortgage origination and refinance activity as well as significantly higher bankruptcy filings due to the new bankruptcy legislation which became effective in October 2005.

The 2005 economic environment was a contributing factor to the performance of the Firm and each of its businesses. The overall economic expansion and strong level of capital markets activity helped to drive new business volume and sales growth within each business. The interest rate environment negatively affected both wholesale and consumer loan spreads, though wholesale liability spreads widened over the course of the year, benefiting Treasury & Securities Services and Commercial Banking. Additionally, the credit quality of the loan portfolio continued to remain strong, reflecting the beneficial economic environment, despite the impacts of accelerated bankruptcy filings and Hurricane Katrina.

The discussion that follows highlights, on an operating basis and excluding the impact of the Merger, the performance of each of the Firm's lines of business.

Investment Bank operating earnings benefited from higher revenue and a continued benefit from the Provision for credit losses, which were offset by increased compensation expense. Revenue growth was driven by higher, although volatile, fixed income trading results, stronger equity commissions and improved investment banking fees, all of which benefited from strength in global capital markets activity. Investment banking fees had particular strength in advisory, reflecting in part the benefit of the business partnership with Cazenove, which was formed in February of 2005. As in 2004, the

Provision for credit losses in 2005 was a benefit to earnings, mainly due to continued improvement in the credit quality of the loan portfolio. The increase in expense was primarily the result of higher performance-based incentive compensation due to increased revenues.

Retail Financial Services operating earnings benefited from the overall strength of the U.S. economy, which led to increased deposit, home equity and mortgage balances. In addition to the benefit from higher balances, revenues increased due to improved mortgage servicing rights ("MSRs") risk management results. Expenses declined, reflecting ongoing efficiency improvements across all businesses even as investments continued in retail banking distribution and sales, with the net addition during the year of 133 branch offices, 662 ATMs and over 1,300 personal bankers. These benefits were offset partially by narrower spreads on loans due to the interest rate environment and net losses associated with loan portfolio sale activity. The provision for credit losses benefited from improved credit trends in most consumer lending portfolios and from loan portfolio sales, but was affected negatively by a special provision related to Hurricane Katrina.

Card Services operating earnings benefited from lower expenses driven by merger savings and greater efficiencies from the operating platform conversion, which resulted in lower processing and compensation costs. Revenue benefited from higher loan balances and customer charge volume resulting from marketing initiatives and increased consumer spending. Partially offsetting this growth were narrower spreads on loan balances due to an increase in accounts in their introductory rate period and higher interest rates. The managed provision for credit losses increased due to record levels of bankruptcy-related charge-offs related to the new bankruptcy legislation that became effective in October 2005 and a special provision related to Hurricane Katrina. Despite these events, underlying credit quality remained strong, with a managed net charge-off ratio of 5.21%, down from 5.27% in 2004.

Commercial Banking operating earnings benefited from wider spreads and higher volumes related to liability balances and increased loan balances. Partially offsetting these benefits were narrower loan spreads related to competitive pressures in some markets and lower deposit-related fees due to higher interest rates. The provision for credit losses increased due to a special provision related to Hurricane Katrina, increased loan balances and refinements in the data used to estimate the allowance for credit losses. However, the underlying credit quality in the portfolio was strong throughout the year, as evidenced by lower net charge-offs and nonperforming loans compared with 2004.

Treasury & Securities Services operating earnings grew significantly in 2005. Revenue growth resulted from business growth and widening spreads on, and growth in, liability balances, all of which benefited from global economic strength and capital market activity. Partially offsetting this growth were lower deposit-related fees due to higher interest rates. Expenses decreased due to lower software impairment charges, partially offset by higher compensation expense resulting from new business growth, the Vastera acquisition completed in April, and by charges taken in the second quarter to terminate a client contract.

Asset & Wealth Management operating earnings benefited from net asset inflows and asset appreciation, both the result of favorable capital markets and improved investment performance, which resulted in an increased level of Assets under management. Results also benefited from the acquisition of a majority interest in Highbridge Capital Management in the fourth quarter of 2004 and growth in deposit and loan balances. Expenses increased due primarily to the acquisition of Highbridge and higher performance-based incentive compensation related to increased revenue.

Corporate segment operating earnings were affected negatively by repositioning of the Treasury Investment portfolio. This decline was offset partially by the gain on the sale of BrownCo of $1.3 billion (pre-tax) and improved Private Equity results.

The Firm had, at year-end, total stockholders' equity of $107 billion, and a Tier 1 capital ratio of 8.5%. The Firm purchased $3.4 billion, or 93.5 million shares of common stock during the year.

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.

JPMorgan Chase's outlook for 2006 should be viewed against the backdrop of the global economy, financial markets and the geopolitical environment, all of which are integrally linked. While the Firm considers outcomes for, and has contingency plans to respond to, stress environments, the basic outlook for 2006 is predicated on the interest rate movements implied in the forward rate curve for U.S. treasuries, the continuation of favorable U.S. and international equity markets and continued expansion of the global economy.

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 2006 with a strong investment banking fee pipeline and continues to focus on new product expansion initiatives, such as commodities and securitized products, which are intended to benefit growth and reduce volatility in trading results over time. Compared with 2005, the Investment Bank anticipates lower credit portfolio revenues due to reduced gains from loan workouts. Asset & Wealth Management anticipates continued growth driven by continued net inflows to Assets under supervision. Treasury & Securities Services and Commercial Banking expect growth due to increased business activity and product sales.

Retail Financial Services anticipates benefiting from the expanded branch network and salesforce, and improved sales productivity and cross-selling in the branches, partially offset by pressure on loan and deposit spreads due to the higher interest rate environment. The acquisition of Collegiate Funding Services is expected to contribute modestly to earnings in 2006.

Card Services anticipates that managed receivables will grow in line with the overall credit card industry, benefiting from marketing initiatives, new partnerships and the acquisition of the Sears Canada credit card business. Revenues and expenses also will reflect the full-year impact of the Paymentech deconsolidation and the acquisition of the Sears Canada credit card business.

The Corporate segment includes Private Equity, Treasury and other corporate support units. 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. It is anticipated that Treasury net interest income will gradually improve and that the net loss in Other Corporate will be reduced as merger savings and other expense reduction initiatives, such as less excess real estate, are realized.

The Provision for credit losses in 2006 is anticipated to be higher than in 2005, primarily driven by a trend toward a more normal level of provisioning for credit losses in the wholesale businesses. The consumer Provision for credit losses in 2006 should reflect generally stable underlying asset quality. However, it is anticipated that the first half of 2006 will experience lower credit card net charge-offs, as the record level of bankruptcy filings in the fourth quarter of 2005 are believed to have included bankruptcy filings that would otherwise have occurred in 2006. The second half of 2006 is expected to include increased credit card delinquencies and net charge-offs as a result of implementation of new FFIEC minimum payment rules.

Firmwide expenses are anticipated to benefit as the run rate of merger savings is expected to reach approximately $2.8 billion by the end of 2006 driven by activities such as the tri-state retail conversion and data center upgrades. Offsetting the merger savings will be continued investment in distribution enhancements and new product offerings; extensive merger integration activities and upgrading of technology; and expenses related to recent acquisitions, such as the Sears Canada credit card business and Collegiate Funding Services.

Consolidated results of operations

The following section provides a comparative discussion of JPMorgan Chase's consolidated results of operations on a reported basis for the three-year period ended December 31, 2005. Factors that are related primarily to a single business segment are discussed in more detail within that business segment than they are in this consolidated section. For a discussion of the Critical accounting estimates used by the Firm that affect the Consolidated results of operations, see pages 81–83 of this Annual Report.

Revenue

Year ended December 31,[a] (in millions)	2005	2004	2003
Investment banking fees	**$ 4,088**	$ 3,537	$ 2,890
Trading revenue	**5,860**	3,612	4,427
Lending & deposit related fees	**3,389**	2,672	1,727
Asset management, administration and commissions	**10,390**	8,165	6,039
Securities/private equity gains	**473**	1,874	1,479
Mortgage fees and related income	**1,054**	806	790
Credit card income	**6,754**	4,840	2,466
Other income	**2,694**	830	601
Noninterest revenue	**34,702**	26,336	20,419
Net interest income	**19,831**	16,761	12,965
Total net revenue	**$ 54,533**	$ 43,097	$ 33,384

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

2005 compared with 2004

Total net revenue for 2005 was $54.5 billion, up 27% from 2004, primarily due to the Merger, which affected every revenue category. The increase from the prior year also was affected by a $1.3 billion gain on the sale of BrownCo; higher Trading revenue; and higher Asset management, administration and commissions, which benefited from several new investments and growth in Assets under management and assets under custody. These increases were offset partly by available-for-sale ("AFS") securities losses as a result of repositioning of the Firm's Treasury investment portfolio. The discussions that follow highlight factors other than the Merger that affected the 2005 versus 2004 comparison.

The increase in Investment banking fees reflected continued strength in advisory, equity and debt underwriting, with particular growth in Europe, which benefited from the business partnership with Cazenove. Trading revenue increased from 2004, reflecting strength in fixed income, equities and commodities. For a further discussion of Investment banking fees and Trading revenue, which are primarily recorded in the IB, see the IB segment results on pages 36–38 of this Annual Report.

The higher Lending & deposit-related fees were driven by the Merger; absent the effects of the Merger, the deposit-related fees would have been lower due to rising interest rates. In a higher interest-rate environment, the value of deposit balances to a customer is greater, resulting in a reduction of deposit-related fees. For a further discussion of liability balances (including deposits) see the CB and TSS segment discussions on pages 47–48 and 49–50, respectively, of this Annual Report.

The increase in Asset management, administration and commissions revenue was driven by incremental fees from several new investments, including a majority interest in Highbridge Capital Management, LLC, the business partnership with Cazenove and the acquisition of Vastera. Also contributing to the higher level of revenue was an increase in Assets under management, reflecting net asset inflows, mainly in equity-related products, and global equity market appreciation. In addition, Assets under custody were up due to market value appreciation and new business. Commissions rose as a result of a higher volume of brokerage transactions. For additional information on these fees and commissions, see the segment discussions for IB on pages 36–38, AWM on pages 51–52 and TSS on pages 49–50 of this Annual Report.

The decline in Securities/private equity gains reflected $1.3 billion of securities losses, as compared with $338 million of gains in 2004. The losses resulted primarily from repositioning the Firm's Treasury investment portfolio in response to rising interest rates. The securities losses were offset partly by higher private equity gains due to a continuation of favorable capital markets conditions. For a further discussion of Securities/private equity gains, which are recorded primarily in the Firm's Treasury and Private Equity businesses, see the Corporate segment discussion on pages 53–54 of this Annual Report.

Mortgage fees and related income increased due to improvements in risk management results related to MSR assets. Mortgage fees and related income exclude the impact of NII and AFS securities gains related to home mortgage activities. For a discussion of Mortgage fees and related income, which is recorded primarily in RFS's Home Finance business, see the segment discussion for RFS on pages 39–44 of this Annual Report.

Credit card income rose as a result of higher interchange income associated with the increase in charge volume. This increase was offset partially by higher volume-driven payments to partners; rewards expense; and the impact of the deconsolidation of Paymentech, which was deconsolidated upon completion of the integration of Chase Merchant Services and the Paymentech merchant processing businesses in 2005. For a further discussion of Credit card income, see CS segment results on pages 45–46 of this Annual Report.

The increase in Other income primarily reflected a $1.3 billion pre-tax gain on the sale of BrownCo to E*TRADE Financial; higher gains from loan workouts and loan sales; and higher revenues as a result of a shift from financing leases to operating leases in the auto business. These gains were offset partly by write-downs on auto loans that were transferred to held-for-sale and a one-time gain in 2004 on the sale of an investment.

Net interest income rose as a result of higher average volume of, and wider spreads on, liability balances. Also contributing to the increase was higher average volume of wholesale and consumer loans, in particular, home equity and credit card loans. These increases were offset partially by narrower spreads on consumer and wholesale loans and on trading assets, as well as reduced Treasury investment portfolio levels. The Firm's total average interest-earning assets in 2005 were $916 billion, up 23% from the prior year. The net interest yield on these assets, on a fully taxable-equivalent basis, was 2.19%, a decrease of six basis points from the prior year.

2004 compared with 2003

Total net revenues, at $43.1 billion, rose by $9.7 billion, or 29%, primarily due to the Merger, which affected every category of Total net revenue. The discussion that follows highlights factors other than the Merger that affected the 2004 versus 2003 comparison.

The increase in Investment banking fees was driven by significant gains in underwriting and advisory activities as a result of increased global market volumes and market share gains. Trading revenue declined by 18%, primarily due to lower portfolio management results in fixed income and equities.

Lending & deposit related fees were up from 2003 due to the Merger. The rise was offset partially by lower deposit-related fees, as clients paid for services with deposits versus fees due to rising interest rates. Throughout 2004, deposit balances grew in response to rising interest rates.

The increase in Asset management, administration and commissions was driven also by the full-year impact of other acquisitions – such as EFS in January 2004, Bank One's Corporate Trust business in November 2003 and JPMorgan Retirement Plan Services in June 2003 – as well as the effect of global equity market appreciation, net asset inflows and a better product mix. In addition, a more active market for trading activities in 2004 resulted in higher brokerage commissions.

Securities/private equity gains for 2004 rose from the prior year, primarily fueled by the improvement in the Firm's private equity investment results. This change was offset by lower securities gains on the Treasury investment portfolio as a result of lower volumes of securities sold, and lower gains realized on sales due to higher interest rates. Additionally, RFS's Home Finance business reported losses in 2004 on AFS securities, as compared with gains in 2003. For a further discussion of securities gains, see the RFS and Corporate segment discussions on pages 39–44 and 53–54, respectively, of this Annual Report.

Mortgage fees and related income rose as a result of higher servicing revenue; this improvement was offset partially by lower MSR risk management results and prime mortgage production revenue, and by lower gains from sales and securitizations of subprime loans as a result of management's decision in 2004 to retain these loans. Mortgage fees and related income exclude the impact of NII and securities gains related to home mortgage activities.

Credit card income increased from 2003 as a result of higher customer charge volume, which resulted in increased interchange income, and higher credit card servicing fees associated with an increase of $19.4 billion in average securitized loans. The increases were offset partially by higher volume-driven payments to partners and rewards expense.

The increase in Other income from 2003 reflected gains on leveraged lease transactions, the sale of an investment in 2004 and higher net results from corporate- and bank-owned life insurance policies. These positive factors in 2004 were offset partially by gains on sales of several nonstrategic businesses and real estate properties in 2003.

Net interest income rose from 2003 as growth in volumes of consumer loans and deposits, as well as wider spreads on deposits, contributed to higher net interest income. These positive factors were offset partially by lower wholesale loan balances in the IB and tighter spreads on loans, investment securities and trading assets stemming from the rise in interest rates. The Firm's total average interest-earning assets for 2004 were $744 billion, up $154 billion from 2003. The net interest yield on these assets, on a fully taxable-equivalent basis, was 2.25% in 2004, an increase of four basis points from the prior year.

Provision for credit losses

2005 compared with 2004

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

The Firm had total nonperforming assets of $2.6 billion at December 31, 2005, a decline of $641 million, or 20%, from the 2004 level of $3.2 billion. For further information about the Provision for credit losses and the Firm's management of credit risk, see the Credit risk management discussion on pages 63–74 of this Annual Report.

2004 compared with 2003

The Provision for credit losses of $2.5 billion was up $1.0 billion, or 65%, compared with 2003. The impact of the Merger and accounting policy conformity charges of $858 million were offset partially by releases in the allowance for credit losses related to the wholesale loan portfolio, primarily due to improved credit quality in the IB, and the sale of the manufactured home loan portfolio in RFS.

Noninterest expense

Year ended December 31,[(a)] (in millions)	2005	2004	2003
Compensation expense	**$ 18,255**	$ 14,506	$ 11,387
Occupancy expense	**2,299**	2,084	1,912
Technology and communications expense	**3,624**	3,702	2,844
Professional & outside services	**4,224**	3,862	2,875
Marketing	**1,917**	1,335	710
Other expense	**3,705**	2,859	1,694
Amortization of intangibles	**1,525**	946	294
Merger costs	**722**	1,365	—
Litigation reserve charge	**2,564**	3,700	100
Total noninterest expense	**$ 38,835**	$ 34,359	$ 21,816

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

2005 compared with 2004

Noninterest expense was $38.8 billion, up 13% from the prior year, primarily due to the full-year impact of the Merger. Excluding Litigation reserve charges and Merger costs, Noninterest expense would have been $35.5 billion, up 21%. In addition to the Merger, expenses increased as a result of higher performance-based incentives, continued investment spending in the Firm's businesses and incremental marketing expenses related to launching the new Chase brand, partially offset by merger-related savings and other efficiencies throughout the Firm. Each category of Noninterest expense was affected by the Merger. The discussions that follow highlight factors other than the Merger that affected the 2005 versus 2004 comparison.

Compensation expense rose as a result of higher performance-based incentives; additional headcount due to the insourcing of the Firm's global technology infrastructure (effective December 31, 2004, when JPMorgan Chase terminated the Firm's outsourcing agreement with IBM); the impact of several investments, including Cazenove, Highbridge and Vastera; the accelerated vesting of certain employee stock options; and business growth. The effect of the termination of the IBM outsourcing agreement was to shift expenses from Technology and communications expense to Compensation expense. The increase in Compensation expense was offset partially by merger-related savings throughout the Firm. For a detailed discussion of employee stock-based incentives, see Note 7 on pages 100–102 of this Annual Report.

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

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

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

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

The increase in Other expense reflected incremental expenses related to investments made in 2005, as well as an increase in operating charges for legal matters. Also contributing to the increase was a $93 million charge taken by TSS to terminate a client contract and a $40 million charge taken by RFS related to the dissolution of a student loan joint venture. These items were offset partially by lower software impairment write-offs, merger-related savings and other efficiencies.

For a discussion of Amortization of intangibles and Merger costs, refer to Note 15 and Note 8 on pages 114–116 and 103, respectively, of this Annual Report.

The 2005 nonoperating Litigation reserve charges that were recorded by the Firm were as follows: a $1.9 billion charge related to the settlement of the Enron class action litigation and for certain other material legal proceedings and a $900 million charge for the settlement costs of the WorldCom class action litigation; these were partially offset by a $208 million insurance recovery related to certain material litigation. In comparison, 2004 included a $3.7 billion nonoperating charge to increase litigation reserves. For a further discussion of litigation, refer to Note 25 on page 123 of this Annual Report.

2004 compared with 2003

Noninterest expense was $34.4 billion in 2004, up $12.5 billion, or 57%, primarily due to the Merger. Excluding $1.4 billion of Merger costs, and Litigation reserve charges, Noninterest expense would have been $29.3 billion, up 35%. The discussion that follows highlights other factors affecting the 2004 versus 2003 comparison.

Compensation expense was up from 2003, primarily due to strategic investments in the IB and continuing expansion in RFS. These factors were offset partially by ongoing efficiency improvements and merger-related savings throughout the Firm, and by a reduction in pension costs. The decline in pension costs was attributable mainly to the increase in the expected return on plan assets resulting from a discretionary $1.1 billion contribution to the Firm's pension plan in April 2004, partially offset by changes in actuarial assumptions for 2004 compared with 2003.

The increase in Occupancy expense was offset partly by lower charges for excess real estate, which were $103 million in 2004 compared with $270 million in 2003.

Technology and communications expense was higher than in the prior year as a result of higher costs associated with greater use of outside vendors, primarily IBM, to support the global infrastructure requirements of the Firm. For a further discussion regarding the IBM outsourcing agreement, see the Corporate segment discussion on page 53 of this Annual Report.

Professional & outside services rose due to higher legal costs associated with litigation matters, as well as outside services stemming from recent acquisitions — primarily Electronic Financial Services ("EFS"), and growth in business at TSS and CS.

Marketing expense rose as CS initiated a more robust marketing campaign during 2004.

Other expense was up due to software impairment write-offs of $224 million, primarily in TSS and Corporate, compared with $60 million in 2003; higher operating charges for legal matters; and growth in business volume. These expenses were offset partly by a $57 million settlement related to the Enron surety bond litigation.

For a discussion of Amortization of intangibles and Merger costs, refer to Note 15 and Note 8 on pages 114–116 and 103, respectively.

In June of 2004, JPMorgan Chase recorded a $3.7 billion addition to the Litigation reserve. By comparison, 2003 included a charge of $100 million for Enron-related litigation.

Income tax expense

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

Year ended December 31,[(a)] (in millions, except rate)	**2005**	2004	2003
Income before income tax expense	**$12,215**	$ 6,194	$10,028
Income tax expense	**3,732**	1,728	3,309
Effective tax rate	**30.6%**	27.9%	33.0%

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

2005 compared with 2004

The increase in the effective tax rate was 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 were lower 2005 nonoperating charges and a gain on the sale of BrownCo, which were taxed at marginal tax rates of 38% and 40%, respectively. These increases were offset partially by a tax benefit of $55 million recorded in connection with the repatriation of foreign earnings.

2004 compared with 2003

The reduction in the effective tax rate for 2004, as compared with 2003, was the result of various factors, including lower reported pre-tax income, a higher level of business tax credits, and changes in the proportion of income subject to federal, state and local taxes, partially offset by purchase accounting adjustments related to leveraged lease transactions. The Merger costs and accounting policy conformity adjustments recorded in 2004, and the Litigation reserve charge recorded in the second quarter of 2004, reflected a tax benefit at a 38% marginal tax rate, contributing to the reduction in the effective tax rate compared with 2003.

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 87–90 of this Annual Report. That presentation, which is referred to as "reported basis," provides the reader with an understanding of the Firm's results that can be tracked consistently from year to year and enables a comparison of the Firm's performance with other companies' U.S. GAAP financial statements.

In addition to analyzing the Firm's results on a reported basis, management reviews the Firm's and the lines' of business results on an operating basis, which is a non-GAAP financial measure. The Firm's definition of operating basis starts with the reported U.S. GAAP results. Operating basis excludes: (i) merger costs, (ii) the nonoperating litigation charges taken and insurance recoveries received with respect to certain of the Firm's material litigation; and (iii) costs related to the conformance of certain accounting policies as a result of the Merger. Management believes these items are not part of the Firm's normal daily business operations and, therefore, not indicative of trends, as they do not provide meaningful comparisons with other periods. For additional detail on nonoperating litigation charges, see the Glossary of terms on page 134 of this Annual Report.

In addition, the Firm manages its lines of business on an operating basis. In the case of the Investment Bank, noninterest revenue on an operating basis includes, in trading-related revenue, net interest income related to trading activities. Trading activities generate revenues, which are recorded for U.S. GAAP purposes in two line items on the income statement: trading revenue, which includes the mark-to-market gains or losses on trading positions; and net interest income, which includes the interest income or expense related to those positions. The impact of changes in market interest rates will either be recorded in Trading revenue or Net interest income depending on whether the trading position is a cash security or a derivative. Combining both the trading revenue and related net interest income allows management to evaluate the economic results of the Investment Bank's trading activities, which for GAAP purposes are reported in both Trading revenue and Net interest income. In management's view, this presentation also facilitates operating comparisons to competitors. For a discussion of trading-related revenue, see the IB on pages 36–38 of this Annual Report.

In the case of Card Services, operating basis is also referred to as "managed basis," and 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 operating comparisons 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 sheet 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 interest income, certain fee revenue, recoveries in excess of interest paid to the investors, gross credit losses and other trust expenses related to the securitized receivables are all reclassified into credit card income. For a reconciliation of reported to managed basis of Card Services results, see page 46 of this Annual Report. For information regarding loans and residual interests sold and securitized, see Note 13 on pages 108–111 of this Annual Report. 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, operating results are evaluated, and decisions are made about allocating resources such as employees and capital based upon managed financial information.

Finally, commencing with the first quarter of 2005, operating revenue (noninterest revenue and net interest income) for each of the segments and the Firm is presented on a tax-equivalent basis. Accordingly, revenue from tax exempt securities and investments that receive tax credits are presented in the operating 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. The Corporate sector's and the Firm's operating revenue and income tax expense for the periods prior to the first quarter of 2005 have been restated to be similarly presented on a tax-equivalent basis. This restatement had no impact on the Corporate sector's or the Firm's operating earnings.

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.

The following summary table provides a reconciliation from the Firm's reported GAAP results to operating results:

(Table continues on next page)

Year ended December 31,[a]	2005					2004				
(in millions, except per share and ratio data)	Reported results	Credit card[b]	Nonoperating items	Tax-equivalent adjustments	Operating basis	Reported results	Credit card[b]	Nonoperating items	Tax-equivalent adjustments	Operating basis
Revenue										
Investment banking fees	**$ 4,088**	**$ —**	**$ —**	**$ —**	**$ 4,088**	$ 3,537	$ —	$ —	$ —	$ 3,537
Trading revenue[c]	**6,019**	**—**	**—**	**—**	**6,019**	5,562	—	—	—	5,562
Lending & deposit related fees	**3,389**	**—**	**—**	**—**	**3,389**	2,672	—	—	—	2,672
Asset management, administration and commissions	**10,390**	**—**	**—**	**—**	**10,390**	8,165	—	—	—	8,165
Securities/private equity gains	**473**	**—**	**—**	**—**	**473**	1,874	—	—	—	1,874
Mortgage fees and related income	**1,054**	**—**	**—**	**—**	**1,054**	806	—	—	—	806
Credit card income	**6,754**	**(2,718)**	**—**	**—**	**4,036**	4,840	(2,267)	—	—	2,573
Other income	**2,694**	**—**	**—**	**571**	**3,265**	830	(86)	118[3]	317	1,179
Noninterest revenue[c]	**34,861**	**(2,718)**	**—**	**571**	**32,714**	28,286	(2,353)	118	317	26,368
Net interest income[c]	**19,672**	**6,494**	**—**	**269**	**26,435**	14,811	5,251	—	6	20,068
Total net revenue	**54,533**	**3,776**	**—**	**840**	**59,149**	43,097	2,898	118	323	46,436
Provision for credit losses	**3,483**	**3,776**	**—**	**—**	**7,259**	2,544	2,898	(858)[4]	—	4,584
Noninterest expense										
Merger costs	**722**	**—**	**(722)[1]**	**—**	**—**	1,365	—	(1,365)[1]	—	—
Litigation reserve charge	**2,564**	**—**	**(2,564)[2]**	**—**	**—**	3,700	—	(3,700)[2]	—	—
All other noninterest expense	**35,549**	**—**	**—**	**—**	**35,549**	29,294	—	—	—	29,294
Total noninterest expense	**38,835**	**—**	**(3,286)**	**—**	**35,549**	34,359	—	(5,065)	—	29,294
Income before income tax expense	**12,215**	**—**	**3,286**	**840**	**16,341**	6,194	—	6,041	323	12,558
Income tax expense	**3,732**	**—**	**1,248**	**840**	**5,820**	1,728	—	2,296	323	4,347
Net income	**$ 8,483**	**$ —**	**$ 2,038**	**$ —**	**$ 10,521**	$ 4,466	$ —	$ 3,745	$ —	$ 8,211
Earnings per share – diluted	**$ 2.38**	**$ —**	**$ 0.57**	**$ —**	**$ 2.95**	$ 1.55	$ —	$ 1.31	$ —	$ 2.86
Return on common equity	**8%**	**—%**	**2%**	**—%**	**10%**	6%	—%	5%	—%	11%
Return on equity less goodwill	**14**	**—**	**3**	**—**	**17**	9	—	7	—	16
Return on assets	**0.72**	**NM**	**NM**	**NM**	**0.84**	0.46	NM	NM	NM	0.81
Overhead ratio	**71**	**NM**	**NM**	**NM**	**60**	80	NM	NM	NM	63
Effective income tax rate	**31**	**NM**	**38**	**NM**	**36**	28	NM	38	NM	35
Loans–Period-end	**$ 419,148**	**$70,527**	**—**	**—**	**$ 489,675**	$402,114	$70,795	—	—	$ 472,909
Total assets – average	**1,185,066**	**67,180**	**—**	**—**	**1,252,246**	962,556[a]	51,084[a]	—	—	1,013,640[a]

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) The impact of credit card securitizations affects CS. See pages 45–46 of this Annual Report for further information.
(c) **Trading-related net interest income reclassification**

Year ended December 31,[a] (in millions)	2005	2004	2003
Trading revenue – reported[d]	**$ 5,860**	$ 3,612	$ 4,427
Trading-related NII	**159**	1,950	2,129
Trading revenue – adjusted[d]	**$ 6,019**	$ 5,562	$ 6,556
Net interest income – reported	**$ 19,831**	$ 16,761	$ 12,965
Trading-related NII	**(159)**	(1,950)	(2,129)
Net interest income – adjusted	**$ 19,672**	$ 14,811	$ 10,836

(d) Reflects Trading revenue at the Firm level. The majority of Trading revenue is recorded in the Investment Bank.

(Table continued from previous page)

2003				
Reported results	Credit card[b]	Nonoperating items	Tax-equivalent adjustments	Operating basis
$ 2,890	$ —	$ —	$ —	$ 2,890
6,556	—	—	—	6,556
1,727	—	—	—	1,727
6,039	—	—	—	6,039
1,479	—	—	—	1,479
790	—	—	—	790
2,466	(1,379)	—	—	1,087
601	(71)	—	89	619
22,548	(1,450)	—	89	21,187
10,836	3,320	—	44	14,200
33,384	1,870	—	133	35,387
1,540	1,870	—	—	3,410
—	—	—	—	—
100	—	—	—	100
21,716	—	—	—	21,716
21,816	—	—	—	21,816
10,028	—	—	133	10,161
3,309	—	—	133	3,442
$ 6,719	$ —	$ —	$ —	$ 6,719
$ 3.24	$ —	$ —	$ —	$ 3.24
16%	—%	—%	—%	16%
19	—	—	—	19
0.87	NM	NM	NM	0.83
65	NM	NM	NM	62
33	NM	NM	NM	34
$214,766	$ 34,856	—	—	$ 249,622
775,978	32,365	—	—	808,343

Nonoperating Items

The reconciliation of the Firm's reported results to operating results in the accompanying table sets forth the impact of several nonoperating items incurred by the Firm in 2005 and 2004. These nonoperating items are excluded from Operating earnings, as management believes these items are not part of the Firm's normal daily business operations and, therefore, not indicative of trends as they do not provide meaningful comparisons with other periods. These items include Merger costs, nonoperating litigation charges and insurance recoveries, and charges to conform accounting policies, each of which is described below:

(1) Merger costs of $722 million in 2005 and $1.4 billion in 2004 reflect costs associated with the Merger.

(2) Net nonoperating litigation charges of $2.6 billion and $3.7 billion were taken in 2005 and 2004, respectively.

(3) Other income in 2004 reflects $118 million of other accounting policy conformity adjustments.

(4) The Provision for credit losses in 2004 reflects $858 million of accounting policy conformity adjustments, consisting of a $1.4 billion charge related to the decertification of the seller's interest in credit card securitizations, partially offset by a benefit of $584 million related to conforming wholesale and consumer credit provision methodologies for the combined Firm.

Calculation of Certain GAAP and Non-GAAP Metrics

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

Return on common equity

Reported	Net income* / Average common equity
Operating	Operating earnings* / Average common equity

Return on equity less goodwill[a]

Reported	Net income* / Average common equity less goodwill
Operating	Operating earnings* / Average common equity less goodwill

Return on assets

Reported	Net income / Average assets
Operating	Operating earnings / Average managed assets

Overhead ratio

Reported	Total noninterest expense / Total net revenue
Operating	Total noninterest expense / Total net revenue

* Represents earnings applicable to common stock

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

Business segment results

The Firm is managed on a line-of-business basis. The business segment financial results presented reflect the current organization of JPMorgan Chase. There are six major 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 reflect the manner in which financial information is currently evaluated by management. Results of these lines of business are presented on an operating basis.

JPMorgan Chase

JPMorgan is the brand name.
Chase is the brand name.

Investment Bank

Businesses:
- Investment banking:
  - Advisory
  - Debt and equity underwriting
- Market-making and trading:
  - Fixed income
  - Equities
- Corporate lending

Retail Financial Services

Businesses:
- Home Finance
- Consumer & Small Business Banking
- Auto & Education Finance
- Insurance

Card Services

Businesses:
- Credit Card
- Merchant Acquiring

Commercial Banking

Businesses:
- Middle Market Banking
- Mid-Corporate Banking
- Real Estate
- Chase Business Credit
- Chase Equipment Leasing

Treasury & Securities Services

Businesses:
- Treasury Services
- Worldwide Securities Services:
  - Investor Services
  - Institutional Trust Services

Asset & Wealth Management

Businesses:
- Investment Management:
  - Institutional
  - Retail
- Private Banking
- Private Client Services

In connection with the Merger, business segment reporting was realigned to reflect the new business structure of the combined Firm. Treasury was transferred from the IB into Corporate. The segment formerly known as Chase Financial Services had been comprised of Chase Home Finance, Chase Cardmember Services, Chase Auto Finance, Chase Regional Banking and Chase Middle Market; as a result of the Merger, this segment is now called Retail Financial Services and is comprised of Home Finance, Auto & Education Finance, Consumer & Small Business Banking and Insurance. Chase Cardmember Services is now its own segment called Card Services, and Chase Middle Market moved into Commercial Banking. Investment Management & Private Banking was renamed Asset & Wealth Management. JPMorgan Partners, which formerly was a stand-alone business segment, was moved into Corporate. Corporate currently comprises Private Equity (JPMorgan Partners and ONE Equity Partners) and Treasury, and the corporate support areas, which include Central Technology and Operations, Audit, Executive Office, Finance, Human Resources, Marketing & Communications, Office of the General Counsel, Corporate Real Estate and General Services, Risk Management, and Strategy and Development. Beginning January 1, 2006, TSS will report results for two divisions: TS and WSS. WSS was formed by consolidating IS and ITS.

Segment results for periods prior to July 1, 2004, reflect heritage JPMorgan Chase-only results and have been restated to reflect the current business segment organization and reporting classifications.

Segment results – Operating basis(a)(b)

(Table continues on next page)

Year ended December 31, (in millions, except ratios)	Total net revenue 2005	2004	Change	Noninterest expense 2005	2004	Change
Investment Bank	**$ 14,578**	$ 12,605	16%	**$ 9,739**	$ 8,696	12%
Retail Financial Services	**14,830**	10,791	37	**8,585**	6,825	26
Card Services	**15,366**	10,745	43	**4,999**	3,883	29
Commercial Banking	**3,596**	2,374	51	**1,872**	1,343	39
Treasury & Securities Services	**6,241**	4,857	28	**4,470**	4,113	9
Asset & Wealth Management	**5,664**	4,179	36	**3,860**	3,133	23
Corporate	**(1,126)**	885	NM	**2,024**	1,301	56
Total	**$ 59,149**	$ 46,436	27%	**$ 35,549**	$ 29,294	21%

(a) Represents reported results on a tax-equivalent basis and excludes the impact of credit card securitizations; Merger costs, litigation reserve charges and insurance recoveries deemed nonoperating; and accounting policy conformity adjustments related to the Merger.
(b) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.
(c) As a result of the Merger, new capital allocation methodologies were implemented during the third quarter of 2004. The capital allocated to each line of business considers several factors: stand-alone peer comparables, economic risk measures and regulatory capital requirements. In addition, effective with the third quarter of 2004, goodwill, as well as the associated capital, is only allocated to the Corporate line of business. Prior periods have not been revised to reflect these new methodologies and are not comparable to the presentation beginning in the third quarter of 2004.

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 allocates income and expense using market-based methodologies. Effective with the Merger on July 1, 2004, several of the allocation methodologies were revised, as noted below. As prior periods have not been revised to reflect these new methodologies, they are not comparable to the presentation of periods beginning with the third quarter of 2004. Further, the Firm continues to assess the assumptions, methodologies and reporting reclassifications used for segment reporting, and further refinements may be implemented in future periods.

Revenue sharing

When business segments join efforts to sell products and services to the Firm's clients, the participating business segments agree to share revenues from those transactions. These revenue-sharing agreements were revised on the Merger date to provide consistency across the lines of business.

Funds transfer pricing

Funds transfer pricing ("FTP") is used to allocate interest income and expense to each business and transfer the primary interest rate risk exposures to Corporate. The allocation process is unique to each business and considers the interest rate risk, liquidity risk and regulatory requirements of its stand-alone peers. Business segments may retain certain interest rate exposures, subject to management approval, that would be expected in the normal operation of a similar peer business. In the third quarter of 2004, FTP was revised to conform the policies of the combined firms.

Expense allocation

Where business segments use services provided by support units within the Firm, the costs of those support units are allocated to the business segments. Those expenses are allocated based upon their actual cost, or the lower of actual cost or market cost, as well as upon usage of the services provided. Effective with the third quarter of 2004, the cost allocation methodologies of the heritage firms were aligned to provide consistency across the business segments. In addition, expenses related to certain corporate functions, technology and operations ceased to be allocated to the business segments and are retained in Corporate. These retained expenses include parent company costs that would not be incurred if the segments were stand-alone businesses; adjustments to align certain corporate staff, technology and operations allocations with market prices; and other one-time items not aligned with the business segments. During 2005, the Firm refined cost allocation methodologies related to certain corporate functions, technology and operations expenses in order to improve transparency, consistency and accountability with regard to costs allocated across business segments. Prior periods have not been revised to reflect these new cost allocation methodologies.

Capital allocation

Each business segment is allocated capital by taking into consideration stand-alone peer comparisons, economic risk measures and regulatory capital requirements. The amount of capital assigned to each business is referred to as equity. At the time of the Merger, goodwill, as well as the associated capital, was allocated solely to Corporate. Effective January 2006, the Firm expects to refine its methodology for allocating capital to the business segments to include any goodwill associated with line of business-directed acquisitions since the Merger. U.S. GAAP requires the allocation of goodwill to the business segments for impairment testing (see Critical accounting estimates used by the Firm and Note 15 on pages 81–83 and 114–116, respectively, of this Annual Report). See the Capital management section on page 56 of this Annual Report for a discussion of the equity framework.

Credit reimbursement

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

Tax-equivalent adjustments

Segment and Firm results reflect revenues on a tax-equivalent basis for segment reporting purposes. Refer to Explanation and reconciliation of the Firm's non-GAAP financial measures on page 31 of this Annual Report for additional details.

Segment results – Operating basis[a][b]

(Table continued from previous page)

Year ended December 31,	Operating earnings			Return on common equity – goodwill[c]	
(in millions, except ratios)	**2005**	2004	Change	**2005**	2004
Investment Bank	**$ 3,658**	$ 2,948	24%	**18%**	17%
Retail Financial Services	**3,427**	2,199	56	**26**	24
Card Services	**1,907**	1,274	50	**16**	17
Commercial Banking	**1,007**	608	66	**30**	29
Treasury & Securities Services	**1,037**	440	136	**55**	17
Asset & Wealth Management	**1,216**	681	79	**51**	17
Corporate	**(1,731)**	61	NM	**NM**	NM
Total	**$ 10,521**	$ 8,211	28%	**17%**	16%

Investment Bank

JPMorgan Chase is one of the world's leading investment banks, as evidenced by the breadth of its client relationships and product capabilities. The Investment Bank 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 Investment Bank also commits the Firm's own capital to proprietary investing and trading activities.

Selected income statement data

Year ended December 31,[a] (in millions, except ratios)	2005	2004	2003
Revenue			
Investment banking fees:			
Advisory	**$ 1,263**	$ 938	$ 640
Equity underwriting	**864**	781	699
Debt underwriting	**1,969**	1,853	1,532
Total investment banking fees	**4,096**	3,572	2,871
Trading-related revenue:			
Fixed income and other	**5,673**	5,008	6,016
Equities	**350**	427	556
Credit portfolio	**116**	6	(186)
Total trading-related revenue[b]	**6,139**	5,441	6,386
Lending & deposit related fees	**594**	539	440
Asset management, administration and commissions	**1,724**	1,400	1,217
Other income	**615**	328	103
Noninterest revenue	**13,168**	11,280	11,017
Net interest income[b]	**1,410**	1,325	1,667
Total net revenue[c]	**14,578**	12,605	12,684
Provision for credit losses	**(838)**	(640)	(181)
Credit reimbursement from (to) TSS[d]	**154**	90	(36)
Noninterest expense			
Compensation expense	**5,785**	4,893	4,462
Noncompensation expense	**3,954**	3,803	3,840
Total noninterest expense	**9,739**	8,696	8,302
Operating earnings before income tax expense	**5,831**	4,639	4,527
Income tax expense	**2,173**	1,691	1,722
Operating earnings	**$ 3,658**	$ 2,948	$ 2,805
Financial ratios			
ROE	**18%**	17%	15%
ROA	**0.61**	0.62	0.64
Overhead ratio	**67**	69	65
Compensation expense as % of total net revenue	**40**	39	35

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

(b) Trading revenue, on a reported basis, excludes the impact of Net interest income related to IB's trading activities; this income is recorded in Net interest income. However, in this presentation, to assess the profitability of IB's trading business, the Firm combines these revenues for segment reporting purposes. The amount reclassified from Net interest income to Trading revenue was $0.2 billion, $1.9 billion and $2.1 billion for 2005, 2004 and 2003, respectively. The decline from prior years is due to tightening spreads as short-term funding rates have risen sharply and also, to a lesser extent, increased funding costs from growth in noninterest-bearing trading assets.

(c) 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 $752 million, $274 million and $117 million for 2005, 2004 and 2003, respectively.

(d) TSS is charged a credit reimbursement related to certain exposures managed within the IB credit portfolio on behalf of clients shared with TSS. For a further discussion, see Credit reimbursement on page 35 of this Annual Report.

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

Year ended December 31,[a] (in millions)	2005	2004	2003
Revenue by business			
Investment banking fees	**$ 4,096**	$ 3,572	$ 2,871
Fixed income markets	**7,242**	6,314	6,987
Equities markets	**1,799**	1,491	1,406
Credit portfolio	**1,441**	1,228	1,420
Total net revenue	**$ 14,578**	$ 12,605	$ 12,684

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

2005 compared with 2004

Operating earnings of $3.7 billion were up 24%, or $710 million, from the prior year. The increase was driven by the Merger, higher revenues and an increased benefit from the Provision for credit losses. These factors were partially offset by higher compensation expense. Return on equity was 18%.

Net revenue of $14.6 billion was up $2.0 billion, or 16%, over the prior year, representing the IB's highest annual revenue since 2000, driven by strong Fixed Income and Equity Markets and Investment banking fees. Investment banking fees of $4.1 billion increased 15% from the prior year driven by strong growth in advisory fees resulting in part from the Cazenove business partnership. Advisory revenues of $1.3 billion were up 35% from the prior year, reflecting higher market volumes. Debt underwriting revenues of $2.0 billion increased by 6% driven by strong loan syndication fees. Equity underwriting fees of $864 million were up 11% from the prior year driven by improved market share. Fixed Income Markets revenue of $7.2 billion increased 15%, or $928 million, driven by stronger, although volatile, trading results across commodities, emerging markets, rate markets and currencies. Equities Markets revenues increased 21% to $1.8 billion, primarily due to increased commissions, which were offset partially by lower trading results, which also experienced a high level of volatility. Credit Portfolio revenues were $1.4 billion, up $213 million from the prior year due to higher gains from loan workouts and sales as well as higher trading revenue from credit risk management activities.

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

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

2004 compared with 2003

In 2004, Operating earnings of $2.9 billion were up 5% from the prior year. Increases in Investment banking fees, the improvement in the Provision for credit losses and the impact of the Merger were partially offset by decreases in trading revenues and net interest income. Return on equity was 17% for 2004.

Total net revenue of $12.6 billion was relatively flat from the prior year, primarily due to lower Fixed income markets revenues and Credit portfolio revenues, offset by increases in Investment banking fees and the impact of the Merger. The decline in revenue from Fixed income markets was driven by weaker portfolio management trading results, mainly in the interest rate markets business. Credit portfolio revenues were down due to lower net interest income, primarily driven by lower loan balances; these factors were partially offset by higher trading revenue due to more severe credit spread tightening in 2003 relative to 2004. Investment banking fees increased by 24% over the prior year, driven by significant gains in advisory and debt underwriting. The advisory gains were a result of increased global market volumes and market share, while the higher underwriting fees were due to stronger client activity.

The Provision for credit losses was a benefit of $640 million, compared with a benefit of $181 million in 2003. The improvement in the provision was the result of a $633 million decline in net charge-offs, partially offset by lower reductions in the allowance for credit losses in 2004 relative to 2003.

For the year ended December 31, 2004, Noninterest expense was up 5% from the prior year. The increase from 2003 was driven by higher Compensation expense, resulting from strategic investments and the impact of the Merger.

Selected metrics

Year ended December 31,[(a)] (in millions, except headcount and ratio data)	2005	2004	2003
Revenue by region			
Americas	**$ 8,223**	$ 6,870	$ 7,250
Europe/Middle East/Africa	**4,627**	4,082	4,331
Asia/Pacific	**1,728**	1,653	1,103
Total net revenue	**$ 14,578**	$ 12,605	$ 12,684
Selected average balances			
Total assets	**$ 598,118**	$473,121	$ 436,488
Trading assets–debt and equity instruments	**231,303**	173,086	156,408
Trading assets – derivatives receivables	**55,239**	58,735	83,361
Loans:			
Loans retained[(b)]	**42,918**	36,494	40,240
Loans held-for-sale[(c)]	**12,014**	6,124	4,797
Total loans	**54,932**	42,618	45,037
Adjusted assets[(d)]	**455,277**	393,646	370,776
Equity[(e)]	**20,000**	17,290	18,350
Headcount	**19,769**	17,478	14,691
Credit data and quality statistics			
Net charge-offs (recoveries)	**$ (126)**	$ 47	$ 680
Nonperforming assets:			
Nonperforming loans[(f)]	**594**	954	1,708
Other nonperforming assets	**51**	242	370
Allowance for loan losses	**907**	1,547	1,055
Allowance for lending related commitments	**226**	305	242
Net charge-off (recovery) rate[(c)]	**(0.29)%**	0.13%	1.69%
Allowance for loan losses to average loans[(c)]	**2.11**	4.24	2.56
Allowance for loan losses to nonperforming loans[(f)]	**187**	163	63
Nonperforming loans to average loans	**1.08**	2.24	3.79
Market risk–average trading and credit portfolio VAR[(g)(h)(i)]			
Trading activities:			
Fixed income[(g)]	**$ 67**	$ 74	$ 61
Foreign exchange	**23**	17	17
Equities	**34**	28	18
Commodities and other	**21**	9	8
Diversification[(i)]	**(59)**	(43)	(39)
Total trading VAR	**86**	85	65
Credit portfolio VAR[(h)]	**14**	14	18
Diversification[(i)]	**(12)**	(9)	(14)
Total trading and credit portfolio VAR	**$ 88**	$ 90	$ 69

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) Loans retained include Credit Portfolio, Conduit loans, leverage leases, bridge loans for underwriting and other accrual loans.
(c) 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.
(d) Adjusted assets, a non-GAAP financial measure, equals total average assets minus (1) securities purchased under resale agreements and securities borrowed less securities sold, not yet purchased; (2) assets of variable interest entities (VIEs) consolidated under FIN 46R; (3) cash and securities segregated and on deposit for regulatory and other purposes; and (4) goodwill and intangibles. The amount of adjusted assets is presented to assist the reader in comparing the IB's asset and capital levels to other investment banks in the securities industry. Asset-to-equity leverage ratios are commonly used as one measure to assess a company's capital adequacy. The IB believes an adjusted asset amount, which excludes certain assets considered to have a low risk profile, provides a more meaningful measure of balance sheet leverage in the securities industry.
(e) Equity includes $15.0 billion, $15.0 billion and $14.6 billion of economic risk capital assigned to the IB for the years ended 2005, 2004 and 2003 respectively.
(f) Nonperforming loans include loans held-for-sale of $109 million, $2 million and $30 million as of December 31, 2005, 2004 and 2003, respectively. These amounts are not included in the allowance coverage ratios.
(g) Includes all fixed income mark-to-market trading activities, plus available-for-sale securities held for proprietary purposes.
(h) 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 Trading revenue. This VAR does not include the accrual loan portfolio, which is not marked to market.
(i) 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.

According to Thomson Financial, in 2005, the Firm improved its ranking in U.S. Debt, Equity and Equity-related from #5 in 2004 to #4 and in U.S. Equity and Equity-related from #6 in 2004 to #5. The Firm maintained its #3 position in Global Announced M&A with 24% market share and its #1 position in Global Syndicated Loans. The Firm maintained its #2 ranking in U.S. Long-Term Debt, but dropped from #2 to #4 in Global Long-Term Debt.

According to Dealogic, the Firm was ranked #2 in Investment Banking fees generated during 2005.

Market shares and rankings[(a)]

	2005		2004		2003	
December 31,	Market Share	Rankings	Market Share	Rankings	Market Share	Rankings
Global debt, equity and equity-related	**6%**	**#4**	7%	# 3	8%	# 3
Global syndicated loans	**16**	**#1**	19	# 1	20	# 1
Global long-term debt	**6**	**#4**	7	# 2	8	# 2
Global equity and equity-related	**7**	**#6**	6	# 6	8	# 4
Global announced M&A	**24**	**#3**	24	# 3	16	# 4
U.S. debt, equity and equity-related	**8**	**#4**	8	# 5	9	# 3
U.S. syndicated loans	**28**	**#1**	32	# 1	34	# 1
U.S. long-term debt	**11**	**#2**	12	# 2	12	# 2
U.S. equity and equity-related	**9**	**#5**	8	# 6	11	# 4
U.S. announced M&A	**24**	**#3**	31	# 2	14	# 7

(a) Source: Thomson Financial Securities data. Global announced M&A is based on rank value; all other rankings are based upon proceeds, with full credit to each book manager/equal if joint. Because of joint assignments, market share of all participants will add up to more than 100%. The market share and rankings for the years ended December 31, 2004 and 2003 are presented on a combined basis, as if the merger of JPMorgan Chase and Bank One had been in effect during the periods.

Composition of revenue

Year ended December 31,[a] (in millions)	Investment banking fees	Trading-related revenue	Lending & deposit related fees	Asset management, administration and commissions	Other income	Net interest income	Total net revenue
2005							
Investment banking fees	**$ 4,096**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 4,096**
Fixed income markets	**—**	**5,673**	**251**	**219**	**365**	**734**	**7,242**
Equities markets	**—**	**350**	**—**	**1,462**	**(88)**	**75**	**1,799**
Credit portfolio	**—**	**116**	**343**	**43**	**338**	**601**	**1,441**
Total	**$ 4,096**	**$ 6,139**	**$ 594**	**$ 1,724**	**$ 615**	**$ 1,410**	**$ 14,578**
2004							
Investment banking fees	$ 3,572	$ —	$ —	$ —	$ —	$ —	$ 3,572
Fixed income markets	—	5,008	191	287	304	524	6,314
Equities markets	—	427	—	1,076	(95)	83	1,491
Credit portfolio	—	6	348	37	119	718	1,228
Total	$ 3,572	$ 5,441	$ 539	$ 1,400	$ 328	$ 1,325	$ 12,605
2003							
Investment banking fees	$ 2,871	$ —	$ —	$ —	$ —	$ —	$ 2,871
Fixed income markets	—	6,016	107	331	84	449	6,987
Equities markets	—	556	—	851	(85)	84	1,406
Credit portfolio	—	(186)	333	35	104	1,134	1,420
Total	$ 2,871	$ 6,386	$ 440	$ 1,217	$ 103	$ 1,667	$ 12,684

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

IB 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.

Equities markets includes client and portfolio management revenue related to market-making and proprietary risk-taking across global equity products, including cash instruments, derivatives and convertibles.

Credit portfolio revenue includes Net interest income, fees and loan sale activity, as well as gains or losses on securities received as part of a loan restructuring, for IB's credit portfolio. Credit portfolio revenue also includes the results of risk management related to the Firm's lending and derivative activities, and changes in the credit valuation adjustment ("CVA"), which is the component of the fair value of a derivative that reflects the credit quality of the counterparty. See pages 69–70 of the Credit risk management section of this Annual Report for a further discussion.

Retail Financial Services

RFS includes Home Finance, Consumer & Small Business Banking, Auto & Education Finance and Insurance. Through this group of businesses, the Firm provides consumers and small businesses with a broad range of financial products and services including deposits, investments, loans and insurance. Home Finance is a leading provider of consumer real estate loan products and is one of the largest originators and servicers of home mortgages. Consumer & Small Business Banking offers one of the largest branch networks in the United States, covering 17 states with 2,641 branches and 7,312 automated teller machines ("ATMs"). Auto & Education Finance is the largest noncaptive originator of automobile loans as well as a top provider of loans for college students. Through its Insurance operations, the Firm sells and underwrites an extensive range of financial protection products and investment alternatives, including life insurance, annuities and debt protection products.

Selected income statement data

Year ended December 31,[a] (in millions, except ratios)	**2005**	2004	2003
Revenue			
Lending & deposit related fees	**$ 1,452**	$ 1,013	$ 486
Asset management, administration and commissions	**1,498**	1,020	459
Securities / private equity gains (losses)	**9**	(83)	381
Mortgage fees and related income	**1,104**	866	803
Credit card income	**426**	230	107
Other income	**136**	31	(28)
Noninterest revenue	**4,625**	3,077	2,208
Net interest income	**10,205**	7,714	5,220
Total net revenue	**14,830**	10,791	7,428
Provision for credit losses[b]	**724**	449	521
Noninterest expense			
Compensation expense	**3,337**	2,621	1,695
Noncompensation expense	**4,748**	3,937	2,773
Amortization of intangibles	**500**	267	3
Total noninterest expense	**8,585**	6,825	4,471
Operating earnings before income tax expense	**5,521**	3,517	2,436
Income tax expense	**2,094**	1,318	889
Operating earnings	**$ 3,427**	$ 2,199	$ 1,547
Financial ratios			
ROE	**26%**	24%	37%
ROA	**1.51**	1.18	1.05
Overhead ratio	**58**	63	60

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

(b) 2005 includes a $250 million special provision related to Hurricane Katrina allocated as follows: $140 million in Consumer Real Estate Lending, $90 million in Consumer & Small Business Banking and $20 million in Auto & Education Finance.

2005 compared with 2004

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

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

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

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

2004 compared with 2003

Operating earnings were $2.2 billion, up from $1.5 billion a year ago. The increase was due largely to the Merger. Excluding the benefit of the Merger, earnings declined as lower MSR risk management results and reduced prime mortgage production revenue offset the benefits of growth in loan balances, wider spreads on deposit products and improvement in credit costs.

Total net revenue increased to $10.8 billion, up 45% from the prior year. Net interest income increased by 48% to $7.7 billion, primarily due to the Merger, growth in retained loan balances and wider spreads on deposit products. Noninterest revenue increased to $3.1 billion, up 39%, due to the Merger and higher mortgage servicing income. Both components of total revenue included declines associated with risk managing the MSR asset and lower prime mortgage originations.

The Provision for credit losses was down 14% to $449 million despite the impact of the Merger. The effect of the Merger was offset by a reduction in the Allowance for loan losses resulting from the sale of the manufactured home loan portfolio, and continued positive credit quality trends in the consumer lending businesses.

Noninterest expense totaled $6.8 billion, up 53% from the prior year, primarily due to the Merger and continued investment to expand the branch network. Partially offsetting the increase were merger-related expense savings in all businesses.

Selected metrics

Year ended December 31,[a] (in millions, except headcount and ratios)	2005	2004	2003
Selected ending balances			
Total assets	**$ 224,801**	$ 226,560	$ 139,316
Loans[b]	**197,299**	202,473	121,921
Core deposits[c]	**161,666**	156,885	75,850
Total deposits	**191,415**	182,372	86,162
Selected average balances			
Total assets	**$ 226,368**	$ 185,928	$ 147,435
Loans[d]	**198,153**	162,768	120,750
Core deposits[c]	**160,641**	120,758	80,116
Total deposits	**186,811**	137,404	89,793
Equity	**13,383**	9,092	4,220
Headcount	**60,998**	59,632	32,278
Credit data and quality statistics			
Net charge-offs[e]	**$ 572**	$ 990	$ 381
Nonperforming loans[f]	**1,338**	1,161	569
Nonperforming assets	**1,518**	1,385	775
Allowance for loan losses	**1,363**	1,228	1,094
Net charge-off rate[d]	**0.31%**	0.67%	0.40%
Allowance for loan losses to ending loans[b]	**0.75**	0.67	1.04
Allowance for loan losses to nonperforming loans[f]	**104**	107	209
Nonperforming loans to total loans	**0.68**	0.57	0.47

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) Includes loans held for sale of $16,598 million, $18,022 million and $17,105 million at December 31, 2005, 2004 and 2003, respectively. These amounts are not included in the allowance coverage ratios.
(c) Includes demand and savings deposits.
(d) Average loans include loans held for sale of $15,675 million, $14,736 million and $25,293 million for 2005, 2004 and 2003, respectively. These amounts are not included in the net charge-off rate.
(e) Includes $406 million of charge-offs related to the manufactured home loan portfolio in 2004.
(f) Nonperforming loans include loans held for sale of $27 million, $13 million and $45 million at December 31, 2005, 2004 and 2003, respectively. These amounts are not included in the allowance coverage ratios.

Home Finance

Home Finance is comprised of two key business segments: Prime Production & Servicing and Consumer Real Estate Lending. The Prime Production & Servicing segment includes the operating results associated with the origination, sale and servicing of prime mortgages. Consumer Real Estate Lending reflects the operating results of consumer loans that are secured by real estate, retained by the Firm and held in the portfolio. This portfolio includes prime and subprime first mortgages, home equity lines and loans, and manufactured home loans. The Firm stopped originating manufactured home loans early in 2004 and sold substantially all of its remaining portfolio in 2004.

Selected income statement data by business

Year ended December 31,[a] (in millions)	2005	2004	2003
Prime production and servicing			
Production	**$ 692**	$ 728	$ 1,339
Servicing:			
Mortgage servicing revenue, net of amortization	**635**	651	453
MSR risk management results[b]	**283**	113	784
Total net revenue	**1,610**	1,492	2,576
Noninterest expense	**943**	1,115	1,124
Operating earnings	**422**	240	918
Consumer real estate lending			
Total net revenue	**2,704**	2,376	1,473
Provision for credit losses	**298**	74	240
Noninterest expense	**940**	922	606
Operating earnings	**935**	881	414
Total Home Finance			
Total net revenue	**4,314**	3,868	4,049
Provision for credit losses	**298**	74	240
Noninterest expense	**1,883**	2,037	1,730
Operating earnings	**1,357**	1,121	1,332

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) For additional information, see page 42 of this Annual Report.

2005 compared with 2004

Operating earnings were $1.4 billion, up $236 million from the prior year, primarily due to the Merger, higher loan balances, reduced expenses and improved MSR risk management results.

Operating earnings for the Prime Production & Servicing segment totaled $422 million, up $182 million from the prior year. Net revenue of $1.6 billion increased by $118 million, reflecting improved MSR risk management results. The increase in MSR risk management results was due in part to the absence of prior-year securities losses on repositioning of the risk management asset. Decreased mortgage production revenue attributable to lower volume partially offset this benefit. Noninterest expense of $943 million decreased by $172 million, reflecting lower production volume and operating efficiencies.

Operating earnings for the Consumer Real Estate Lending segment increased by $54 million to $935 million. The current year included a loss of $120 million associated with the transfer of $3.3 billion of mortgage loans to held-for-sale, and a $140 million special provision related to Hurricane Katrina. Prior-year results included a $95 million net benefit associated with the sale of a $4.0 billion manufactured home loan portfolio and a $52 million charge related to a transfer of adjustable rate mortgage loans to held-for-sale. Excluding the after-tax impact of these items, earnings would have been up $242 million, reflecting the Merger, higher loan balances and lower expenses, partially offset by loan spread compression due to rising short-term interest rates and a flat yield curve, which contributed to accelerated home equity loan payoffs.

Home Finance uses a combination of derivatives, AFS securities and trading securities to manage changes in the fair value of the MSR asset. These risk management activities are intended to protect the economic value of the MSR asset by providing offsetting changes in the fair value of the related risk management instruments. The type and amount of instruments used in this risk management activity change over time as market conditions and approach dictate.

During 2005, positive MSR valuation adjustments of $777 million were partially offset by losses of $494 million on risk management instruments, including net interest earned on AFS securities. In 2004, negative MSR valuation adjustments of $248 million were more than offset by $361 million of aggregate risk management gains, including net interest earned on AFS securities. Unrealized losses on AFS securities were $174 million, $3 million and $144 million at December 31, 2005, 2004 and 2003, respectively. For a further discussion of MSRs, see Critical accounting estimates on page 83 and Note 15 on pages 114–116 of this Annual Report.

2004 compared with 2003

Operating earnings in the Prime Production & Servicing segment dropped to $240 million from $918 million in the prior year. Results reflected a decrease in prime mortgage production revenue, to $728 million from $1.3 billion, due to a decline in mortgage originations. Operating earnings were also adversely affected by a drop in MSR risk management revenue, to $113 million from $784 million in the prior year. Results in 2004 included realized losses of $89 million on the sale of AFS securities associated with the risk management of the MSR asset, compared with securities gains of $359 million in the prior year. Noninterest expense was relatively flat at $1.1 billion.

Operating earnings for the Consumer Real Estate Lending segment more than doubled to $881 million from $414 million in the prior year. The increase was largely due to the addition of the Bank One home equity lending business but also reflected growth in retained loan balances and a $95 million net benefit associated with the sale of the $4 billion manufactured home loan portfolio; partially offsetting these increases were lower subprime mortgage securitization gains as a result of management's decision in 2004 to retain these loans. These factors contributed to total net revenue rising 61% to $2.4 billion. The provision for credit losses, at $74 million, decreased by 69% from a year ago. This improvement was the result of an $87 million reduction in the allowance for loan losses associated with the manufactured home loan portfolio sale, improved credit quality and lower delinquencies, partially offset by the Merger. Noninterest expense totaled $922 million, up 52% from the year-ago period, largely due to the Merger.

Home Finance's origination channels are comprised of 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 – Banks, thrifts, other mortgage banks and other financial institutions sell closed loans to the Firm.

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

Selected metrics

Year ended December 31,[(a)] (in millions, except ratios and where otherwise noted)	2005	2004	2003
Origination volume by channel (in billions)			
Retail	**$ 83.9**	$ 74.2	$ 90.8
Wholesale	**50.4**	48.5	65.6
Correspondent	**14.0**	22.8	44.5
Correspondent negotiated transactions	**34.5**	41.5	83.3
Total	**182.8**	187.0	284.2
Origination volume by business (in billions)			
Mortgage	**$ 128.7**	$ 144.6	$ 259.5
Home equity	**54.1**	42.4	24.7
Total	**182.8**	187.0	284.2
Business metrics (in billions)			
Third-party mortgage loans serviced (ending)[(b)]	**$ 467.5**	$ 430.9	$ 393.7
MSR net carrying value (ending)	**6.5**	5.1	4.8
End-of-period loans owned			
Mortgage loans held-for-sale	**13.7**	14.2	15.9
Mortgage loans retained	**43.0**	42.6	34.5
Home equity and other loans	**76.8**	67.9	24.1
Total end of period loans owned	**133.5**	124.7	74.5
Average loans owned			
Mortgage loans held-for-sale	**12.1**	12.1	23.5
Mortgage loans retained	**46.4**	40.7	32.0
Home equity and other loans	**70.2**	47.0	19.4
Total average loans owned	**128.7**	99.8	74.9
Overhead ratio	**44%**	53%	43%
Credit data and quality statistics			
30+ day delinquency rate[(c)]	**1.61%**	1.27%	1.81%
Net charge-offs			
Mortgage	**$ 25**	$ 19	$ 26
Home equity and other loans[(d)]	**129**	554	109
Total net charge-offs	**154**	573	135
Net charge-off rate			
Mortgage	**0.05%**	0.05%	0.08%
Home equity and other loans	**0.18**	1.18	0.56
Total net charge-off rate[(e)]	**0.13**	0.65	0.26
Nonperforming assets[(f)]	**$ 998**	$ 844	$ 546

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) Includes prime first mortgage loans and subprime loans.
(c) Excludes delinquencies related to loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by government agencies of $0.9 billion, $0.9 billion and $0.1 billion, for December 31, 2005, 2004 and 2003, respectively. These amounts are excluded as reimbursement is proceeding normally.
(d) Includes $406 million of charge-offs related to the manufactured home loan portfolio in 2004.
(e) Excludes mortgage loans held for sale.
(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, $1.5 billion and $2.3 billion for December 31, 2005, 2004 and 2003, respectively. These amounts are excluded as reimbursement is proceeding normally.

The table below reconciles management's disclosure of Home Finance's revenue into the reported U.S. GAAP line items shown on the Consolidated statements of income and in the related Notes to Consolidated financial statements:

Year ended December 31,[(a)] (in millions)	Prime production and servicing 2005	2004	2003	Consumer real estate lending 2005	2004	2003	Total revenue 2005	2004	2003
Net interest income	**$ 426**	$ 700	$ 1,556	**$ 2,672**	$ 2,245	$ 1,226	**$ 3,098**	$ 2,945	$ 2,782
Securities / private equity gains (losses)	**3**	(89)	359	**—**	—	—	**3**	(89)	359
Mortgage fees and related income[(b)]	**1,181**	881	661	**32**	131	247	**1,213**	1,012	908
Total	**$ 1,610**	$ 1,492	$ 2,576	**$ 2,704**	$ 2,376	$ 1,473	**$ 4,314**	$ 3,868	$ 4,049

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) Includes activity reported elsewhere as Other income.

The following table details the MSR risk management results in the Home Finance business:

MSR risk management results

Year ended December 31,[(a)] (in millions)	2005	2004	2003
Reported amounts:			
MSR valuation adjustments[(b)]	**$ 777**	$ (248)	$ (253)
Derivative valuation adjustments and other risk management gains (losses)[(c)]	**(494)**	361	1,037
MSR risk management results	**$ 283**	$ 113	$ 784

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) Excludes subprime loan MSR activity of $(7) million and $(2) million in 2005 and 2004, respectively. There was no subprime loan MSR activity in 2003.
(c) Includes gains, losses and interest income associated with derivatives, both designated and not designated, as a SFAS 133 hedge, and securities classified as both trading and available-for-sale.

Consumer & Small Business Banking

Consumer & Small Business Banking offers a full array of financial services through a branch network spanning 17 states as well as through the Internet. Product offerings include checking and savings accounts, mutual funds and annuities, credit cards, mortgages and home equity loans, and loans for small business customers (customers with annual sales generally less than $10 million).

Selected income statement data

Year ended December 31,[(a)] (in millions)	2005	2004	2003
Noninterest revenue	**$ 2,929**	$ 1,864	$ 828
Net interest income	**5,476**	3,521	1,594
Total net revenue	**8,405**	5,385	2,422
Provision for credit losses	**214**	165	76
Noninterest expense	**5,431**	3,981	2,358
Operating earnings (loss)	**1,684**	760	(4)

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

2005 compared with 2004

Operating earnings totaled $1.7 billion, up $924 million from the prior year. While growth largely reflected the Merger, results also included increased deposit balances and wider spreads, as well as higher debit card and other banking fees. These factors contributed to net revenue increasing to $8.4 billion from $5.4 billion in the prior year. The Provision for credit losses of $214 million increased by $49 million; excluding the special provision of $90 million related to Hurricane Katrina, the Provision would have decreased by $41 million from the prior year, reflecting lower net charge-offs and improved credit quality trends. Noninterest expense increased by $1.5 billion to $5.4 billion, as a result of the Merger and continued investment in branch distribution and sales, partially offset by merger efficiencies.

2004 compared with 2003

Operating earnings totaled $760 million, up from a loss of $4 million in the prior-year period. The increase was largely due to the Merger but also reflected wider spreads on deposits and lower expenses. These benefits were partially offset by a higher Provision for credit losses.

Total net revenue was $5.4 billion, compared with $2.4 billion in the prior year. While the increase was primarily attributable to the Merger, total net revenue also benefited from wider spreads on deposits.

The Provision for credit losses increased to $165 million from $76 million in the prior year. The increase was in part due to the Merger but also reflected an increase in the allowance for credit losses to cover high-risk portfolio segments.

The increase in Noninterest expense to $4.0 billion was largely attributable to the Merger. Incremental expense from investment in the branch distribution network was also a contributing factor.

Selected metrics

Year ended December 31,[a] (in millions, except ratios and where otherwise noted)	2005	2004	2003
Business metrics (in billions)			
Selected ending balances			
Small business loans	**$ 12.7**	$ 12.5	$ 2.2
Consumer and other loans[b]	**1.7**	2.2	2.0
Total loans	**14.4**	14.7	4.2
Core deposits[c]	**152.3**	146.3	66.4
Total deposits	**181.9**	171.8	76.7
Selected average balances			
Small business loans	**$ 12.4**	$ 7.3	$ 2.1
Consumer and other loans[b]	**2.0**	2.1	2.0
Total loans	**14.4**	9.4	4.1
Core deposits[c]	**149.0**	109.6	64.8
Total deposits	**175.1**	126.2	74.4
Number of:			
Branches	**2,641**	2,508	561
ATMs	**7,312**	6,650	1,931
Personal bankers	**7,067**	5,750	1,820
Personal checking accounts (in thousands)[d]	**7,869**	7,235	1,984
Business checking accounts (in thousands)[d]	**924**	889	347
Active online customers (in thousands)	**4,231**	3,359	NA
Debit cards issued (in thousands)	**9,266**	8,392	2,380
Overhead ratio	**65%**	74%	97%
Retail brokerage business metrics			
Investment sales volume	**$ 11,144**	$ 7,324	$ 3,579
Number of dedicated investment sales representatives	**1,449**	1,364	349
Credit data and quality statistics			
Net charge-offs			
Small business	**$ 101**	$ 77	$ 35
Consumer and other loans	**40**	77	40
Total net charge-offs	**141**	154	75
Net charge-off rate			
Small business	**0.81%**	1.05%	1.67%
Consumer and other loans	**2.00**	3.67	2.00
Total net charge-off rate	**0.98**	1.64	1.83
Nonperforming assets	**$ 283**	$ 299	$ 72

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) Primarily community development loans.
(c) Includes demand and savings deposits.
(d) Prior periods amounts have been restated to reflect inactive accounts that should have been closed during those periods.

Auto & Education Finance

Auto & Education Finance provides automobile loans and leases to consumers and loans to commercial clients, primarily through a national network of automotive dealers. The segment is also a top provider of loans to students at colleges and universities across the United States.

Selected income statement data

Year ended December 31,[a] (in millions)	2005	2004	2003
Total net revenue	**$ 1,467**	$ 1,145	$ 842
Provision for credit losses	**212**	210	205
Noninterest expense	**751**	490	291
Operating earnings	**307**	270	206

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

2005 compared with 2004

Operating earnings were $307 million, up $37 million from the prior year. The current year included a net loss of $83 million associated with a $2.3 billion auto loan securitization; a net loss of $42 million associated with a $1.5 billion auto loan securitization; a $40 million charge related to the dissolution of a student loan joint venture; a benefit of $34 million from the sale of a $2 billion recreational vehicle loan portfolio; and the $20 million special provision for credit losses related to Hurricane Katrina. The prior-year results included charges of $65 million related to auto lease residuals. Excluding the after-tax impact of these items, operating earnings would have increased by $90 million over the prior year, primarily due to the Merger and improved credit quality. Results continued to reflect lower production volumes and narrower spreads.

2004 compared with 2003

Operating earnings totaled $270 million, up 31% from the prior year. The increase was due to the Merger, offset by narrower spreads and reduced origination volumes reflecting a competitive operating environment.

Total net revenue increased by 36% to $1.1 billion from the prior year. This increase was due to the Merger, which more than offset a decline in net interest income, reflecting the competitive operating environment in 2004, and incremental charges associated with the Firm's auto lease residual exposure.

The following is a brief description of selected terms used by Consumer & Small Business 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.
- **Investment sales representatives –** Licensed retail branch sales personnel, assigned to support several branches, who assist with the sale of investment products including college planning accounts, mutual funds, annuities and retirement accounts.

The Provision for credit losses totaled $210 million, up 2% from the prior year. The increase was due to the Merger but was largely offset by a lower Provision for credit losses, reflecting favorable credit trends.

Noninterest expense increased by 68% to $490 million, largely due to the Merger.

Selected metrics

Year ended December 31,[a] (in millions, except ratios and where otherwise noted)	2005	2004	2003
Business metrics (in billions)			
End-of-period loans and lease related assets			
Loans outstanding	**$ 44.7**	$ 54.6	$ 33.7
Lease related assets[b]	**5.2**	8.0	9.5
Total end-of-period loans and lease related assets	**49.9**	62.6	43.2
Average loans and lease related assets			
Loans outstanding[c]	**$ 48.5**	$ 44.3	$ 32.0
Lease related assets[d]	**6.6**	9.0	9.7
Total average loans and lease related assets[c][d]	**55.1**	53.3	41.7
Overhead ratio	**51%**	43%	35%
Credit quality statistics			
30+ day delinquency rate	**1.65%**	1.55%	1.42%
Net charge-offs			
Loans	**$ 257**	$ 219	$ 130
Lease receivables[d]	**20**	44	41
Total net charge-offs	**277**	263	171
Net charge-off rate			
Loans[c]	**0.57%**	0.52%	0.43%
Lease receivables	**0.32**	0.49	0.42
Total net charge-off rate[c]	**0.54**	0.52	0.43
Nonperforming assets	**$ 237**	$ 242	$ 157

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) Includes operating lease-related assets of $0.9 billion for 2005. Balances prior to January 1, 2005, were insignificant.
(c) Average loans include loans held for sale of $3.5 billion, $2.3 billion and $1.8 billion for, 2005, 2004 and 2003, respectively. These are not included in the net charge-off rate.
(d) Includes operating lease-related assets of $0.4 billion for 2005. Balances prior to January 1, 2005, were insignificant. These are not included in the net charge-off rate.

Insurance

Insurance is a provider of financial protection products and services, including life insurance, annuities and debt protection. Products and services are distributed through both internal lines of business and external markets. On February 7, 2006, the Firm signed a definitive agreement to sell its life insurance and annuity underwriting business.

Selected income statement data

Year ended December 31,[a] (in millions)	2005	2004	2003
Total net revenue	**$ 644**	$ 393	$ 115
Noninterest expense	**520**	317	92
Operating earnings	**79**	48	13
Memo: Consolidated gross insurance-related revenue[b]	**1,642**	1,191	611

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) Includes revenue reported in the results of other businesses.

2005 compared with 2004

Operating earnings totaled $79 million, an increase of $31 million from the prior year, on net revenues of $644 million. The increase was due primarily to the Merger. Results also reflected an increase in proprietary annuity sales commissions paid and lower expenses from merger savings and other efficiencies.

2004 compared with 2003

Operating earnings totaled $48 million on Total net revenue of $393 million in 2004. The increases in Total net revenue and Noninterest expense over the prior year were due almost entirely to the Merger.

Selected metrics

Year ended December 31,[a] (in millions, except where otherwise noted)	2005	2004	2003
Business metrics – ending balances			
Invested assets	**$ 7,767**	$ 7,368	$ 1,559
Policy loans	**388**	397	—
Insurance policy and claims reserves	**7,774**	7,279	1,096
Term life sales – first year annualized premiums	**60**	28	—
Term life premium revenues	**477**	234	—
Proprietary annuity sales	**706**	208	548
Number of policies in force – direct/assumed (in thousands)	**2,441**	2,611	631
Insurance in force – direct/assumed	**$ 282,903**	$ 277,827	$ 31,992
Insurance in force – retained	**87,753**	80,691	31,992
A.M. Best rating	**A**	A	A

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

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

- **Proprietary annuity sales** represent annuity contracts marketed through and issued by subsidiaries of the Firm.
- **Insurance in force – direct/assumed** includes the aggregate face amount of insurance policies directly underwritten and assumed through reinsurance.
- **Insurance in force – retained** includes the aggregate face amounts of insurance policies directly underwritten and assumed through reinsurance, after reduction for face amounts ceded to reinsurers.

Card Services

Card Services is one of the largest issuers of credit cards in the United States, with more than 110 million cards in circulation, and is the largest merchant acquirer. CS offers a wide variety of products to satisfy the needs of its cardmembers, including cards issued on behalf of many well-known partners, such as major airlines, hotels, universities, retailers and other financial institutions.

JPMorgan Chase uses the concept of "managed receivables" to evaluate the credit 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.

Operating results exclude the impact of credit card securitizations on revenue, the Provision for credit losses, net charge-offs and receivables. Securitization does not change reported Net income versus operating earnings; however, it does affect the classification of items on the Consolidated statements of income.

Selected income statement data – managed basis

Year ended December 31,[(a)(b)] (in millions, except ratios)	2005	2004	2003
Revenue			
Asset management, administration and commissions	**$ —**	$ 75	$ 108
Credit card income	**3,351**	2,179	930
Other income	**212**	117	54
Noninterest revenue	**3,563**	2,371	1,092
Net interest income	**11,803**	8,374	5,052
Total net revenue	**15,366**	10,745	6,144
Provision for credit losses[(c)]	**7,346**	4,851	2,904
Noninterest expense			
Compensation expense	**1,081**	893	582
Noncompensation expense	**3,170**	2,485	1,336
Amortization of intangibles	**748**	505	260
Total noninterest expense	**4,999**	3,883	2,178
Operating earnings before income tax expense	**3,021**	2,011	1,062
Income tax expense	**1,114**	737	379
Operating earnings	**$ 1,907**	$ 1,274	$ 683
Memo: Net securitization gains (amortization)	**$ 56**	$ (8)	$ 1
Financial metrics			
ROE	**16%**	17%	20%
Overhead ratio	**33**	36	35

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) 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, Noninterest expense and pre-tax earnings have been reduced to reflect the deconsolidation of Paymentech. There is no impact to operating earnings.
(c) 2005 includes a $100 million special provision related to Hurricane Katrina.

2005 compared with 2004

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

Net revenue was $15.4 billion, up $4.6 billion, or 43%. Net interest income was $11.8 billion, up $3.4 billion, or 41%, primarily due to the Merger, and the acquisition of a private label portfolio. In addition, higher loan balances were partially offset by narrower loan spreads and the reversal of revenue related to increased bankruptcies. Noninterest revenue of $3.6 billion was up $1.2 billion, or 50%, due to the Merger and higher interchange income from higher charge volume, partially offset by higher volume-driven payments to partners, higher expense related to rewards programs and the impact of the deconsolidation of Paymentech.

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

Noninterest expense of $5.0 billion increased by $1.1 billion, or 29%, primarily due to the Merger, which included the acquisition of a private label portfolio. Merger savings, including lower processing and compensation costs and the impact of the deconsolidation of Paymentech, were partially offset by higher spending on marketing.

2004 compared with 2003

Operating earnings of $1.3 billion increased by $591 million compared with the prior year, primarily due to the Merger. In addition, earnings benefited from higher loan balances and charge volume, partially offset by a higher Provision for credit losses and higher expenses.

Total net revenue of $10.7 billion increased by $4.6 billion. Net interest income of $8.4 billion increased by $3.3 billion, primarily due to the Merger and higher loan balances. Noninterest revenue of $2.4 billion increased by $1.3 billion, primarily due to the Merger and increased interchange income resulting from higher charge-off volume. These factors were partially offset by higher volume-driven payments to partners, reflecting the sharing of income and increased rewards expense.

The Provision for credit losses of $4.9 billion increased by $1.9 billion, primarily due to the Merger and growth in credit card receivables. Credit ratios remained strong, benefiting from reduced contractual and bankruptcy charge-offs. The net charge-off ratio was 5.27%. The 30-day delinquency ratio was 3.70%.

Noninterest expense of $3.9 billion increased by $1.7 billion, primarily related to the Merger. In addition, expenses increased due to higher marketing expenses and volume-based processing expenses, partially offset by lower compensation expenses.

Selected metrics

Year ended December 31,[a] (in millions, except headcount, ratios and where otherwise noted)	2005	2004	2003
% of average managed outstandings:			
Net interest income	**8.65%**	9.16%	9.95%
Provision for credit losses	**5.39**	5.31	5.72
Noninterest revenue	**2.61**	2.59	2.15
Risk adjusted margin[b]	**5.88**	6.45	6.38
Noninterest expense	**3.67**	4.25	4.29
Pre-tax income (ROO)	**2.21**	2.20	2.09
Operating earnings	**1.40**	1.39	1.35
Business metrics			
Charge volume (in billions)	**$ 301.9**	$ 193.6	$ 88.2
Net accounts opened (in thousands)	**21,056**	7,523	4,177
Credit cards issued (in thousands)	**110,439**	94,285	35,103
Number of registered Internet customers (in millions)	**14.6**	13.6	3.7
Merchant acquiring business[c]			
Bank card volume (in billions)	**$ 563.1**	$ 396.2	$ 261.2
Total transactions (in millions)[d]	**15,499**	9,049	4,254
Selected ending balances			
Loans:			
Loans on balance sheets	**$ 71,738**	$ 64,575	$ 17,426
Securitized loans	**70,527**	70,795	34,856
Managed loans	**$142,265**	$ 135,370	$ 52,282
Selected average balances			
Managed assets	**$141,933**	$ 94,741	$ 51,406
Loans:			
Loans on balance sheets	**$ 67,334**	$ 38,842	$ 17,604
Securitized loans	**69,055**	52,590	33,169
Managed loans	**$136,389**	$ 91,432	$ 50,773
Equity	**11,800**	7,608	3,440
Headcount	**18,629**	19,598	10,612
Credit quality statistics			
Net charge-offs	**$ 7,100**	$ 4,821	$ 2,996
Managed net charge-off rate	**5.21%**	5.27%	5.90%
Delinquency ratios			
30+ days	**2.79%**	3.70%	4.68%
90+ days	**1.27**	1.72	2.19
Allowance for loan losses	**$ 3,274**	$ 2,994	$ 1,225
Allowance for loan losses to period-end loans	**4.56%**	4.64%	7.03%

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) Represents Total net revenue less Provision for credit losses.
(c) Represents 100% of the merchant acquiring business.
(d) Prior periods have been restated to conform methodologies following the integration of Chase Merchant Services and Paymentech merchant processing businesses.

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

Year ended December 31,[a] (in millions)	2005	2004	2003
Income statement data			
Credit card income			
Reported data for the period	**$ 6,069**	$ 4,446	$ 2,309
Securitization adjustments	**(2,718)**	(2,267)	(1,379)
Managed credit card income	**$ 3,351**	$ 2,179	$ 930
Other income			
Reported data for the period	**$ 212**	$ 203	$ 125
Securitization adjustments	**—**	(86)	(71)
Managed other income	**$ 212**	$ 117	$ 54
Net interest income			
Reported data for the period	**$ 5,309**	$ 3,123	$ 1,732
Securitization adjustments	**6,494**	5,251	3,320
Managed net interest income	**$ 11,803**	$ 8,374	$ 5,052
Total net revenue[b]			
Reported data for the period	**$ 11,590**	$ 7,847	$ 4,274
Securitization adjustments	**3,776**	2,898	1,870
Managed total net revenue	**$ 15,366**	$ 10,745	$ 6,144
Provision for credit losses			
Reported data for the period[c]	**$ 3,570**	$ 1,953	$ 1,034
Securitization adjustments	**3,776**	2,898	1,870
Managed provision for credit losses	**$ 7,346**	$ 4,851	$ 2,904
Balance sheet – average balances			
Total average assets			
Reported data for the period	**$ 74,753**	$ 43,657	$ 19,041
Securitization adjustments	**67,180**	51,084	32,365
Managed average assets	**$141,933**	$ 94,741	$ 51,406
Credit quality statistics			
Net charge-offs			
Reported net charge-offs data for the period	**$ 3,324**	$ 1,923	$ 1,126
Securitization adjustments	**3,776**	2,898	1,870
Managed net charge-offs	**$ 7,100**	$ 4,821	$ 2,996

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) Includes noninterest revenue and Net interest income.
(c) 2005 includes a $100 million special provision related to Hurricane Katrina.

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

- **Charge volume** – Represents the dollar amount of cardmember purchases, balance transfers and cash advance activity.
- **Net accounts opened** – Includes originations, portfolio 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 serves 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 within the Retail Financial Services footprint, CB also covers larger corporations, as well as local governments and financial institutions on a national basis. CB is a market leader with superior client penetration across the businesses it serves. Local market presence, coupled with industry expertise and excellent client service and risk management, enable CB to offer superior financial advice. Partnership with other JPMorgan Chase businesses positions CB to deliver broad product capabilities – including lending, treasury services, investment banking, and asset and wealth management – and meet its clients' financial needs.

Selected income statement data

Year ended December 31,[a] (in millions, except ratios)	**2005**	2004	2003
Revenue			
Lending & deposit related fees	**$ 575**	$ 441	$ 301
Asset management, administration and commissions	**60**	32	19
Other income[b]	**351**	209	73
Noninterest revenue	**986**	682	393
Net interest income	**2,610**	1,692	959
Total net revenue	**3,596**	2,374	1,352
Provision for credit losses[c]	**73**	41	6
Noninterest expense			
Compensation expense	**661**	465	285
Noncompensation expense	**1,146**	843	534
Amortization of intangibles	**65**	35	3
Total noninterest expense	**1,872**	1,343	822
Operating earnings before income tax expense	**1,651**	990	524
Income tax expense	**644**	382	217
Operating earnings	**$ 1,007**	$ 608	$ 307
Financial ratios			
ROE	**30%**	29%	29%
ROA	**1.78**	1.67	1.87
Overhead ratio	**52**	57	61

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) IB-related and commercial card revenues are included in Other income.
(c) 2005 includes a $35 million special provision related to Hurricane Katrina.

Commercial Banking operates in 10 of the top 15 major U.S. metropolitan areas and is divided into three customer segments: Middle Market Banking, Mid-Corporate Banking and Real Estate. General coverage for corporate clients is provided by Middle Market Banking, which covers clients with annual revenues generally up to $500 million. Mid-Corporate Banking covers clients with annual revenues generally ranging between $500 million and $2 billion and focuses on clients that have broader investment banking needs. The third segment, Real Estate, serves investors in, and developers of, for-sale housing, multifamily rental, retail, office, and industrial properties. In addition to these three customer segments, Commercial Banking offers several products to the Firm's entire customer base: Chase Business Credit, the #1 asset-based lender for 2005, provides asset-based financing, syndications, and collateral analysis, and Chase Equipment Leasing offers a variety of equipment finance and leasing products, with specialties in aircraft finance, public sector, and information technology. Given this structure, Commercial Banking manages a customer base and loan portfolio that is highly diversified across a broad range of industries and geographic locations.

2005 compared with 2004

Operating earnings of $1.0 billion were up $399 million from the prior year, primarily due to the Merger.

Net revenue of $3.6 billion increased by $1.2 billion, or 51%, primarily as a result of the Merger. In addition to the overall increase from the Merger, Net interest income of $2.6 billion was positively affected by wider spreads on higher volume related to liability balances and increased loans, partially offset by narrower loan spreads. Noninterest revenue of $986 million was lower due to a decline in deposit-related fees due to higher interest rates, partially offset by increased investment banking revenue.

Each business within Commercial Banking demonstrated revenue growth over the prior year, primarily due to the Merger. Middle Market revenue was $2.4 billion, an increase of $870 million over the prior year; Mid-Corporate Banking revenue was $548 million, an increase of $181 million; and Real Estate revenue was $534 million, up $166 million. In addition to the Merger, revenue was higher for each business due to wider spreads and higher volume related to liability balances and increased investment banking revenue, partially offset by narrower loan spreads.

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

Noninterest expense of $1.9 billion increased by $529 million, or 39%, primarily due to the Merger and to an increase in allocated unit costs for Treasury Services products.

2004 compared with 2003

Operating earnings were $608 million, an increase of 98%, primarily due to the Merger.

Total net revenue was $2.4 billion, an increase of 76%, primarily due to the Merger. In addition to the overall increase related to the Merger, Net interest income of $1.7 billion was positively affected by higher liability balances, partially offset by lower lending-related revenue. Noninterest revenue of $682 million was positively affected by higher investment banking fees and higher gains on the sale of loans and securities acquired in satisfaction of debt, partially offset by lower deposit-related fees, which often decline as interest rates rise.

The Provision for credit losses was $41 million, an increase of $35 million, primarily due to the Merger. Excluding the impact of the Merger, the provision was higher in 2004. Lower net charge-offs in 2004 were partially offset by smaller reductions in the allowance for credit losses in 2004 relative to 2003.

Noninterest expense was $1.3 billion, an increase of $521 million, or 63%, primarily related to the Merger.

Selected metrics

Year ended December 31,[a] (in millions, except headcount and ratios)	2005	2004	2003
Revenue by product:			
Lending	**$ 1,076**	$ 764	$ 396
Treasury services	**2,299**	1,467	896
Investment banking	**213**	120	66
Other	**8**	23	(6)
Total Commercial Banking revenue	**3,596**	2,374	1,352
Revenue by business:			
Middle Market Banking	**$ 2,369**	$ 1,499	$ 772
Mid-Corporate Banking	**548**	367	194
Real Estate	**534**	368	206
Other	**145**	140	180
Total Commercial Banking revenue	**3,596**	2,374	1,352
Selected average balances			
Total assets	**$ 56,561**	$ 36,435	$ 16,460
Loans and leases	**51,797**	32,417	14,049
Liability balances[b]	**73,395**	52,824	32,880
Equity	**3,400**	2,093	1,059
Average loans by business:			
Middle market	**$ 31,156**	$ 17,471	$ 5,609
Mid-corporate banking	**6,375**	4,348	2,880
Real estate	**10,639**	7,586	2,831
Other	**3,627**	3,012	2,729
Total Commercial Banking loans	**51,797**	32,417	14,049
Headcount	**4,456**	4,555	1,730
Credit data and quality statistics:			
Net charge-offs	**$ 26**	$ 61	$ 76
Nonperforming loans	**272**	527	123
Allowance for loan losses	**1,392**	1,322	122
Allowance for lending-related commitments	**154**	169	26
Net charge-off rate	**0.05%**	0.19%	0.54%
Allowance for loan losses to average loans	**2.69**	4.08	0.87
Allowance for loan losses to nonperforming loans	**512**	251	99
Nonperforming loans to average loans	**0.53**	1.63	0.88

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) Liability balances include deposits and deposits swept to on-balance sheet liabilities.

Commercial Banking revenues are comprised of the following:

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

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

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

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

Investment banking 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
- Foreign exchange hedges

Treasury & Securities Services

Treasury & Securities Services 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 TS business provides a variety of cash management products, trade finance and logistics solutions, wholesale card products, and short-term liquidity management tools. The IS business provides custody, fund services, securities lending, and performance measurement and execution products. The ITS business provides trustee, depository and administrative services for debt and equity issuers. TS partners with the Commercial Banking, Consumer & Small Business Banking and Asset & Wealth Management businesses to serve clients firmwide. As a result, certain TS revenues are included in other segments' results. TSS combined the management of the IS and ITS businesses under the name WSS to create an integrated franchise which provides custody and investor services as well as securities clearance and trust services to clients globally. Beginning January 1, 2006, TSS will report results for two divisions: TS and WSS.

Selected income statement data

Year ending December 31,[a] (in millions, except ratios)	2005	2004	2003
Revenue			
Lending & deposit related fees	**$ 728**	$ 647	$ 470
Asset management, administration and commissions	**2,908**	2,445	1,903
Other income	**543**	382	288
Noninterest revenue	**4,179**	3,474	2,661
Net interest income	**2,062**	1,383	947
Total net revenue	**6,241**	4,857	3,608
Provision for credit losses	**—**	7	1
Credit reimbursement (to) from IB[b]	**(154)**	(90)	36
Noninterest expense			
Compensation expense	**2,061**	1,629	1,257
Noncompensation expense	**2,293**	2,391	1,745
Amortization of intangibles	**116**	93	26
Total noninterest expense	**4,470**	4,113	3,028
Operating earnings before income tax expense	**1,617**	647	615
Income tax expense	**580**	207	193
Operating earnings	**$ 1,037**	$ 440	$ 422
Financial ratios			
ROE	**55%**	17%	15%
Overhead ratio	**72**	85	84
Pre-tax margin ratio[c]	**26**	13	17

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) TSS is charged a credit reimbursement related to certain exposures managed within the IB credit portfolio on behalf of clients shared with TSS. For a further discussion, see Credit reimbursement on page 35 of this Annual Report.
(c) Pre-tax margin represents Operating earnings 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.

2005 compared with 2004
Operating earnings were $1.0 billion, an increase of $597 million, or 136%. Primarily driving the improvement in revenue were the Merger, business growth, and widening spreads on and growth in average liability balances. Noninterest expense increased primarily due to the Merger and higher compensation expense. Results for 2005 also included charges of $58 million (after-tax) to terminate a client contract. Results for 2004 also included software-impairment charges of $97 million (after-tax) and a gain of $10 million (after-tax) on the sale of a business.

TSS net revenue of $6.2 billion increased $1.4 billion, or 28%. Net interest income grew to $2.1 billion, up $679 million, due to wider spreads on liability balances, a change in the corporate deposit pricing methodology in 2004 and growth in average liability balances. Noninterest revenue of $4.2 billion increased by $705 million, or 20%, due to product growth across TSS, the Merger and the acquisition of Vastera. Leading the product revenue growth was an increase in assets under custody to $11.2 trillion, primarily driven by market value appreciation and new business, along with growth in wholesale card, securities lending, foreign exchange, trust product, trade, clearing and ACH revenues. Partially offsetting this growth in noninterest revenue was a decline in deposit-related fees due to higher interest rates and the absence, in the current period, of a gain on the sale of a business.

TS net revenue of $2.6 billion grew by $628 million, Investor Services net revenue of $2.2 billion grew by $446 million, and Institutional Trust Services net revenue of $1.5 billion grew by $310 million. TSS firmwide net revenue, which includes TS net revenue recorded in other lines of business, grew to $8.8 billion, up $2.3 billion, or 35%. Treasury Services firmwide net revenue grew to $5.2 billion, up $1.6 billion, or 43%.

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

Noninterest expense of $4.5 billion was up $357 million, or 9%, due to the Merger, increased compensation expense resulting from new business growth and the Vastera acquisition, and charges of $93 million to terminate a client contract. Partially offsetting these increases were higher product unit costs charged to other lines of business, primarily Commercial Banking, lower allocations of Corporate segment expenses, merger savings and business efficiencies. The prior year included software-impairment charges of $155 million.

2004 compared with 2003
Operating earnings for the year were $440 million, an increase of $18 million, or 4%. Results in 2004 include an after-tax gain of $10 million on the sale of an IS business. Prior-year results include an after-tax gain of $22 million on the sale of an ITS business. Excluding these one-time gains, operating earnings would have increased by $30 million, or 8%. Both net revenue and Noninterest expense increased primarily as a result of the Merger, the acquisition of Bank One's Corporate Trust business in November 2003 and the acquisition of Electronic Financial Services ("EFS") in January 2004.

TSS net revenue improved by 35% to $4.9 billion. This revenue growth reflected the benefit of the Merger, the acquisitions noted above, and improved product revenues across TSS. Net interest income grew to $1.4 billion from $947 million as a result of average liability balance growth of 46%, to $126 billion, a change in the corporate deposit pricing methodology in 2004 and wider deposit spreads. Growth in fees and commissions was driven by a 22% increase in assets under custody to $9.3 trillion as well as new business growth in trade, commercial card, global equity products, securities lending, fund services, clearing and ACH. Partially offsetting these improvements were lower deposit-related fees, which often decline as interest rates rise, and a soft municipal bond market.

TS net revenue grew to $2.0 billion, IS to $1.7 billion and ITS to $1.2 billion. TSS firmwide net revenue grew by 41% to $6.5 billion. TSS firmwide net revenues include TS net revenues recorded in other lines of business.

Credit reimbursement to the Investment Bank was $90 million, compared with a credit from the Investment Bank of $36 million in the prior year, principally due to the Merger and a change in methodology. TSS is charged a credit reimbursement related to certain exposures managed within the Investment Bank credit portfolio on behalf of clients shared with TSS.

Noninterest expense totaled $4.1 billion, up from $3.0 billion, reflecting the Merger, the acquisitions noted above, $155 million of software impairment charges, upfront transition expenses related to on-boarding new custody and fund accounting clients, and legal and technology-related expenses.

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.

Selected metrics

Year ending December 31,[a] (in millions, except headcount and where otherwise noted)	2005	2004	2003
Revenue by business			
Treasury Services	**$ 2,622**	$ 1,994	$ 1,200
Investor Services	**2,155**	1,709	1,448
Institutional Trust Services	**1,464**	1,154	960
Total net revenue	**$ 6,241**	$ 4,857	$ 3,608
Business metrics			
Assets under custody (in billions)[b]	**$ 11,249**	$ 9,300	$ 7,597
Corporate trust securities under administration (in billions)[c]	**6,818**	6,676	6,127
Number of:			
US$ ACH transactions originated (in millions)	**2,966**	1,994	NA
Total US$ clearing volume (in thousands)	**95,713**	81,162	NA
International electronic funds transfer volume (in thousands)[d]	**89,537**	45,654	NA
Wholesale check volume (in millions)	**3,856**	NA	NA
Wholesale cards issued (in thousands)[e]	**13,206**	11,787	NA
Selected average balances			
Total assets	**$ 26,947**	$ 23,430	$ 18,379
Loans	**10,430**	7,849	6,009
Liability balances[f]	**164,305**	125,712	85,994
Equity	**1,900**	2,544	2,738
Headcount	**24,484**	22,612	15,145
TSS firmwide metrics			
Treasury Services firmwide revenue[g]	**$ 5,224**	$ 3,665	$ 2,214
Treasury & Securities Services firmwide revenue[g]	**8,843**	6,528	4,622
Treasury Services firmwide overhead ratio[h]	**55%**	62%	62%
Treasury & Securities Services firmwide overhead ratio[h]	**62**	74	76
Treasury Services firmwide liability balances[i]	**$139,579**	$ 102,785	$ 64,819
Treasury & Securities Services firmwide liability balances[i]	**237,699**	178,536	118,873

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) 2005 assets under custody include approximately $530 billion of ITS assets under custody that have not been included previously. At December 31, 2005, approximately 5% of total assets under custody were trust-related.
(c) Corporate trust securities under administration include debt held in trust on behalf of third parties and debt serviced as agent.
(d) International electronic funds transfer includes non-US$ ACH and clearing volume.
(e) Wholesale cards issued include domestic commercial card, stored value card, prepaid card, and government electronic benefit card products.
(f) Liability balances include deposits and deposits swept to on-balance sheet liabilities.
(g) Firmwide revenue includes TS revenue recorded in the Commercial Banking, Consumer & Small Business Banking and Asset & Wealth Management businesses (see below) and excludes FX revenues recorded in the 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 $382 million, $320 million and $256 million for the years ended December 31, 2005, 2004 and 2003, respectively.
(h) Overhead ratios have been calculated based on 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.
(i) Firmwide liability balances include TS' liability balances recorded in certain lines of business. Liability balances associated with TS customers who are also customers of the Commercial Banking line of business are not included in TS liability balances.

(in millions)[a]	2005	2004	2003
Treasury Services revenue reported in Commercial Banking	**$ 2,299**	$ 1,467	$ 896
Treasury Services revenue reported in other lines of business	**303**	204	118

Asset & Wealth Management

Asset & Wealth Management provides investment advice and management for institutions and individuals. With Assets under supervision of $1.1 trillion, 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.

Selected income statement data

Year ended December 31,[a] (in millions, except ratios)	2005	2004	2003
Revenue			
Asset management, administration and commissions	**$ 4,189**	$ 3,140	$ 2,258
Other income	**394**	243	224
Noninterest revenue	**4,583**	3,383	2,482
Net interest income	**1,081**	796	488
Total net revenue	**5,664**	4,179	2,970
Provision for credit losses[b]	**(56)**	(14)	35
Noninterest expense			
Compensation expense	**2,179**	1,579	1,213
Noncompensation expense	**1,582**	1,502	1,265
Amortization of intangibles	**99**	52	8
Total noninterest expense	**3,860**	3,133	2,486
Operating earnings before income tax expense	**1,860**	1,060	449
Income tax expense	**644**	379	162
Operating earnings	**$ 1,216**	$ 681	$ 287
Financial ratios			
ROE	**51%**	17%	5%
Overhead ratio	**68**	75	84
Pre-tax margin ratio[c]	**33**	25	15

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) 2005 includes a $3 million special provision related to Hurricane Katrina.
(c) Pre-tax margin represents Operating earnings 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.

2005 compared with 2004

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

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

Private Bank client segment revenue of $1.7 billion increased by $135 million. Retail client segment revenue of $1.5 billion increased by $360 million. Institutional client segment revenue was up $504 million to $1.4 billion due to the acquisition of a majority interest in Highbridge Capital Management. Private Client Services client segment revenue grew by $486 million, to $1.0 billion.

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

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

2004 compared with 2003

Operating earnings were $681 million, up 137% from the prior year, due largely to the Merger but also driven by increased revenue and a decrease in the Provision for credit losses; these were partially offset by higher Compensation expense.

Total net revenue was $4.2 billion, up 41%, primarily due to the Merger. Additionally, fees and commissions increased due to global equity market appreciation, net asset inflows and the acquisition of JPMorgan Retirement Plan Services ("RPS") in 2003. Fees and commissions also increased due to an improved product mix, with an increased percentage of assets in higher-yielding products. Net interest income increased due to deposit and loan growth.

The Provision for credit losses was a benefit of $14 million, a decrease of $49 million, due to an improvement in credit quality.

Noninterest expense was $3.1 billion, up 26%, due to the Merger, increased Compensation expense and increased technology and marketing initiatives.

Selected metrics

Year ended December 31,[a] (in millions, except headcount and ranking data, and where otherwise noted)	2005	2004	2003
Revenue by client segment			
Private bank	**$ 1,689**	$ 1,554	$ 1,437
Retail	**1,544**	1,184	774
Institutional	**1,395**	891	681
Private client services	**1,036**	550	78
Total net revenue	**$ 5,664**	$ 4,179	$ 2,970
Business metrics			
Number of:			
Client advisors	**1,430**	1,333	651
Retirement Plan Services participants	**1,299,000**	918,000	756,000
% of customer assets in 4 & 5 Star Funds[b]	**46%**	48%	48%
% of AUM in 1st and 2nd quartiles:[c]			
1 year	**69**	66	57
3 years	**68**	71	69
5 years	**74**	68	65
Selected average balances			
Total assets	**$ 41,599**	$ 37,751	$ 33,780
Loans	**26,610**	21,545	16,678
Deposits[d]	**42,123**	32,431	20,576
Equity	**2,400**	3,902	5,507
Headcount	**12,127**	12,287	8,520

Credit data and quality statistics			
Net charge-offs	**$ 23**	$ 72	$ 9
Nonperforming loans	**104**	79	173
Allowance for loan losses	**132**	216	130
Allowance for lending-related commitments	**4**	5	4
Net charge-off rate	**0.09%**	0.33%	0.05%
Allowance for loan losses to average loans	**0.50**	1.00	0.78
Allowance for loan losses to nonperforming loans	**127**	273	75
Nonperforming loans to average loans	**0.39**	0.37	1.04

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) Star rankings derived from Morningstar and Standard & Poor's.
(c) Quartile rankings sourced from Lipper and Standard & Poor's.
(d) Reflects the transfer in 2005 of certain consumer deposits from Retail Financial Services to Asset & Wealth Management.

AWM's client segments are comprised of 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 worldwide 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.

Assets under supervision

2005 compared with 2004

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

2004 compared with 2003

Assets under supervision at December 31, 2004, were $1.1 trillion, up 45% from 2003, and Assets under management were $791 billion, up 41% from the prior year. The increases were primarily the result of the Merger, as well as market appreciation, net asset inflows and the acquisition of a majority interest in Highbridge Capital Management. The Firm also has a 43% interest in American Century Companies, Inc., whose AUM totaled $98 billion and $87 billion at December 31, 2004 and 2003, respectively. Custody, brokerage, administration, and deposits were $315 billion, up 55%, due to market appreciation, the Merger and net inflows across all products.

Assets under supervision[(a)] (in billions)

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

(a) Excludes Assets under management of American Century.
(b) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.
(c) Reflects the Merger with Bank One ($176 billion) and the acquisition of a majority interest in Highbridge Capital Management ($7 billion) in 2004.
(d) Includes AWM's strategic decision to exit the Institutional fiduciary business ($12 billion) in 2005.
(e) Reflects the Merger with Bank One ($214 billion) and the acquisition of a majority interest in Highbridge Capital Management ($7 billion) in 2004, and the sale of BrownCo ($33 billion) in 2005.

Corporate

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

Selected income statement data

Year ended December 31,[a] (in millions)	2005	2004[d]	2003[d]
Revenue			
Securities/private equity gains	**$ 200**	$ 1,786	$ 1,031
Other income[b]	**1,410**	315	303
Noninterest revenue	**1,610**	2,101	1,334
Net interest income	**(2,736)**	(1,216)	(133)
Total net revenue	**(1,126)**	885	1,201
Provision for credit losses[c]	**10**	(110)	124
Noninterest expense			
Compensation expense	**3,151**	2,426	1,893
Noncompensation expense	**4,216**	4,088	3,216
Subtotal	**7,367**	6,514	5,109
Net expenses allocated to other businesses	**(5,343)**	(5,213)	(4,580)
Total noninterest expense	**2,024**	1,301	529
Operating earnings before income tax expense	**(3,160)**	(306)	548
Income tax expense (benefit)	**(1,429)**	(367)	(120)
Operating earnings (loss)	**$ (1,731)**	$ 61	$ 668

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) Includes $1.3 billion (pre-tax) gain on the sale of BrownCo in 2005.
(c) 2005 includes a $12 million special provision related to Hurricane Katrina.
(d) In 2005, the Corporate sector's and the Firm's operating results were presented on a tax-equivalent basis. Prior period results have been restated. This restatement had no impact on the Corporate sector's or the Firm's operating earnings.

2005 compared with 2004

Operating loss of $1.7 billion declined from earnings of $61 million in the prior year.

Net revenue was a loss of $1.1 billion compared with revenue of $885 million in the prior year. Noninterest revenue of $1.6 billion decreased by $491 million and included securities losses of $1.5 billion due to the repositioning of the Treasury investment portfolio, to manage exposure to interest rates, the gain on the sale of BrownCo of $1.3 billion and the increase in private equity gains of $262 million. For a further discussion on the sale of BrownCo, see Note 2 on page 93 of this Annual Report.

Net interest income was a loss of $2.7 billion compared with a loss of $1.2 billion in the prior year. Actions and policies adopted in conjunction with the Merger and the repositioning of the Treasury investment portfolio were the main drivers of the increased loss.

Noninterest expense was $2.0 billion, up $723 million, or 56%, from the prior year, primarily due to the Merger and the cost of the accelerated vesting of certain employee stock options. These increases were offset partially by merger-related savings and other expense efficiencies.

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

2004 compared with 2003

Operating earnings were $61 million, down from earnings of $668 million in the prior year.

Noninterest revenue was $2.1 billion, up 57% from the prior year. The primary component of noninterest revenue is Securities/private equity gains, which totaled $1.8 billion, up 73% from the prior year. The increase was a result of net gains in the Private Equity portfolio of $1.4 billion in 2004 compared with $27 million in net gains in 2003. Partially offsetting these gains were lower investment securities gains in Treasury.

Net interest income was a loss of $1.2 billion compared with a loss of $133 million in the prior year. The increased loss was driven primarily by actions and policies adopted in conjunction with the Merger.

Noninterest expense of $1.3 billion was up $772 million from the prior year due to the Merger. The Merger resulted in higher gross compensation and noncompensation expenses. Allocations of compensation and noncompensation expenses to the businesses were lower than the gross expense increase due to certain policies adopted in conjunction with the Merger, which retain in Corporate overhead costs that would not be incurred by the lines of business if operated on a stand-alone basis, and costs in excess of the market price for services provided by the corporate staff and technology and operations areas.

Selected metrics

Year ended December 31,[a] (in millions, except headcount)	2005	2004	2003
Selected average balances			
Short-term investments[b]	**$ 16,808**	$ 14,590	$ 4,076
Investment portfolio[c]	**54,481**	65,985	65,113
Goodwill[d]	**43,475**	21,773	293
Total assets	**160,720**	162,234	104,395
Headcount	**28,384**	24,806	13,391
Treasury			
Securities gains (losses)	**$ (1,502)**	$ 347	$ 999
Investment portfolio (average)	**46,520**	57,776	56,299
Investment portfolio (ending)	**30,741**	64,949	45,811

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) Represents Federal funds sold, Securities borrowed, Trading assets – debt and equity instruments and Trading assets – derivative receivables.
(c) Represents Investment securities and private equity investments.
(d) As of July 1, 2004, the Firm revised the goodwill allocation methodology to retain all goodwill in Corporate. Effective with the first quarter of 2006, the Firm will refine its methodology to allocate goodwill to the lines of business.

Private equity

2005 compared with 2004

Private Equity's operating earnings for the year were $821 million compared with $602 million in the prior year. This improvement in earnings reflected an increase of $262 million in private equity gains to $1.7 billion, a 15% reduction in noninterest expenses and a $62 million decline in net funding costs of carrying portfolio investments. Private equity gains benefited from continued favorable markets for investment sales and recapitalizations, resulting in nearly $2 billion of realized gains. The carrying value of the private equity portfolio declined by $1.3 billion to $6.2 billion as of December 31, 2005. This decline was primarily the result of sales and recapitalizations of direct investments.

2004 compared with 2003

Private Equity's operating earnings for the year totaled $602 million compared with a loss of $290 million in 2003. This improvement reflected a $1.4 billion increase in total private equity gains. In 2004, markets improved for investment sales, resulting in $1.4 billion of realized gains on direct investments, compared with realized gains of $535 million in 2003. Net write-downs on direct investments were $192 million in 2004 compared with net write-downs of $404 million in 2003, as valuations continued to stabilize amid positive market conditions.

The carrying value of the Private Equity portfolio at December 31, 2004, was $7.5 billion, an increase of $247 million from December 31, 2003. The increase was primarily the result of the acquisition of ONE Equity Partners as a result of the Merger. Excluding ONE Equity Partners, the portfolio declined as a result of sales of investments, which was consistent with management's intention to reduce over time the capital committed to private equity. Sales of third-party fund investments resulted in a decrease in carrying value of $458 million, to $641 million at December 31, 2004, compared with $1.1 billion at December 31, 2003.

Selected income statement and balance sheet data – Private equity

Year ended December 31,[a] (in millions)	2005	2004	2003
Private equity gains (losses)			
Direct investments			
Realized gains	**$ 1,969**	$ 1,423	$ 535
Write-ups / (write-downs)	**(72)**	(192)	(404)
Mark-to-market gains (losses)	**(338)**	164	215
Total direct investments	**1,559**	1,395	346
Third-party fund investments	**132**	34	(319)
Total private equity gains (losses)	**1,691**	1,429	27
Other income	**40**	53	47
Net interest income	**(209)**	(271)	(264)
Total net revenue	**1,522**	1,211	(190)
Total noninterest expense	**244**	288	268
Operating earnings (loss) before income tax expense	**1,278**	923	(458)
Income tax expense	**457**	321	(168)
Operating earnings (loss)	**$ 821**	$ 602	$ (290)
Private equity portfolio information[b]			
Direct investments			
Public securities			
Carrying value	**$ 479**	$ 1,170	$ 643
Cost	**403**	744	451
Quoted public value	**683**	1,758	994
Private direct securities			
Carrying value	**5,028**	5,686	5,508
Cost	**6,463**	7,178	6,960
Third-party fund investments			
Carrying value	**669**	641	1,099
Cost	**1,003**	1,042	1,736
Total private equity portfolio			
Carrying value	**$ 6,176**	$ 7,497	$ 7,250
Cost	**$ 7,869**	$ 8,964	$ 9,147

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) For further information on the Firm's policies regarding the valuation of the private equity portfolio, see Note 9 on pages 103–105 of this Annual Report.

Balance sheet analysis

Selected balance sheet data

December 31, (in millions)	2005	2004
Assets		
Cash and due from banks	**$ 36,670**	$ 35,168
Deposits with banks and Federal funds sold	**26,072**	28,958
Securities purchased under resale agreements and Securities borrowed	**204,174**	141,504
Trading assets – debt and equity instruments	**248,590**	222,832
Trading assets – derivative receivables	**49,787**	65,982
Securities:		
Available-for-sale	**47,523**	94,402
Held-to-maturity	**77**	110
Loans, net of allowance for loan losses	**412,058**	394,794
Other receivables	**27,643**	31,086
Goodwill and other intangible assets	**58,180**	57,887
All other assets	**88,168**	84,525
Total assets	**$ 1,198,942**	$ 1,157,248
Liabilities		
Deposits	**$ 554,991**	$ 521,456
Securities sold under repurchase agreements and securities lent	**117,124**	112,347
Trading liabilities – debt and equity instruments	**94,157**	87,942
Trading liabilities – derivative payables	**51,773**	63,265
Long-term debt and capital debt securities	**119,886**	105,718
All other liabilities	**153,800**	160,867
Total liabilities	**1,091,731**	1,051,595
Stockholders' equity	**107,211**	105,653
Total liabilities and stockholders' equity	**$ 1,198,942**	$ 1,157,248

Securities purchased under resale agreements and Securities sold under repurchase agreements

The increase in Securities purchased under resale agreements was due primarily to growth in client-driven financing activities in North America and Europe.

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, 2004, was primarily due to growth in client-driven market-making activities across interest rate, credit and equity markets. For additional information, refer to Note 3 on page 94 of this Annual Report.

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 decline from December 31, 2004, was primarily due to the appreciation of the U.S. dollar and, to a lesser extent, higher interest rates, partially offset by increased commodity trading activity and rising commodity prices. For additional information, refer to Credit risk management and Note 3 on pages 63–74 and 94, respectively, of this Annual Report.

Securities

The AFS portfolio declined by $46.9 billion from December 31, 2004, primarily due to securities sales (as a result of management's decision to reposition the Treasury investment portfolio to manage exposure to interest rates) and maturities, which more than offset purchases. For additional information related to securities, refer to the Corporate segment discussion and to Note 9 on pages 53–54 and 103–105, respectively, of this Annual Report.

Loans

The $17 billion increase in gross loans was due primarily to an increase of $15 billion in the wholesale portfolio, primarily from the IB, reflecting higher balances of loans held-for-sale ("HFS") related to securitization and syndication activities, and growth in the IB Credit Portfolio. Wholesale HFS loans were $18 billion as of December 31, 2005, compared with $6 billion as of December 31, 2004. For consumer loans, growth in consumer real estate (primarily home equity loans) and credit card loans was offset largely by a decline in the auto portfolio. The increase in credit card loans primarily reflected growth from new account originations and the acquisition of $1.5 billion of Sears Canada loans on the balance sheet. The decline in the auto portfolio primarily reflected a difficult auto lending market in 2005, $3.8 billion of securitizations and was also the result of a strategic review of the portfolio in 2004 that led to the decisions to de-emphasize vehicle leasing and sell a $2 billion recreational vehicle portfolio. For a more detailed discussion of the loan portfolio and the Allowance for loan losses, refer to Credit risk management on pages 63–74 of this Annual Report.

Goodwill and Other intangible assets

The $293 million increase in Goodwill and Other intangible assets primarily resulted from higher MSRs due to growth in the servicing portfolio as well as an overall increase in the valuation from improved market conditions; the business partnership with Cazenove; the acquisition of the Sears Canada credit card business; and the Neovest and Vastera acquisitions. Partially offsetting the increase were declines from the amortization of purchased credit card relationships and core deposit intangibles and the deconsolidation of Paymentech. For additional information, see Note 15 on pages 114–116 of this Annual Report.

Deposits

Deposits increased by 6% from December 31, 2004. Retail deposits increased, reflecting growth from new account acquisitions and the ongoing expansion of the retail branch distribution network. Wholesale deposits were higher, driven by growth in business volumes. For more information on deposits, refer to the RFS segment discussion and the Liquidity risk management discussion on pages 39–44 and 61–62, respectively, of this Annual Report. For more information on liability balances, refer to the CB and TSS segment discussions on pages 47–48 and 49–50, respectively, of this Annual Report.

Long-term debt and capital debt securities

Long-term debt and capital debt securities increased by $14.2 billion, or 13%, from December 31, 2004, primarily due to net new issuances of long-term debt and capital debt securities. The Firm took advantage of narrow credit spreads globally to issue opportunistically long-term debt and capital debt securities throughout 2005. Consistent with its liquidity management policy, the Firm raised funds sufficient to cover maturing obligations over the next 12 months and to support the less liquid assets on its balance sheet. Large investor cash positions and increased foreign investor participation in the corporate markets allowed JPMorgan Chase to diversify further its funding across the global markets while lengthening maturities. For additional information on the Firm's long-term debt activity, see the Liquidity risk management discussion on pages 61–62 of this Annual Report.

Stockholders' equity

Total stockholders' equity increased by $1.6 billion from year-end 2004 to $107.2 billion at December 31, 2005. The increase was the result of net income for 2005 and common stock issued under employee plans, partially offset by cash dividends, stock repurchases, the redemption of $200 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 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 Firm's capital framework is integrated into the process of assigning equity to the lines of business.

Line of business equity

The Firm's framework for allocating capital is based upon the following objectives:

- Integrate firmwide capital management activities with capital management activities within each of the lines of business.
- Measure performance consistently across all lines of business.
- Provide comparability with peer firms for each of the lines of business.

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

For performance management purposes, the Firm initiated a methodology at the time of the Merger for allocating goodwill. Under this methodology, in the last half of 2004 and all of 2005, goodwill from the Merger and from any business acquisition by either heritage firm prior to the Merger was allocated to Corporate, as was any associated equity. Therefore, 2005 line of business equity is not comparable to equity assigned to the lines of business in prior years. The increase in average common equity in the following table for 2005 was attributable primarily to the Merger.

(in billions)	Yearly Average	
Line of business equity	**2005**	2004[(a)]
Investment Bank	**$ 20.0**	$ 17.3
Retail Financial Services	**13.4**	9.1
Card Services	**11.8**	7.6
Commercial Banking	**3.4**	2.1
Treasury & Securities Services	**1.9**	2.5
Asset & Wealth Management	**2.4**	3.9
Corporate[(b)]	**52.6**	33.1
Total common stockholders' equity	**$ 105.5**	$ 75.6

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.
(b) 2005 includes $43.5 billion of equity to offset goodwill and $9.1 billion of equity, primarily related to Treasury, Private Equity and the Corporate Pension Plan.

Effective January 1, 2006, the Firm expects to refine its methodology for allocating capital to the lines of business, and may continue to refine this methodology. The revised methodology, among other things, considers for each line of business goodwill associated with such line of business' acquisitions since the Merger. As a result of this refinement, Retail Financial Services, Card Services, Commercial Banking, Treasury & Securities Services and Asset & Wealth Management will have higher amounts of capital allocated in 2006, while the amount of capital allocated to the Investment Bank will remain unchanged. 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 will assign to the Corporate segment an amount of equity capital equal to the then-current book value of goodwill from and prior to the Merger. 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 this Annual Report.

Economic risk capital

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

(in billions)	Yearly Average	
Economic risk capital	**2005**	2004[(a)]
Credit risk	**$ 22.6**	$ 16.5
Market risk	**9.8**	7.5
Operational risk	**5.5**	4.5
Business risk	**2.1**	1.9
Private equity risk	**3.8**	4.5
Economic risk capital	**43.8**	34.9
Goodwill	**43.5**	25.9
Other[(b)]	**18.2**	14.8
Total common stockholders' equity	**$ 105.5**	$ 75.6

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.
(b) Additional capital required to meet internal debt and regulatory rating objectives.

Credit risk capital

Credit risk capital is estimated separately for the wholesale businesses (Investment Bank, Commercial Banking, Treasury & Securities Services and Asset & Wealth Management) and consumer businesses (Retail Financial Services and Card Services).

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

- Loan equivalent amount for counterparty exposures in an over-the-counter derivative transaction is represented by the expected positive exposure based upon potential movements of underlying market rates. Loan equivalents for unused revolving credit facilities represent the portion of an unused commitment likely, based upon the Firm's average portfolio historical experience, to become outstanding in the event an obligor defaults.
- Default likelihood is based upon current market conditions for all publicly traded names and investment banking clients, by referencing the growing market in credit derivatives and secondary market loan sales. This methodology produces, in the Firm's view, more active risk management by utilizing a forward-looking measure of credit risk. This dynamic measure captures current market conditions and will change with the credit cycle over time impacting the level of credit risk capital. For privately-held firms in the commercial banking portfolio, default likelihood is based upon longer term averages over an entire credit cycle.

- Loss severity of exposure is based upon the Firm's average historical experience during workouts, with adjustments to account for collateral or subordination.
- Market credit spreads are used in the evaluation of changes in exposure value due to credit deterioration.

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

Market risk capital

The Firm calculates market risk capital guided by the principle that capital should reflect the risk of loss in the value of portfolios and financial instruments caused by adverse movements in market variables, such as interest and foreign exchange rates, credit spreads, securities prices and commodities prices. Daily VAR, monthly stress-test results and other factors are used to determine appropriate capital levels. The Firm allocates market risk capital to each business segment according to a formula that weights that segment's VAR and stress test exposures. See Market risk management on pages 75–78 of this Annual Report for more information about these market risk measures.

Operational risk capital

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

Business risk capital

Business risk is defined as the risk associated with volatility in the Firm's earnings due to factors not captured by other parts of its economic-capital framework. Such volatility can arise from ineffective design or execution of business strategies, volatile economic or financial market activity, changing client expectations and demands, and restructuring to adjust for changes in the competitive environment. For business risk, capital is allocated to each business based upon historical revenue volatility and measures of fixed and variable expenses. Earnings volatility arising from other risk factors, such as credit, market, or operational risk, is excluded from the measurement of business risk capital, as those factors are captured under their respective risk capital models.

Private equity risk capital

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

Regulatory capital

The Firm's federal banking regulator, the Federal Reserve Board ("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 and Chase Bank USA, National Association.

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, effective February 22, 2006. The final rule also broadens the types of transactions qualifying for regulatory capital relief under the interim rule. Adoption of the rule is not expected to 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 December 31, 2005, JPMorgan Chase's restricted core capital elements were 16.5% of total core capital elements. JPMorgan Chase expects to be in compliance with the 15% limit by the March 31, 2009, implementation date.

On July 20, 2004, the federal banking regulatory agencies issued a final rule that excludes assets of asset-backed commercial paper programs that are consolidated as a result of FIN 46R from risk-weighted assets for purposes of computing Tier 1 and Total risk-based capital ratios. The final rule also requires that capital be held against short-term liquidity facilities supporting asset-backed commercial paper programs. The final rule became effective September 30, 2004. In addition, both short- and long-term liquidity facilities are subject to certain asset quality tests effective September 30, 2005. Adoption of the rule did not have a material effect on the capital ratios of the Firm.

The following tables show that JPMorgan Chase maintained a well-capitalized position based upon Tier 1 and Total capital ratios at December 31, 2005 and 2004.

Capital ratios

December 31,	**2005**	2004	Well-capitalized ratios
Tier 1 capital ratio	**8.5%**	8.7%	6.0%
Total capital ratio	**12.0**	12.2	10.0
Tier 1 leverage ratio	**6.3**	6.2	NA
Total stockholders' equity to assets	**8.9**	9.1	NA

Risk-based capital components and assets

December 31, (in millions)	**2005**	2004
Total Tier 1 capital	**$ 72,474**	$ 68,621
Total Tier 2 capital	**29,963**	28,186
Total capital	**$ 102,437**	$ 96,807
Risk-weighted assets	**$ 850,643**	$ 791,373
Total adjusted average assets	**1,152,546**	1,102,456

Tier 1 capital was $72.5 billion at December 31, 2005, compared with $68.6 billion at December 31, 2004, an increase of $3.9 billion. The increase was due primarily to net income of $8.5 billion, net common stock issued under employee plans of $1.9 billion, $1.3 billion of additional qualifying trust preferred securities and a decline of $716 million in the deduction for nonqualifying intangible assets as a result of amortization. Offsetting these increases were dividends declared of $4.8 billion, common share repurchases of $3.4 billion, an increase in the deduction for goodwill of $418 million and the redemption of $200 million of preferred stock. 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 this Annual Report.

Basel II

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

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

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 2005, JPMorgan Chase declared a quarterly cash dividend on its common stock of $0.34 per share. The Firm continues to target a dividend payout ratio of 30-40% of operating earnings over time.

Stock repurchases

On July 20, 2004, the Board of Directors approved an initial stock repurchase program in the aggregate amount of $6.0 billion. This amount includes shares to be repurchased to offset issuances under the Firm's employee stock-based plans. The actual amount of shares repurchased is subject to various factors, including market conditions; legal considerations affecting the amount and timing of repurchase activity; the Firm's capital position (taking into account goodwill and intangibles); internal capital generation; and alternative potential investment opportunities. Under the stock repurchase program, during 2005, the Firm repurchased 93.5 million shares for $3.4 billion at an average price per share of $36.46. During 2004, the Firm repurchased 19.3 million shares for $738 million at an average price per share of $38.27. As of December 31, 2005, $1.9 billion of authorized repurchase capacity remained.

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

For additional information regarding repurchases of the Firm's equity securities, see Part II, Item 5, Market for registrant's common equity, related stockholder matters and issuer purchases of equity securities, on page 11 of JPMorgan Chase's 2005 Form 10–K.

Off–balance sheet arrangements and contractual cash obligations

Special-purpose entities

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

The basic SPE structure involves a company selling assets to the SPE. The SPE funds the purchase of those assets by issuing securities to investors. To insulate investors from creditors of other entities, including the seller of assets, SPEs can be structured to be bankruptcy-remote.

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

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

For certain liquidity commitments to SPEs, the Firm could be required to provide funding if the credit rating of JPMorgan Chase Bank 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 $71.3 billion and $79.4 billion at December 31, 2005 and 2004, 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 $71.3 billion in 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, included in the following table. Of the $79.4 billion of liquidity commitments to SPEs at December 31, 2004, $47.7 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, $32.4 billion of these commitments, compared with $31.7 billion at December 31, 2004, are excluded from the following table, as the underlying assets of the SPEs have been included on the Firm's Consolidated balance sheets.

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 variable interest entities ("VIEs") with which the Firm has significant involvement, and qualifying SPEs ("QSPEs"). The revenue reported in the table below primarily represents servicing and custodial 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 this Annual Report.

Revenue from VIEs and QSPEs

Year ended December 31,[a] (in millions)	VIEs[b]	QSPEs	Total
2005	**$ 222**	**$ 1,645**	**$ 1,867**
2004	154	1,438	1,592
2003	79	979	1,058

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) Includes VIE-related revenue (i.e., revenue associated with consolidated and significant nonconsolidated VIEs).

Off-balance sheet lending-related financial instruments and guarantees

JPMorgan Chase utilizes lending-related financial instruments (e.g., commitments and guarantees) to meet the financing needs of its customers. The contractual amount of these financial instruments represents the maximum possible credit risk should the counterparty draw down the commitment or the Firm 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 this Annual Report.

Contractual cash obligations

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

The accompanying table summarizes, by remaining maturity, JPMorgan Chase's off–balance sheet lending-related financial instruments and significant contractual cash obligations at December 31, 2005. Contractual purchases and capital expenditures in the table below reflect the minimum contractual obligation under legally enforceable contracts with contract terms that are both fixed and determinable. Excluded from the following table are a number of obligations to be settled in cash, primarily in under one year. These obligations are reflected on the Firm's Consolidated balance sheets and include Federal funds purchased and securities sold under repurchase agreements; Other borrowed funds; purchases of Debt and equity instruments; Derivative payables; and certain purchases of instruments that resulted in settlement failures. For a discussion regarding Long-term debt and trust preferred capital securities, see Note 17 on pages 117–118 of this Annual Report. For a discussion regarding operating leases, see Note 25 on page 122 of this Annual Report.

Off–balance sheet lending-related financial instruments and guarantees

	2005					
By remaining maturity at December 31, (in millions)	Under 1 year	1–3 years	3–5 years	Over 5 years	Total	2004 Total
Lending-related						
Consumer	**$597,047**	**$ 4,177**	**$ 3,971**	**$ 50,401**	**$ 655,596**	$ 601,196
Wholesale:						
Other unfunded commitments to extend credit[a][b]	**78,912**	**47,930**	**64,244**	**17,383**	**208,469**	185,822
Asset purchase agreements[c]	**9,501**	**17,785**	**2,947**	**862**	**31,095**	39,330
Standby letters of credit and guarantees[a][d]	**24,836**	**19,588**	**27,935**	**4,840**	**77,199**	78,084
Other letters of credit[a]	**6,128**	**586**	**247**	**40**	**7,001**	6,163
Total wholesale	**119,377**	**85,889**	**95,373**	**23,125**	**323,764**	309,399
Total lending-related	**$716,424**	**$90,066**	**$ 99,344**	**$ 73,526**	**$ 979,360**	$ 910,595
Other guarantees						
Securities lending guarantees[e]	**$244,316**	**$ —**	**$ —**	**$ —**	**$ 244,316**	$ 220,783
Derivatives qualifying as guarantees[f]	**25,158**	**14,153**	**2,264**	**20,184**	**61,759**	53,312
Contractual cash obligations						
By remaining maturity at December 31, (in millions)						
Time deposits of $100,000 and over	**$111,359**	**$ 2,917**	**$ 805**	**$ 692**	**$ 115,773**	$ 115,343
Long-term debt	**16,323**	**41,137**	**19,107**	**31,790**	**108,357**	95,422
Trust preferred capital debt securities	**—**	**—**	**—**	**11,529**	**11,529**	10,296
FIN 46R long-term beneficial interests[g]	**106**	**80**	**24**	**2,144**	**2,354**	6,393
Operating leases[h]	**993**	**1,849**	**1,558**	**5,334**	**9,734**	9,853
Contractual purchases and capital expenditures	**1,145**	**777**	**255**	**147**	**2,324**	2,742
Obligations under affinity and co-brand programs	**1,164**	**2,032**	**1,891**	**1,790**	**6,877**	4,402
Other liabilities[i]	**762**	**1,636**	**1,172**	**8,076**	**11,646**	10,966
Total	**$131,852**	**$50,428**	**$ 24,812**	**$ 61,502**	**$ 268,594**	$ 255,417

(a) Represents contractual amount net of risk participations totaling $29.3 billion and $26.4 billion at December 31, 2005 and 2004, respectively.
(b) Includes unused advised lines of credit totaling $28.3 billion and $22.8 billion at December 31, 2005 and 2004, respectively, which are not legally binding. In regulatory filings with the FRB, unused advised lines are not reportable.
(c) The maturity is based upon the weighted average life of the underlying assets in the SPE, primarily multi-seller asset-backed commercial paper conduits.
(d) Includes unused commitments to issue standby letters of credit of $37.5 billion and $38.4 billion at December 31, 2005 and 2004, respectively.
(e) Collateral held by the Firm in support of securities lending indemnification agreements was $245.0 billion and $221.6 billion at December 31, 2005 and 2004, respectively.
(f) Represents notional amounts of derivative guarantees. For a further discussion of guarantees, see Note 27 on pages 124–125 of this Annual Report.
(g) Included on the Consolidated balance sheets in Beneficial interests issued by consolidated VIEs.
(h) Excludes benefit of noncancelable sublease rentals of $1.3 billion and $689 million at December 31, 2005 and 2004, respectively.
(i) Includes deferred annuity contracts and expected funding for pension and other postretirement benefits for 2006. Funding requirements for pension and postretirement benefits after 2006 are excluded due to the significant variability in the assumptions required to project the timing of future cash payments.

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.

The Firm's ability to properly identify, measure, monitor and report risk is critical to both soundness and profitability.

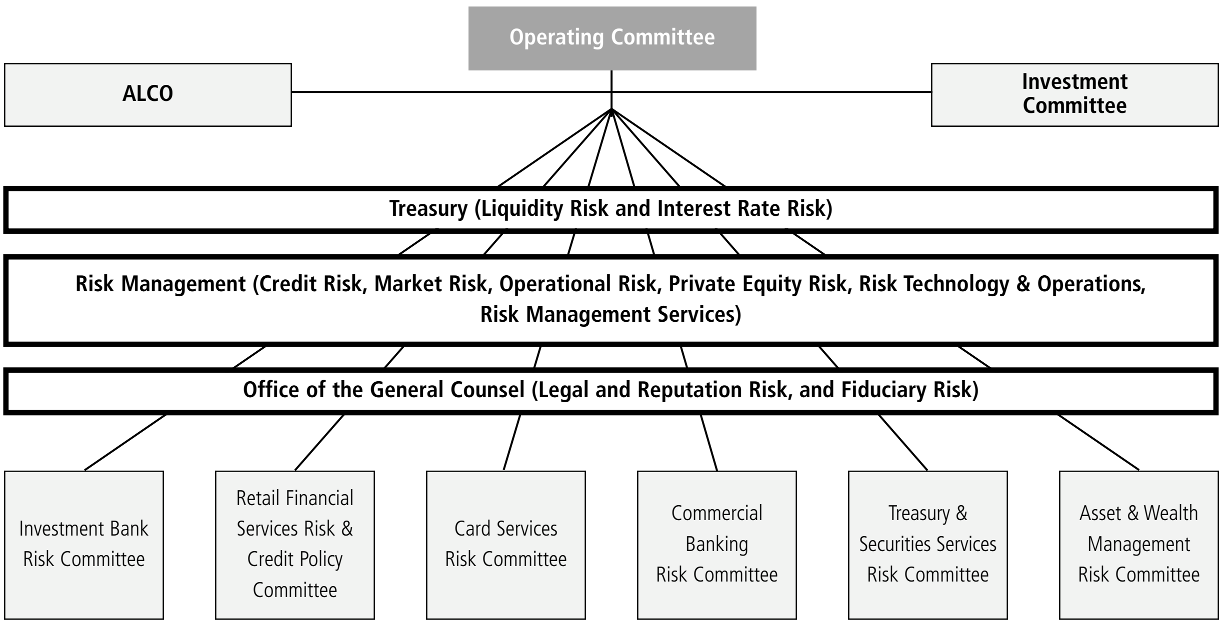
- **Risk identification:** The Firm identifies risk by dynamically assessing the potential impact of internal and external factors on transactions and positions. Business and risk professionals develop appropriate mitigation strategies for the identified risks.
- **Risk measurement**: The Firm measures risk using a variety of methodologies, including calculating probable loss, unexpected loss and value-at-risk, and by conducting stress tests and making comparisons to external benchmarks. Measurement models and related assumptions are routinely reviewed with the goal of ensuring that the Firm's risk estimates are reasonable and reflective of underlying positions.
- **Risk monitoring/Control:** The Firm establishes risk management policies and procedures. These policies contain approved limits by customer, product and business that are monitored on a daily, weekly and monthly basis as appropriate.
- **Risk reporting:** Risk reporting covers all lines of business and is provided to management on a daily, weekly and monthly basis as appropriate.

Risk governance

The Firm's risk governance structure is built upon the premise that each line of business is responsible for managing the risks inherent in its business activity. 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 reputation risk, fiduciary risk and private equity risk. As part of the risk management structure, each line of business has a Risk Committee responsible for decisions relating to risk strategy, policies and control. Where appropriate, the Risk Committees escalate risk issues to the Firm's Operating Committee, comprised of senior officers of the Firm, or to the Risk Working Group, a subgroup of the Operating Committee.

Overlaying risk management within the lines of business are three corporate functions: Treasury, Risk Management and Office of the General Counsel. Treasury is responsible for measuring, monitoring, reporting and managing the interest rate and liquidity risk profile of the Firm. Risk Management, under the direction of the Chief Risk Officer reporting to the Chief Executive Officer, provides an independent firmwide function of control and management of risk. Within Risk Management are those units responsible for credit risk, market risk, operational risk, private equity risk and risk technology and operations, as well as Risk Management Services, which is responsible for risk policy and methodology, risk reporting and risk education. The Office of the General Counsel has oversight function for legal, reputation and fiduciary risk.

In addition to the six lines of business risk committees and these corporate functions, the Firm maintains an Asset & Liability Committee ("ALCO"), which oversees interest rate and liquidity risk, and capital management, as well as the Firm's funds transfer pricing policy, through which lines of business transfer interest rate risk to Treasury. Treasury has responsibility for ALCO policies and control and transfers aggregate risk positions to the Chief Investment Office, which has responsibility for managing the risk. There is also an Investment Committee, which reviews key aspects of the Firm's global M&A activities that are undertaken for its own investment account and that fall outside the scope of the Firm's private equity and other principal finance activities.



The Board of Directors exercises its oversight of risk management as a whole and through the Board's Risk Policy Committee and Audit Committee. The Risk Policy Committee is responsible for oversight of management's responsibilities to assess and manage the Firm's risks as described above.

The Audit Committee is responsible for oversight of guidelines and policies that govern the process by which risk assessment and management is undertaken. In addition, the Audit Committee reviews with management the system of internal controls and financial reporting that is relied upon to provide reasonable assurance of compliance with the Firm's operational risk management processes. Both committees are responsible for oversight of reputation risk. The Chief Risk Officer and other management report on the risks of the Firm to the Board of Directors, particularly through the Board's Risk Policy Committee and Audit Committee. The major risk types identified by the Firm are discussed in the following sections.

Liquidity risk management

Liquidity risk arises from the general funding needs of the Firm's activities and in the management of its assets and liabilities. JPMorgan Chase's liquidity management framework is intended to maximize liquidity access and minimize funding costs. Through active liquidity management, the Firm seeks to preserve stable, reliable and cost-effective sources of funding. This 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.

Governance

The Asset & Liability Committee ("ALCO") reviews the Firm's overall liquidity policy and oversees the contingency funding plan. The ALCO also provides oversight of the Firm's exposure to SPEs, with particular focus on the potential liquidity support requirements that the Firm may have to those SPEs.

Treasury is responsible for formulating the Firm's liquidity strategy and targets, understanding the Firm's on- and off-balance sheet liquidity obligations, providing policy guidance, overseeing policy adherence, and maintaining contingency planning and stress testing. In addition, it identifies and measures internal and external liquidity warning signals to permit early detection of liquidity issues.

An extension of the Firm's ongoing liquidity management is its contingency funding plan. The goals of the plan are to ensure maintenance of appropriate liquidity during normal and stress periods, measure and project funding requirements during periods of stress, and manage access to funding sources. The plan considers temporary and long-term stress scenarios where access to unsecured funding is severely limited or nonexistent. The plan forecasts potential funding needs, taking into account both on- and off-balance sheet exposures, separately evaluating access to funds by the parent holding company and JPMorgan Chase Bank.

The Firm's liquidity risk framework also incorporates tools to monitor three primary measures of liquidity:

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

Each liquidity position is managed to provide sufficient surplus.

Risk monitoring and reporting

Treasury is responsible for measuring, monitoring, reporting and managing the liquidity profile of the Firm through both normal and stress periods. Treasury analyzes the diversity and maturity structure of the Firm's sources of funding; and assesses downgrade impact scenarios, contingent funding needs, and overall collateral availability and pledging status. A downgrade analysis considers the impact of both parent and bank level downgrades (one- and two-notch) and calculates the loss of funding and increase in annual funding costs for both scenarios. A trigger-risk funding analysis considers the impact of a bank level downgrade through A-1/P-1 as well as the increased contingent funding requirements that would be triggered. These liquidity analytics rely on management's judgment about JPMorgan Chase's ability to liquidate assets or use them as collateral for borrowings and take into account credit risk management's historical data on the funding of loan commitments (e.g., commercial paper back-up facilities), liquidity commitments to SPEs, commitments with rating triggers and collateral posting requirements. For a further discussion of SPEs and other off–balance sheet arrangements, see Off–balance sheet arrangements and contractual cash obligations on pages 58–59, as well as Note 1, Note 13, Note 14 and Note 27 on pages 91, 108–111, 111–113, and 124–125, respectively, of this Annual Report.

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 December 31, 2005, 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 December 31, 2005, total deposits for the Firm were $555 billion, which represented 67% 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. In 2005, core bank deposits increased approximately 8% from 2004 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 34–35 and 55, respectively, of this Annual Report.

Additional sources of funds include a variety of both short- and long-term instruments, including federal funds purchased, commercial paper, bank notes, 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 27 on pages 58–59, 108–111 and 124–125, respectively, of this Annual Report.

Issuance

Corporate credit spreads widened modestly in 2005 across most industries and sectors. On an historical basis, credit spreads remain near historic tight levels as corporate balance sheet cash positions are strong and corporate profits generally healthy. JPMorgan Chase's credit spreads performed in line with peer spreads in 2005.

Continued strong foreign investor participation in the global corporate markets allowed JPMorgan Chase to identify attractive opportunities globally to further diversify its funding and capital sources while lengthening maturities. During 2005, JPMorgan Chase issued approximately $43.7 billion of long-term debt and capital debt securities. These issuances were offset partially by $26.9 billion of long-term debt and capital debt securities that matured or were redeemed and the Firm's redemption of $200 million of preferred stock. In addition, in 2005 the Firm securitized approximately $18.1 billion of residential mortgage loans, $15.1 billion of credit card loans and $3.8 billion of automobile loans, resulting in pre-tax gains on securitizations of $21 million, $101 million and $9 million, respectively. For a further discussion of loan securitizations, see Note 13 on pages 108–111 of this Annual Report.

Credit ratings

The credit ratings of JPMorgan Chase's parent holding company and each of its significant banking subsidiaries, as of December 31, 2005 and 2004, were as follows:

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

The Firm's principal insurance subsidiaries had the following financial strength ratings as of December 31, 2005:

	Moody's	S&P	A.M. Best
Chase Insurance Life and Annuity Company	A2	A+	A
Chase Insurance Life Company	A2	A+	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 pages 58–59 and Ratings profile of derivative receivables mark-to-market ("MTM") on page 69, of this Annual Report.

Credit risk management

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

Credit risk organization

Credit risk management is overseen by the Chief Risk Officer, a member of the Firm's Operating Committee. The Firm's credit risk management governance structure consists of the following primary functions:

- establishes a comprehensive credit risk policy framework
- calculates Allowance for credit losses and ensures appropriate credit risk-based capital management
- assigns and manages credit authorities to approve all credit exposure
- monitors and manages credit risk across all portfolio segments
- manages criticized exposures

Risk identification

The Firm is exposed to credit risk through lending (e.g., loans and lending-related commitments), derivatives trading and capital markets activities. The credit risk function works in partnership with the business segments in identifying and aggregating exposure across all lines of business.

Risk measurement

To measure credit risk, the Firm employs several methodologies for estimating the likelihood of obligor or counterparty default. Losses generated by consumer loans are more predictable than wholesale losses, but are subject to cyclical and seasonal factors. Although the frequency of loss is higher on consumer loans than on wholesale loans, the severity of loss is typically lower and more manageable. As a result of these differences, methodologies vary depending on certain factors, including type of asset (e.g., consumer installment versus wholesale loan), risk measurement parameters (e.g., delinquency status and credit bureau score versus wholesale risk rating) and risk management and collection processes (e.g., retail collection center versus centrally managed workout groups). Credit risk measurement is based upon the amount of exposure should the obligor or the counterparty default, the probability of default and the loss severity given a default event. Based upon these factors and related market-based inputs, the Firm estimates both probable and unexpected losses for the wholesale and consumer portfolios. Probable losses, reflected in the Provision for credit losses, are generally statistically-based estimates of credit losses over time, anticipated as a result of obligor or counterparty default. However, probable losses are not the sole indicators of risk. If losses were entirely predictable, the probable loss rate could be factored into pricing and covered as a normal and recurring cost of doing business. Unexpected losses, reflected in the allocation of credit risk capital, represent the potential volatility of actual losses relative to the probable level of losses. (Refer to Capital management on pages 56–58 of this Annual Report for a further discussion of the credit risk capital methodology.) Risk measurement for the wholesale portfolio is assessed primarily on a risk-rated basis; for the consumer portfolio, it is assessed primarily on a credit-scored basis.

Risk-rated exposure

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

Credit-scored exposure

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

Risk monitoring

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

Risk reporting

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

2005 Credit risk overview

The wholesale portfolio experienced continued credit strength during 2005. Wholesale nonperforming loans were down by $582 million, or 37%, from 2004; net recoveries were $77 million compared with net charge-offs of

$186 million in 2004; and the allowance for credit losses decreased by $740 million, or 21%, reflecting the quality of the portfolio at this time. The Firm anticipates a return to more normal provisioning for credit losses for the wholesale portfolio in 2006. In 2005, the Firm also made significant strides in the multi-year initiative to reengineer specific components of the wholesale credit risk infrastructure. The Firm is on target to meet the goals of enhancing the timeliness and accuracy of risk and exposure information and reporting; management of credit risk in the retained portfolio; support of client relationships; allocation of economic capital and compliance with Basel II initiatives.

Consumer credit was impacted in 2005 by two significant events, Hurricane Katrina and federal bankruptcy reform legislation. Hurricane Katrina impacted customers across all consumer businesses (and to a lesser extent CB and AWM). As a result, the consumer Allowance for loan losses was increased by $350 million ($250 million in RFS, and $100 million in CS). It is anticipated that the majority of charge-offs associated with the hurricane will be taken against the allowance in 2006. Bankruptcy reform legislation became effective on October 17, 2005. This legislation prompted a "rush to file" effect that resulted in a spike in bankruptcy filings and increased credit losses, predominantly in CS, where it is believed that $575 million in estimated bankruptcy legislation-related credit losses occurred in the fourth quarter of 2005. It is anticipated that the first half of 2006 will experience lower credit card net charge-offs, as the record levels of bankruptcy filings in the 2005 fourth quarter are believed to have included bankruptcy filings that would have occurred in 2006. With the exception of the events noted above, the 2005 underlying credit performance, which was driven by favorable loss severity performance in residential real estate, continued to be strong. CS continues to quantify and refine the impact associated with changes in the FFIEC minimum-payment requirements. Actual implementation of the new payment requirements began in late 2005 and will run through early 2006; CS anticipates higher net charge-offs during the second half of 2006 as a result.

In 2005, the Firm continued to grow the consumer loan portfolio, focusing on businesses providing the most appropriate risk/reward relationship while keeping within the Firm's desired risk tolerance. During the past year, the Firm continued a de-emphasis of vehicle leasing and sold its $2 billion recreational vehicle portfolio. Continued growth in most core consumer lending products (residential real estate, credit cards and small business) reflected a focus on the prime credit quality segment of the market.

Credit portfolio

The following table presents JPMorgan Chase's credit portfolio as of December 31, 2005 and 2004. Total credit exposure at December 31, 2005, increased by $67 billion from December 31, 2004, reflecting an increase of $11 billion in the wholesale credit portfolio and $56 billion in the consumer credit portfolio. The significant majority of the consumer portfolio increase, or $54 billion, was primarily from growth in lending-related commitments. 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.

Total credit portfolio

As of or for the year ended December 31, (in millions, except ratios)	Credit exposure 2005	Credit exposure 2004	Nonperforming assets(i) 2005	Nonperforming assets(i) 2004	Net charge-offs 2005	Net charge-offs 2004(h)	Average annual net charge-off rate(k) 2005	Average annual net charge-off rate(k) 2004(h)
Total credit portfolio								
Loans – reported(a)	**$ 419,148**	$ 402,114	**$ 2,343(j)**	$ 2,743(j)	**$ 3,819**	$ 3,099	**1.00%**	1.08%
Loans – securitized(b)	**70,527**	70,795	**—**	—	**3,776**	2,898	**5.47**	5.51
Total managed loans(c)	**489,675**	472,909	**2,343**	2,743	**7,595**	5,997	**1.68**	1.76
Derivative receivables(d)	**49,787**	65,982	**50**	241	**NA**	NA	**NA**	NA
Interests in purchased receivables	**29,740**	31,722	**—**	—	**NA**	NA	**NA**	NA
Total managed credit-related assets	**569,202**	570,613	**2,393**	2,984	**7,595**	5,997	**1.68**	1.76
Lending-related commitments(e)	**979,360**	910,595	**NA**	NA	**NA**	NA	**NA**	NA
Assets acquired in loan satisfactions	**NA**	NA	**197**	247	**NA**	NA	**NA**	NA
Total credit portfolio	**$ 1,548,562**	$1,481,208	**$ 2,590**	$ 3,231	**$ 7,595**	$ 5,997	**1.68%**	1.76%
Credit derivative hedges notional(f)	**$ (29,882)**	$ (37,200)	**$ (17)**	$ (15)	**NA**	NA	**NA**	NA
Collateral held against derivatives	**(6,000)**	(9,301)	**NA**	NA	**NA**	NA	**NA**	NA
Held-for-sale								
Total average HFS loans	**$ 27,689**	$ 20,860(h)	**NA**	NA	**NA**	NA	**NA**	NA
Nonperforming – purchased(g)	**341**	351	**NA**	NA	**NA**	NA	**NA**	NA

(a) Loans are presented net of unearned income of $3.0 billion and $4.1 billion at December 31, 2005 and 2004, respectively.
(b) Represents securitized credit card receivables. For a further discussion of credit card securitizations, see Card Services on pages 45–46 of this Annual Report.
(c) Past-due 90 days and over and accruing include loans of $1.1 billion and $998 million, and related credit card securitizations of $730 million and $1.3 billion at December 31, 2005 and 2004, respectively.
(d) Reflects net cash received under credit support annexes to legally enforceable master netting agreements of $27 billion and $32 billion as of December 31, 2005 and 2004, respectively.
(e) Includes wholesale unused advised lines of credit totaling $28.3 billion and $22.8 billion at December 31, 2005 and 2004, 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 $579 billion and $532 billion at December 31, 2005 and 2004, respectively, represents the total available credit to its cardholders; however, the Firm can reduce or cancel these commitments at any time as permitted by law.
(f) Represents the net notional amount of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit risk of credit exposures; these derivatives do not qualify for hedge accounting under SFAS 133.
(g) Represents distressed HFS wholesale loans purchased as part of IB's proprietary activities, which are excluded from nonperforming assets.
(h) Includes six months of the combined Firm's results and six months of heritage JPMorgan Chase results.
(i) Includes nonperforming HFS loans of $136 million and $15 million as of December 31, 2005 and 2004, respectively.
(j) 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 $1.5 billion for December 31, 2005 and 2004, respectively. These amounts are excluded, as reimbursement is proceeding normally.
(k) Net charge-off rates exclude average loans HFS.

Wholesale credit portfolio

As of December 31, 2005, wholesale exposure (IB, CB, TSS and AWM) increased by $11 billion from December 31, 2004. Increases in Loans and lending-related commitments were offset partially by reductions in Derivative receivables and Interests in purchased receivables. As described on pages 36–37 of this Annual Report, the increase in Loans was primarily in the IB, reflecting an increase in loans held-for-sale related to securitization and syndication activities and growth in the IB credit portfolio. The increase in lending-related commitments was mostly due to CB activity. The decrease in Derivative receivables was due primarily to the appreciation of the U.S. dollar and higher interest rates, partially offset by rising commodity prices.

Wholesale

As of or for the year ended December 31, (in millions, except ratios)	Credit exposure 2005	Credit exposure 2004	Nonperforming assets[g] 2005	Nonperforming assets[g] 2004	Net charge-offs 2005	Net charge-offs 2004[f]	Average annual net charge-off rate[i] 2005	Average annual net charge-off rate[i] 2004[f]
Loans – reported[a]	**$ 150,111**	$ 135,067	**$ 992**	$ 1,574	**$ (77)**	$ 186	**(0.06)%**	0.18%
Derivative receivables[b]	**49,787**	65,982	**50**	241	**NA**	NA	**NA**	NA
Interests in purchased receivables	**29,740**	31,722	**—**	—	**NA**	NA	**NA**	NA
Total wholesale credit-related assets	**229,638**	232,771	**1,042**	1,815	**(77)**	186	**(0.06)**	0.18
Lending-related commitments[c]	**323,764**	309,399	**NA**	NA	**NA**	NA	**NA**	NA
Assets acquired in loan satisfactions	**NA**	NA	**17**	23	**NA**	NA	**NA**	NA
Total wholesale credit exposure	**$ 553,402**	$ 542,170	**$ 1,059**	$ 1,838	**$ (77)[h]**	$ 186	**(0.06)%**	0.18%
Credit derivative hedges notional[d]	**$ (29,882)**	$ (37,200)	**$ (17)**	$ (15)	**NA**	NA	**NA**	NA
Collateral held against derivatives	**(6,000)**	(9,301)	**NA**	NA	**NA**	NA	**NA**	NA
Held-for-sale								
Total average HFS loans	**$ 12,014**	$ 6,124[f]	**NA**	NA	**NA**	NA	**NA**	NA
Nonperforming – purchased[e]	**341**	351	**NA**	NA	**NA**	NA	**NA**	NA

(a) Past-due 90 days and over and accruing include loans of $50 million and $8 million at December 31, 2005 and 2004, respectively.
(b) Reflects net cash received under credit support annexes to legally enforceable master netting agreements of $27 billion and $32 billion as of December 31, 2005 and 2004, respectively.
(c) Includes unused advised lines of credit totaling $28.3 billion and $22.8 billion at December 31, 2005 and 2004, respectively, which are not legally binding. In regulatory filings with the Federal Reserve Board, unused advised lines are not reportable.
(d) 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.
(e) Represents distressed HFS loans purchased as part of IB's proprietary activities, which are excluded from nonperforming assets.
(f) Includes six months of the combined Firm's results and six months of heritage JPMorgan Chase results.
(g) Includes nonperforming HFS loans of $109 million and $2 million as of December 31, 2005 and 2004, respectively.
(h) Excludes $67 million in gains on sales of nonperforming loans in 2005; for additional information, see page 67 of this Annual Report.
(i) Net charge-off rates exclude average loans HFS.

Below are summaries of the maturity and ratings profiles of the wholesale portfolio as of December 31, 2005 and 2004. The ratings scale is based upon the Firm's internal risk ratings and is presented on an S&P-equivalent basis.

Wholesale exposure

At December 31, 2005 (in billions, except ratios)	Maturity profile[c] <1 year[d]	1–5 years[d]	> 5 years[d]	Total	Ratings profile: Investment-grade ("IG")[d] AAA to BBB-	Noninvestment-grade[d] BB+ & below	Total	Total % of IG[d]
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**	**29**	**—**	**29**	**100**
Lending-related commitments	**37**	**56**	**7**	**100**	**276**	**48**	**324**	**85**
Total excluding HFS	**36%**	**52%**	**12%**	**100%**	**$ 434**	**$ 101**	**535**	**81%**
Held-for-sale[a]							**18**	
Total exposure							**$ 553**	
Credit derivative hedges notional[b]	**15%**	**74%**	**11%**	**100%**	**$ (27)**	**$ (3)**	**$ (30)**	**90%**

At December 31, 2004 (in billions, except ratios)	Maturity profile[c] <1 year[d]	1–5 years[d]	> 5 years[d]	Total	Ratings profile: Investment-grade ("IG")[d] AAA to BBB-	Noninvestment-grade[d] BB+ & below	Total	Total % of IG[d]
Loans	44%	43%	13%	100%	$ 83	$ 46	$ 129	64%
Derivative receivables	19	39	42	100	57	9	66	86
Interests in purchased receivables	37	61	2	100	32	—	32	100
Lending-related commitments	46	52	2	100	266	43	309	86
Total excluding HFS	42%	49%	9%	100%	$ 438	$ 98	536	82%
Held-for-sale[a]							6	
Total exposure							$ 542	
Credit derivative hedges notional[b]	18%	77%	5%	100%	$ (35)	$ (2)	$ (37)	95%

(a) HFS loans primarily relate to securitization and syndication activities.
(b) Ratings are based upon the underlying referenced assets.
(c) 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 this Annual Report for a further discussion of Average exposure.
(d) Excludes HFS loans.

At December 31, 2005, the percentage of the investment-grade wholesale exposure, excluding HFS, remained relatively unchanged from December 31, 2004. Derivative receivables of less than one year decreased as a result of the appreciation of the U.S. dollar on short-dated foreign exchange ("FX") contracts. The percentage of derivative exposure greater than 5 years increased from 42% to 56% at year-end 2005, primarily as a result of the reduction in shorter-dated exposure.

Wholesale credit exposure – selected industry concentration

The Firm continues to focus on the management and diversification of industry concentrations, with particular attention paid to industries with actual or potential credit concerns. As of December 31, 2005, the top 10 industries remained predominantly unchanged from year-end 2004, with the exception of Oil and gas, which replaced Media. Below are summaries of the top 10 industry concentrations as of December 31, 2005 and 2004.

As of December 31, 2005 (in millions, except ratios)	Credit exposure(d)	Investment grade	Noninvestment-grade Noncriticized	Noninvestment-grade Criticized	Net charge-offs/ (recoveries)	Credit derivative hedges(e)	Collateral held against derivative receivables(d)
Top 10 industries(a)							
Banks and finance companies	**$ 53,579**	**88%**	**$ 6,462**	**$ 232**	**$ (16)**	**$ (9,490)**	**$ (1,482)**
Real estate	**29,974**	**55**	**13,226**	**276**	**—**	**(560)**	**(2)**
Consumer products	**25,678**	**71**	**6,791**	**590**	**2**	**(927)**	**(28)**
Healthcare	**25,435**	**79**	**4,977**	**243**	**12**	**(581)**	**(7)**
State and municipal governments(b)	**25,328**	**98**	**409**	**40**	**—**	**(597)**	**(1)**
Utilities	**20,482**	**90**	**1,841**	**295**	**(4)**	**(1,624)**	**—**
Retail and consumer services(b)	**19,920**	**75**	**4,654**	**288**	**12**	**(989)**	**(5)**
Oil and gas	**18,200**	**77**	**4,267**	**9**	**—**	**(1,007)**	**—**
Asset managers	**17,358**	**82**	**2,949**	**103**	**(1)**	**(25)**	**(954)**
Securities firms and exchanges	**17,094**	**89**	**1,833**	**15**	**—**	**(2,009)**	**(1,525)**
All other	**282,802**	**82**	**47,966**	**3,081**	**(82)**	**(12,073)**	**(1,996)**
Total excluding HFS	**$ 535,850**	**81%**	**$ 95,375**	**$ 5,172**	**$ (77)**	**$ (29,882)**	**$ (6,000)**
Held-for-sale(c)	**17,552**						
Total exposure	**$ 553,402**						

As of December 31, 2004 (in millions, except ratios)	Credit exposure(d)	Investment grade	Noninvestment-grade Noncriticized	Noninvestment-grade Criticized	Net charge-offs/ (recoveries)	Credit derivative hedges(e)	Collateral held against derivative receivables(d)
Top 10 industries(a)							
Banks and finance companies	$ 55,840	90%	$ 5,348	$ 187	$ 6	$ (11,695)	$ (3,464)
Real estate	25,761	62	9,036	765	9	(800)	(45)
Consumer products	21,251	68	6,267	479	85	(1,189)	(50)
Healthcare	21,890	79	4,321	249	1	(741)	(13)
State and municipal governments	19,728	97	592	14	—	(394)	(18)
Utilities	21,132	85	2,316	890	63	(2,247)	(27)
Retail and consumer services	21,573	76	4,815	393	—	(1,767)	(42)
Oil and gas	14,420	81	2,713	51	9	(1,282)	(26)
Asset managers	20,199	79	4,192	115	(15)	(80)	(655)
Securities firms and exchanges	18,034	88	2,218	17	1	(1,398)	(2,068)
All other	295,902	82	48,150	5,122	27	(15,607)	(2,893)
Total excluding HFS	$ 535,730	82%	$ 89,968	$ 8,282	$ 186	$ (37,200)	$ (9,301)
Held-for-sale(c)	6,440						
Total exposure	$ 542,170						

(a) Based upon December 31, 2005, determination of Top 10 industries.
(b) During the second quarter of 2005, the Firm revised its industry classification for educational institutions to better reflect risk correlations and enhance the Firm's management of industry risk, resulting in an increase to State and municipal governments and a decrease to Retail and consumer services.
(c) HFS loans primarily relate to securitization and syndication activities.
(d) Credit exposure is net of risk participations and excludes the benefit of credit derivative hedges and collateral held against derivative receivables or loans. At December 31, 2005 and 2004, collateral held against derivative receivables excludes $27 billion and $32 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.
(e) Represents notional amounts only; these credit derivatives do not qualify for hedge accounting under SFAS 133.

Wholesale criticized exposure

Exposures deemed criticized generally represent a ratings profile similar to a rating of CCC+/Caa1 and lower, as defined by Standard & Poor's/Moody's. The criticized component of the portfolio decreased to $5.2 billion (excluding HFS) at December 31, 2005, from $8.3 billion at year-end 2004, reflecting strong credit quality, refinancings and gross charge-offs. Also contributing to the decline was a refinement in methodology in the first quarter of 2005 to align the ratings methodologies of the heritage firms.

At December 31, 2005, Automotive, Telecom services and Retail and consumer services moved into the top 10 of wholesale criticized exposure, replacing Chemicals/plastics, Business services and Metals/mining industries.

Wholesale nonperforming assets

Wholesale nonperforming assets (excluding purchased held-for-sale wholesale loans) decreased by $779 million from $1.8 billion at December 31, 2004, as a result of loan sales, repayments and gross charge-offs. For full year 2005, wholesale net recoveries were $77 million compared with net charge-offs of $186 million in 2004, primarily due to lower gross charge-offs. The net recovery rate for full year 2005 was 0.06% compared with a net charge-off rate of 0.18% for the prior year. Net charge-offs do not include $67 million of gains from sales of nonperforming loans that were sold during 2005 to a counterparty other than the original borrower. When it is determined that a loan will be sold it is transferred into a held-for-sale account. Held-for-sale loans are accounted for at lower of cost or fair value, with changes in value recorded in other revenue.

Wholesale criticized exposure – industry concentrations

As of December 31, (in millions)	2005 Credit exposure	2005 % of portfolio	2004 Credit exposure	2004 % of portfolio
Media	**$ 684**	13.2%	$ 509	6.1%
Automotive	**643**	12.4	359	4.4
Consumer products	**590**	11.4	479	5.8
Telecom services	**430**	8.3	275	3.3
Airlines	**333**	6.5	450	5.4
Utilities	**295**	5.7	890	10.7
Machinery and equipment manufacturing	**290**	5.6	459	5.6
Retail and consumer services	**288**	5.6	393	4.8
Real estate	**276**	5.4	765	9.2
Building materials/construction	**266**	5.1	430	5.2
All other	**1,077**	20.8	3,273	39.5
Total excluding HFS	**$ 5,172**	100.0%	$ 8,282	100.0%
Held-for-sale[(a)]	**1,069**		2	
Total	**$ 6,241**		$ 8,284	

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

Wholesale selected industry discussion

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

- **Banks and finance companies:** This industry group, primarily consisting of exposure to commercial banks, is the largest segment of the Firm's wholesale credit portfolio. Credit quality is high, as 88% of the exposure in this category is rated investment-grade.
- **Real estate:** This industry, the second largest segment of the Firm's wholesale credit portfolio, grew modestly in 2005, as the portfolio continued to benefit from relatively low interest rates, high liquidity and increased capital demand. The exposure is well-diversified by client, transaction type, geography and property type.
- **Oil and gas:** During 2005, exposure to this industry group increased as a result of the rise in oil and gas prices; derivative receivables MTM increased on contracts that were executed at lower price levels. In addition, the Firm extended shorter term loans that were expected to be refinanced through capital market transactions and further syndications.
- **Media:** Criticized exposures within Media increased in 2005, and this industry now represents the largest percentage of the total criticized portfolio. The increase was attributable primarily to the extension of short-term financings to select borrowers. The remaining Media portfolio is stable, with the majority of the exposure rated investment-grade.
- **Automotive:** In 2005, Automotive original equipment manufacturers ("OEMs") and suppliers based in North America were negatively affected by a challenging operating environment. As a result, criticized exposures to the Automotive industry grew, primarily as a result of downgrades to select names within the portfolio. However, though larger in the aggregate, most of the criticized exposure remains undrawn and performing.
- **All other:** All other in the wholesale credit exposure concentration table at December 31, 2005, excluding HFS, included $283 billion of credit exposure to 21 industry segments. Exposures related to SPEs and high-net-worth individuals totaled 45% of this category. SPEs provide secured financing (generally backed by receivables, loans or bonds on a bankruptcy-remote, non-recourse or limited-recourse basis) originated by companies in a diverse group of industries that are not highly correlated. The remaining All other exposure is well diversified across other industries; none comprise more than 3% of total exposure.

Derivative contracts

In the normal course of business, the Firm utilizes 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 its own credit risk. The Firm uses the same credit risk management procedures as those used for its traditional lending activities to assess and approve potential credit exposures when entering into derivative transactions.

The following table summarizes the aggregate notional amounts and the reported derivative receivables (i.e., the MTM or fair value of the derivative contracts after taking into account the effects of legally enforceable master netting agreements) at each of the dates indicated:

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

As of December 31, (in billions)	Notional amounts[a] 2005	Notional amounts[a] 2004	Derivative receivables MTM 2005	Derivative receivables MTM 2004
Interest rate	**$ 38,493**	$ 37,022	**$ 30**	$ 46
Foreign exchange	**2,136**	1,886	**3**	8
Equity	**458**	434	**6**	6
Credit derivatives	**2,241**	1,071	**4**	3
Commodity	**265**	101	**7**	3
Total	**$ 43,593**	$ 40,514	**50**	66
Collateral held against derivative receivables	**NA**	NA	**(6)**	(9)
Exposure net of collateral	**NA**	NA	**$ 44**[b]	$ 57[c]

(a) The notional amounts represent the gross sum of long and short third-party notional derivative contracts, excluding written options and foreign exchange spot contracts, which significantly exceed the possible credit losses that could arise from such transactions. For most derivative transactions, the notional principal amount does not change hands; it is used simply as a reference to calculate payments.
(b) The Firm held $33 billion of collateral against derivative receivables as of December 31, 2005, consisting of $27 billion in net cash received under credit support annexes to legally enforceable master netting agreements, and $6 billion of other liquid securities collateral. The benefit of the $27 billion is reflected within the $50 billion of derivative receivables MTM. Excluded from the $33 billion of collateral is $10 billion of collateral delivered by clients at the initiation of transactions; this collateral secures exposure that could arise in the derivatives portfolio should the MTM of the client's transactions move in the Firm's favor. Also excluded are credit enhancements in the form of letters of credit and surety receivables.
(c) The Firm held $41 billion of collateral against derivative receivables as of December 31, 2004, consisting of $32 billion in net cash received under credit support annexes to legally enforceable master netting agreements, and $9 billion of other liquid securities collateral. The benefit of the $32 billion is reflected within the $66 billion of derivative receivables MTM. Excluded from the $41 billion of collateral is $10 billion of collateral delivered by clients at the initiation of transactions; this collateral secures exposure that could arise in the derivatives portfolio should the MTM of the client's transactions move in the Firm's favor. Also excluded are credit enhancements in the form of letters of credit and surety receivables.

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, and a legally enforceable master netting agreement exists with that counterparty, the netted MTM exposure, less collateral held, represents, in the Firm's view, the appropriate measure of current credit risk.

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

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

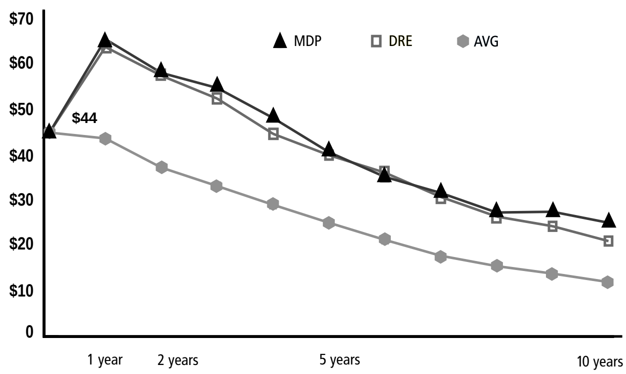
Derivative Risk Equivalent ("DRE") exposure is a measure that expresses the riskiness of derivative exposure on a basis intended to be equivalent to the riskiness of loan exposures. The measurement is done by equating the unexpected loss in a derivative counterparty exposure (which takes into consideration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

Finally, Average exposure ("AVG") is a measure of the expected MTM value of the Firm's derivative receivables at future time periods, including the benefit of collateral. AVG exposure over the total life of the derivative contract is used as the primary metric for pricing purposes and is used to calculate credit capital and the Credit Valuation Adjustment ("CVA"), as further described below. Average exposure was $36 billion and $38 billion at December 31, 2005 and 2004, respectively, compared with derivative receivables MTM net of other highly liquid collateral of $44 billion and $57 billion at December 31, 2005 and 2004, respectively.

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

Exposure profile of derivatives measures

December 31, 2005
(in billions)



The MTM value of the Firm's derivative receivables incorporates an adjustment, the CVA, to reflect the credit quality of counterparties. The CVA is based upon the Firm's AVG exposure to a counterparty and the counterparty's credit spread in the credit derivatives market. The primary components of changes in CVA are credit spreads, new deal activity or unwinds, and changes in the underlying market environment. The Firm believes that active risk management is essential to controlling the dynamic credit risk in the derivatives portfolio. The Firm risk manages exposure to changes in CVA by entering into credit derivative transactions, as well as interest rate, foreign exchange, equity and commodity derivative transactions. The MTM value of the Firm's derivative payables does not incorporate a valuation adjustment to reflect JPMorgan Chase's credit quality.

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

Ratings profile of derivative receivables MTM

Rating equivalent	**2005**		2004	
December 31, (in millions)	Exposure net of collateral[(a)]	% of exposure net of collateral	Exposure net of collateral[(b)]	% of exposure net of collateral
AAA to AA-	**$ 20,735**	**48%**	$ 30,384	53%
A+ to A-	**8,074**	**18**	9,109	16
BBB+ to BBB-	**8,243**	**19**	9,522	17
BB+ to B-	**6,580**	**15**	7,271	13
CCC+ and below	**155**	**—**	395	1
Total	**$ 43,787**	**100%**	$ 56,681	100%

(a) The Firm held $33 billion of collateral against derivative receivables as of December 31, 2005, consisting of $27 billion in net cash received under credit support annexes to legally enforceable master netting agreements, and $6 billion of other liquid securities collateral. The benefit of the $27 billion is reflected within the $50 billion of derivative receivables MTM. Excluded from the $33 billion of collateral is $10 billion of collateral delivered by clients at the initiation of transactions; this collateral secures exposure that could arise in the derivatives portfolio should the MTM of the client's transactions move in the Firm's favor. Also excluded are credit enhancements in the form of letters of credit and surety receivables.

(b) The Firm held $41 billion of collateral against derivative receivables as of December 31, 2004, consisting of $32 billion in net cash received under credit support annexes to legally enforceable master netting agreements, and $9 billion of other liquid securities collateral. The benefit of the $32 billion is reflected within the $66 billion of derivative receivables MTM. Excluded from the $41 billion of collateral is $10 billion of collateral delivered by clients at the initiation of transactions; this collateral secures exposure that could arise in the derivatives portfolio should the MTM of the client's transactions move in the Firm's favor. Also excluded are credit enhancements in the form of letters of credit and surety receivables.

The Firm actively pursues the use of collateral agreements to mitigate counterparty credit risk in derivatives. The percentage of the Firm's derivatives transactions subject to collateral agreements increased slightly, to 81% as of December 31, 2005, from 79% at December 31, 2004. The Firm posted $27 billion and $31 billion of collateral as of December 31, 2005 and 2004, respectively.

Certain derivative and collateral agreements include provisions that require the counterparty and/or the Firm, upon specified downgrades in their respective credit ratings, to post collateral for the benefit of the other party. As of December 31, 2005, 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 $1.4 billion of collateral posted by the Firm; the impact of a six-notch ratings downgrade (from AA- to BBB-) would have been $3.8 billion of additional collateral. Certain derivative contracts also provide for termination of the contract, generally upon a downgrade of either the Firm or the counterparty, at the then-existing MTM value of the derivative contracts.

Credit derivatives

The following table presents the Firm's notional amounts of credit derivatives protection purchased and sold by the respective businesses as of December 31, 2005 and 2004:

Credit derivatives positions

	Notional amount				
	Portfolio management		Dealer/client		
December 31, (in billions)	Protection purchased[(a)]	Protection sold	Protection purchased	Protection sold	Total
2005	**$ 31**	**$ 1**	**$ 1,096**	**$ 1,113**	**$ 2,241**
2004	37	—	501	533	1,071

(a) Includes $848 million and $2 billion at December 31, 2005 and 2004, respectively, of portfolio credit derivatives.

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 $50 billion of total Derivative receivables at December 31, 2005, approximately $4 billion, or 8%, was associated with credit derivatives, before the benefit of liquid securities collateral.

Dealer/client

At December 31, 2005, the total notional amount of protection purchased and sold in the dealer/client business increased $1.2 trillion from year-end 2004 as a result of increased trade volume in the market. This business has a mismatch between the total notional amounts of protection purchased and sold. However, in the Firm's view, the risk positions are largely matched when securities used to risk manage certain derivative positions are taken into consideration and the notional amounts are adjusted to a duration-based equivalent basis or to reflect different degrees of subordination in tranched structures.

Use of single-name and portfolio credit derivatives

December 31, (in millions)	Notional amount of protection purchased 2005	2004
Credit derivatives used to manage:		
Loans and lending-related commitments	**$ 18,926**	$ 25,002
Derivative receivables	**12,088**	12,235
Total	**$ 31,014**	$ 37,237

Credit portfolio management activities

The credit derivatives used by JPMorgan Chase for 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 as Trading revenue. The MTM value incorporates both the cost of credit derivative premiums and changes in value due to movement in spreads and credit events; in contrast, the loans and lending-related commitments being risk-managed are accounted for on an accrual basis. Loan interest and fees are generally recognized in Net interest income, and impairment is recognized in the Provision for credit losses. This asymmetry in accounting treatment, between loans and lending-related commitments and the credit derivatives utilized in portfolio management activities, causes earnings volatility that is not representative, in the Firm's view, of the true changes in value of the Firm's overall credit exposure. The MTM related to the Firm's credit derivatives used for managing credit exposure, as well as the mark related to the CVA, which reflects the credit quality of derivatives counterparty exposure, are included in the table below:

For the year ended December 31, (in millions)	2005	2004[c]
Hedges of lending-related commitments[a]	**$ 24**	$ (234)
CVA and hedges of CVA[a]	**84**	188
Net gains (losses)[b]	**$ 108**	$ (46)

(a) These hedges do not qualify for hedge accounting under SFAS 133.
(b) Excludes $8 million and $52 million in 2005 and 2004, respectively, of other credit portfolio trading results that are not associated with hedging activities.
(c) Includes six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

The Firm also actively manages wholesale credit exposure through loan and commitment sales. During 2005 and 2004, the Firm sold $4.0 billion and $5.9 billion of loans and commitments, respectively, recognizing gains of $76 million and losses of $8 million in 2005 and 2004, respectively. 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 108–111 of this Annual Report.

Lending-related commitments

The contractual amount of wholesale lending-related commitments was $324 billion at December 31, 2005, compared with $309 billion at December 31, 2004. 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 as of December 31, 2005 and 2004, was $178 billion and $162 billion, 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 December 31, 2005, the Firm's exposure to any individual emerging markets country was not material.

Consumer credit portfolio

JPMorgan Chase's consumer portfolio consists primarily of residential mortgages and home equity loans, credit cards, auto and education financings 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 following table presents managed consumer credit–related information for the dates indicated:

Consumer portfolio

As of or for the year ended December 31, (in millions, except ratios)	Credit exposure 2005	Credit exposure 2004	Nonperforming assets[g] 2005	Nonperforming assets[g] 2004	Net charge-offs 2005	Net charge-offs 2004[f]	Average annual net charge-off rate[i] 2005	Average annual net charge-off rate[i] 2004[f]
Consumer real estate								
Home finance – Home equity and other[a]	**$ 76,727**	$ 67,837	**$ 422**	$ 416	**$ 129**	$ 554	**0.18%**	1.18%
Home finance – Mortgage	**56,726**	56,816	**441**	257	**25**	19	**0.05**	0.05
Total Home finance[a]	**133,453**	124,653	**863**[h]	673[h]	**154**	573	**0.13**	0.65
Auto & education finance[b]	**49,047**	62,712	**195**	193	**277**	263	**0.54**	0.52
Consumer & small business and other	**14,799**	15,107	**280**	295	**141**	154	**0.98**	1.64
Credit card receivables – reported[c]	**71,738**	64,575	**13**	8	**3,324**	1,923	**4.94**	4.95
Total consumer loans – reported	**269,037**	267,047	**1,351**	1,169	**3,896**	2,913	**1.56**	1.56
Credit card securitizations[c][d]	**70,527**	70,795	**—**	—	**3,776**	2,898	**5.47**	5.51
Total consumer loans – managed[c]	**339,564**	337,842	**1,351**	1,169	**7,672**	5,811	**2.41**	2.43
Assets acquired in loan satisfactions	**NA**	NA	**180**	224	**NA**	NA	**NA**	NA
Total consumer related assets – managed	**339,564**	337,842	**1,531**	1,393	**7,672**	5,811	**2.41**	2.43
Consumer lending–related commitments:								
Home finance	**65,106**	53,223	**NA**	NA	**NA**	NA	**NA**	NA
Auto & education finance	**5,732**	5,193	**NA**	NA	**NA**	NA	**NA**	NA
Consumer & small business and other	**5,437**	10,312	**NA**	NA	**NA**	NA	**NA**	NA
Credit card[e]	**579,321**	532,468	**NA**	NA	**NA**	NA	**NA**	NA
Total lending-related commitments	**655,596**	601,196	**NA**	NA	**NA**	NA	**NA**	NA
Total consumer credit portfolio	**$ 995,160**	$ 939,038	**$1,531**	$ 1,393	**$ 7,672**	$ 5,811	**2.41%**	2.43%
Total average HFS loans	**$ 15,675**	$ 14,736[f]	**NA**	NA	**NA**	NA	**NA**	NA
Memo: Credit card – managed	**142,265**	135,370	**$ 13**	$ 8	**$ 7,100**	$ 4,821	**5.21%**	5.27%

(a) Includes $406 million of charge-offs related to the manufactured home loan portfolio in the fourth quarter of 2004.

(b) Excludes operating lease-related assets of $858 million for December 31, 2005. Balances at December 31, 2004, were insignificant.

(c) Past-due loans 90 days and over and accruing includes credit card receivables of $1.1 billion and $998 million, and related credit card securitizations of $730 million and $1.3 billion at December 31, 2005 and 2004, respectively.

(d) Represents securitized credit cards. For a further discussion of credit card securitizations, see Card Services on pages 45–46 of this Annual Report.

(e) 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 exercise their entire available line of credit at any given point in time. The Firm can reduce or cancel a credit card commitment by providing the cardholder prior notice or without notice as permitted by law.

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

(g) Includes nonperforming HFS loans of $27 million and $13 million at December 31, 2005 and 2004, respectively.

(h) 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 $1.5 billion for December 31, 2005, and December 31, 2004, respectively. These amounts are excluded, as reimbursement is proceeding normally.

(i) Net charge-off rates exclude average loans HFS.

Total managed consumer loans at December 31, 2005, were $340 billion, up from $338 billion at year-end 2004. Consumer lending–related commitments increased by 9% to $656 billion at December 31, 2005, reflecting growth in credit cards and home equity lines of credit. The following discussion relates to the specific loan and lending-related categories within the consumer portfolio.

Retail Financial Services

Average RFS loan balances for 2005 were $198 billion. New loans originated in 2005 reflect high credit quality consistent with management's focus on the prime credit market segment. The net charge-off rate for retail loans in 2005 was 0.31%, a decrease of 36 basis points from 2004. This decrease was attributable primarily to $406 million of charge-offs in the fourth quarter of 2004 associated with the sale of the $4.0 billion manufactured home loan portfolio. Excluding these charge-offs, the net charge-off rate would have improved eight basis points.

Home Finance: Home finance loans on the balance sheet at December 31, 2005, were $133 billion. This amount consisted of $77 billion of home equity and other loans and $56 billion of mortgages, including mortgage loans held-for-sale. Home finance receivables as of December 31, 2005, reflect an increase of $9 billion from year-end 2004 driven by growth in the home equity portfolio. Home Finance provides consumer real estate lending to the full spectrum of credit borrowers, including $15 billion in sub-prime credits at December 31, 2005. Home Finance does not offer mortgage products that result in negative amortization but does offer mortgages with interest-only payment options to predominantly prime borrowers.

The geographic distribution of outstanding consumer real estate loans is well diversified as shown in the table below.

Consumer real estate loan portfolio by geographic location

December 31,	2005		2004	
(in billions)	Outstanding	%	Outstanding	%
Top 10 U.S. States				
California	**$ 24.4**	**18%**	$ 22.8	18%
New York	**19.5**	**15**	18.4	15
Florida	**10.3**	**8**	7.1	6
Illinois	**7.7**	**6**	8.0	6
Texas	**7.6**	**6**	7.9	6
Ohio	**6.1**	**5**	6.1	5
Arizona	**5.8**	**4**	5.2	4
New Jersey	**5.3**	**4**	4.5	4
Michigan	**5.2**	**4**	5.2	4
Colorado	**3.2**	**2**	3.2	3
Total Top 10	**95.1**	**72**	88.4	71
Other	**38.4**	**28**	36.3	29
Total	**$ 133.5**	**100%**	$ 124.7	100%

Auto & Education Finance: As of December 31, 2005, Auto & education finance loans decreased to $49 billion from $63 billion at year-end 2004. The decrease in outstanding loans was caused primarily by a difficult auto lending market in 2005, $3.8 billion in securitizations, the sale of the $2.0 billion recreational vehicle portfolio and the de-emphasis of vehicle leasing, which comprised $4.4 billion of outstanding loans as of December 31, 2005. It is anticipated that over time vehicle leases will account for a smaller share of balance sheet receivables and exposure. The Auto & Education loan portfolio reflects a high concentration of prime quality credits.

Consumer & Small Business and other: As of December 31, 2005, Small business & other consumer loans remained relatively stable at $14.8 billion compared with 2004 year-end levels of $15.1 billion. The portfolio reflects highly collateralized loans, often with personal loan guarantees.

Card Services

JPMorgan Chase analyzes the 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 $142 billion at December 31, 2005, an increase of $7 billion from year-end 2004, reflecting solid growth in the business as well as the addition of $2.2 billion of receivables as a result of the acquisition of the Sears Canada credit card business.

Consumer credit quality trends remained stable despite the effects of increased losses due to bankruptcy legislation, which became effective October 17, 2005. The managed credit card net charge-off rate decreased to 5.21% in 2005 from 5.27% in 2004. The 30-day delinquency rates declined significantly to 2.79% in 2005 from 3.70% in 2004, primarily driven by accelerated loss recognition of delinquent accounts as a result of the bankruptcy reform legislation and strong underlying credit quality. The managed credit card portfolio continues to reflect a well-seasoned portfolio that has good U.S. geographic diversification.

Allowance for credit losses

JPMorgan Chase's allowance for credit losses is intended to cover probable credit losses, including losses where the asset is not specifically identified or the size of the loss has not been fully determined. At least quarterly, the allowance for credit losses is reviewed by the Chief Risk Officer of the Firm, the Risk Policy Committee, a subgroup of the Operating Committee, and the Audit Committee of the Board of Directors of the Firm. The allowance is reviewed relative to the risk profile of the Firm's credit portfolio and current economic conditions and is adjusted if, in management's judgment, changes are warranted. The allowance includes an asset-specific component and a formula-based component, the latter of which consists of a statistical calculation and adjustments to the statistical calculation. For further discussion of the components of the Allowance for credit losses, see Critical accounting estimates used by the Firm on page 81 and Note 12 on pages 107–108 of this Annual Report. At December 31, 2005, 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

For the year ended December 31,	2005			2004[e]		
(in millions)	Wholesale	Consumer	Total	Wholesale	Consumer	Total
Loans:						
Beginning balance at January 1,	**$ 3,098**	**$ 4,222**	**$ 7,320**	$ 2,204	$ 2,319	$ 4,523
Addition resulting from the Merger, July 1, 2004	**—**	**—**	**—**	1,788	1,335	3,123
Gross charge-offs	**(255)**	**(4,614)**	**(4,869)**	(543)	(3,262)	(3,805)
Gross recoveries	**332**	**718**	**1,050**	357	349	706
Net (charge-offs) recoveries	**77**	**(3,896)**	**(3,819)**	(186)	(2,913)	(3,099)
Provision for loan losses:						
Provision excluding accounting policy conformity	**(716)**	**4,291**	**3,575**[c]	(605)	2,403	1,798
Accounting policy conformity	**—**	**—**	**—**	(103)	1,188[f]	1,085
Total Provision for loan losses	**(716)**	**4,291**	**3,575**	(708)	3,591	2,883
Other	**(6)**	**20**	**14**	—	(110)	(110)[g]
Ending balance	**$ 2,453**[a]	**$ 4,637**[b]	**$ 7,090**	$ 3,098[a]	$ 4,222[b]	$ 7,320
Components:						
Asset specific	**$ 203**	**$ —**	**$ 203**	$ 469	$ —	$ 469
Statistical component	**1,629**	**3,422**	**5,051**	1,639	3,169	4,808
Adjustment to statistical component	**621**	**1,215**	**1,836**	990	1,053	2,043
Total Allowance for loan losses	**$ 2,453**	**$ 4,637**	**$ 7,090**	$ 3,098	$ 4,222	$ 7,320
Lending-related commitments:						
Beginning balance at January 1,	**$ 480**	**$ 12**	**$ 492**	$ 320	$ 4	$ 324
Addition resulting from the Merger, July 1, 2004	**—**	**—**	**—**	499	9	508
Provision for lending-related commitments:						
Provision excluding accounting policy conformity	**(95)**	**3**	**(92)**	(111)	(1)	(112)
Accounting policy conformity	**—**	**—**	**—**	(227)	—	(227)
Total Provision for lending-related commitments	**(95)**	**3**	**(92)**	(338)	(1)	(339)
Other	**—**	**—**	**—**	(1)	—	(1)
Ending balance	**$ 385**	**$ 15**	**$ 400**[d]	$ 480	$ 12	$ 492[h]

(a) The wholesale allowance for loan losses to total wholesale loans was 1.85% and 2.41%, excluding wholesale HFS loans of $17.6 billion and $6.4 billion at December 31, 2005 and 2004, respectively.
(b) The consumer allowance for loan losses to total consumer loans was 1.84% and 1.70%, excluding consumer HFS loans of $16.6 billion and $18.0 billion at December 31, 2005 and 2004, respectively.
(c) 2005 includes a special provision related to Hurricane Katrina allocated as follows: Retail Financial Services $250 million, Card Services $100 million, Commercial Banking $35 million, Asset & Wealth Management $3 million and Corporate $12 million.
(d) Includes $60 million of asset-specific and $340 million of formula-based allowance at December 31, 2005. The formula-based allowance for lending-related commitments is based upon statistical calculation. There is no adjustment to the statistical calculation for lending-related commitments.
(e) Includes six months of the combined Firm's results and six months of heritage JPMorgan Chase results.
(f) Reflects an increase of $1.4 billion as a result of the decertification of heritage Bank One seller's interest in credit card securitizations, partially offset by a $254 million decrease in the allowance to conform methodologies in 2004.
(g) Primarily represents the transfer of the allowance for accrued interest and fees on reported and securitized credit card loans.
(h) Includes $130 million of asset-specific and $362 million of formula-based allowance at December 31, 2004. 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.

The reduction in the allowance for credit losses of $322 million from December 31, 2004, was driven primarily by continued credit strength in the wholesale businesses, partially offset by an increase in the consumer allowance as a result of the special provision taken in the third quarter of 2005 due to Hurricane Katrina.

Excluding held-for-sale loans, the allowance for loan losses represented 1.84% of loans at December 31, 2005, compared with 1.94% at December 31, 2004. The wholesale component of the allowance decreased to $2.5 billion as of December 31, 2005, from $3.1 billion at year-end 2004, due to strong credit quality across all wholesale businesses. Excluding the special provision for Hurricane Katrina, the consumer component of the allowance would have been $4.3 billion as of December 31, 2005, a slight increase from December 31, 2004.

To provide for the risk of loss inherent in the Firm's process of extending credit, management also computes an asset-specific component and a formula-based component for wholesale lending–related commitments. These are computed using a methodology similar to that used for the wholesale loan portfolio, modified for expected maturities and probabilities of drawdown. This allowance, which is reported in Other liabilities, was $400 million and $492 million at December 31, 2005 and 2004, respectively.

Provision for credit losses

For a discussion of the reported Provision for credit losses, see page 29 of this Annual Report. The managed provision for credit losses reflects credit card securitizations. At December 31, 2005, securitized credit card outstandings were relatively flat compared with the prior year-end.

For the year ended December 31,[a]	Provision for loan losses		Provision for lending-related commitments		Total provision for credit losses	
(in millions)	**2005**	2004	**2005**	2004	**2005**[c]	2004
Investment Bank	**$ (757)**	$ (525)	**$ (81)**	$ (115)	**$ (838)**	$ (640)
Commercial Banking	**87**	35	**(14)**	6	**73**	41
Treasury & Securities Services	**(1)**	7	**1**	—	**—**	7
Asset & Wealth Management	**(55)**	(12)	**(1)**	(2)	**(56)**	(14)
Corporate	**10**	(110)	**—**	—	**10**	(110)
Total Wholesale	**(716)**	(605)	**(95)**	(111)	**(811)**	(716)
Retail Financial Services	**721**	450	**3**	(1)	**724**	449
Card Services	**3,570**	1,953	**—**	—	**3,570**	1,953
Total Consumer	**4,291**	2,403	**3**	(1)	**4,294**	2,402
Accounting policy conformity[b]	**—**	1,085	**—**	(227)	**—**	858
Total provision for credit losses	**3,575**	2,883	**(92)**	(339)	**3,483**	2,544
Credit card securitization	**3,776**	2,898	**—**	—	**3,776**	2,898
Accounting policy conformity	**—**	(1,085)	**—**	227	**—**	(858)
Total managed provision for credit losses	**$ 7,351**	$ 4,696	**$ (92)**	$ (112)	**$ 7,259**	$ 4,584

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

(b) The 2004 provision for loan losses includes an increase of approximately $1.4 billion as a result of the decertification of heritage Bank One seller's interest in credit card securitizations, partially offset by a reduction of $357 million to conform provision methodologies. The 2004 provision for lending-related commitments reflects a reduction of $227 million to conform provision methodologies in the wholesale portfolio.

(c) 2005 includes a $400 million special provision related to Hurricane Katrina allocated as follows: Retail Financial Services $250 million, Card Services $100 million, Commercial Banking $35 million, Asset & Wealth Management $3 million and Corporate $12 million.

Market risk management

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

Market risk management
Market Risk Management ("MRM") is an independent corporate risk governance function that identifies, measures, monitors, and controls market risk. It seeks to facilitate efficient risk/return decisions and to reduce volatility in operating performance. It strives to make the Firm's market risk profile transparent to senior management, the Board of Directors and regulators. Market Risk Management is overseen by the Chief Risk Officer, a member of the Firm's Operating Committee. MRM's governance structure consists of the following primary functions:

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

In addition, the Firm's business segments have valuation control functions that are responsible for ensuring the accuracy of the valuations of positions that expose the Firm to market risk. These groups report primarily into Finance.

Risk identification and classification

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

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

Trading risk
Fixed income risk (which includes interest rate risk and credit spread risk) involves the potential decline in net income or financial condition due to adverse changes in market rates, whether arising from client activities or proprietary positions taken by the Firm.

Foreign exchange, equities and commodities risks involve the potential decline in net income to the Firm due to adverse changes in foreign exchange, equities or commodities markets, whether arising from client activities or proprietary positions taken by the Firm.

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

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

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

Risk measurement

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

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

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

Value-at-risk
JPMorgan Chase's primary statistical risk measure, VAR, estimates the potential loss from adverse market moves in an ordinary market environment and provides a consistent cross-business measure of risk profiles and levels of diversification. VAR is used for comparing risks across businesses, monitoring limits, one-off approvals, and as an input to economic capital calculations. VAR provides risk transparency in a normal trading environment.

Each business day the Firm undertakes a comprehensive VAR calculation that includes both its trading and its nontrading activities. VAR for nontrading activities measures the amount of potential change in fair value of the exposures related to these activities; however, VAR for such activities is not a measure of reported revenue since nontrading activities are generally not marked to market through earnings.

To calculate VAR, the Firm uses historical simulation, which measures risk across instruments and portfolios in a consistent and comparable way. This approach assumes that historical changes in market values are representative of future changes. The simulation is based upon data for the previous twelve months. The Firm calculates VAR using a one-day time horizon and an expected tail loss methodology, which approximates a 99% confidence level. This means the Firm would expect to incur losses greater than that predicted by VAR estimates only once in every 100 trading days, or about 2.5 times a year.

Trading VAR

IB trading VAR by risk type and credit portfolio VAR[a]

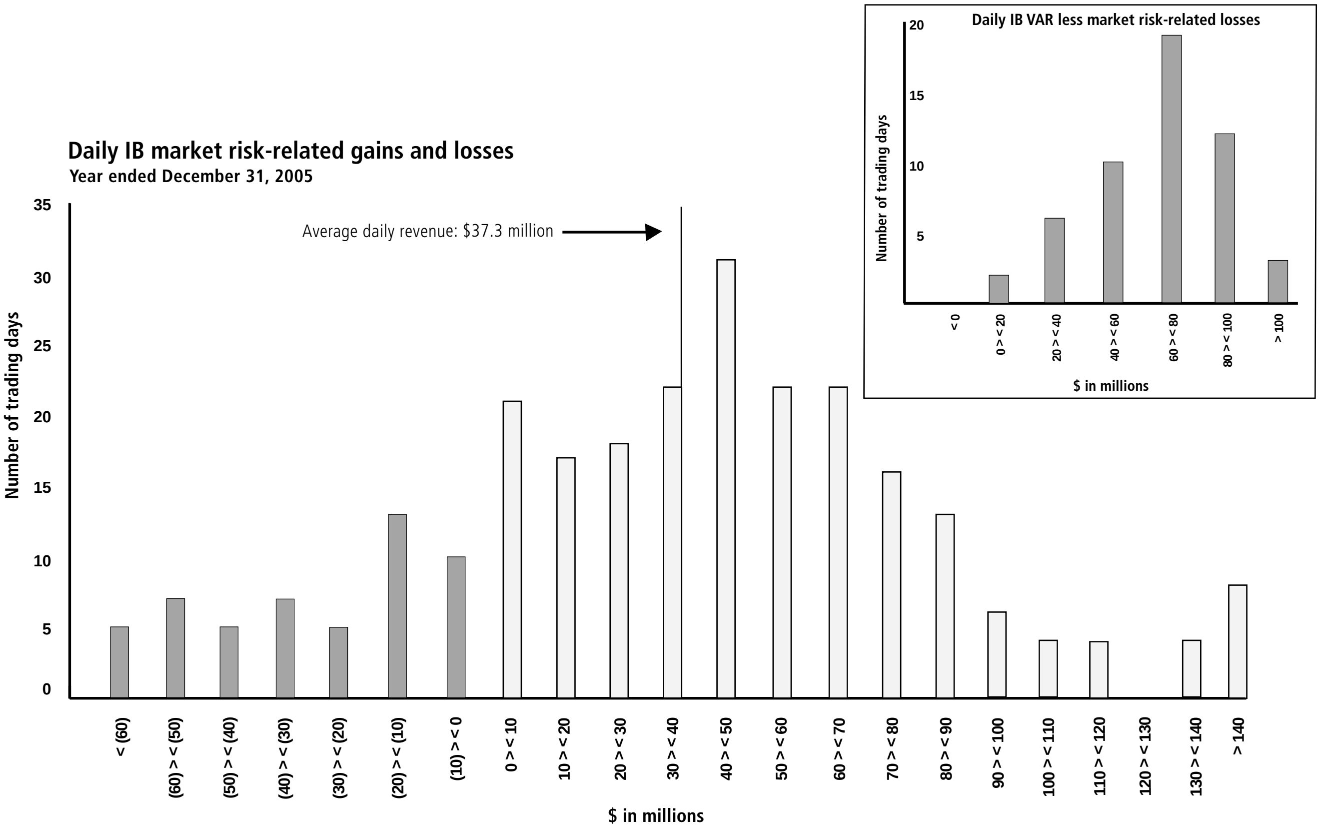
	2005				2004[e]			
As of or for the year ended December 31, (in millions)	Average VAR	Minimum VAR	Maximum VAR	At December 31,	Average VAR	Minimum VAR	Maximum VAR	At December 31,
By risk type:								
Fixed income	**$ 67**	**$ 37**	**$ 110**	**$ 89**	$ 74	$ 45	$ 118	$ 57
Foreign exchange	**23**	**16**	**32**	**19**	17	10	33	28
Equities	**34**	**15**	**65**	**24**	28	15	58	20
Commodities and other	**21**	**7**	**50**	**34**	9	7	18	8
Less: portfolio diversification	**(59)**[c]	**NM**[d]	**NM**[d]	**(63)**[c]	(43)[c]	NM[d]	NM[d]	(41)[c]
Total trading VAR	**$ 86**	**$ 53**	**$ 130**	**$ 103**	$ 85	$ 52	$ 125	$ 72
Credit portfolio VAR[b]	**14**	**11**	**17**	**15**	14	11	17	15
Less: portfolio diversification	**(12)**[c]	**NM**[d]	**NM**[d]	**(10)**[c]	(9)[c]	NM[d]	NM[d]	(9)[c]
Total trading and credit portfolio VAR	**$ 88**	**$ 57**	**$ 130**	**$ 108**	$ 90	$ 55	$ 132	$ 78

(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 80 and Note 15 on pages 114–116 of this Annual Report, respectively. Trading VAR includes substantially all mark-to-market trading activities in the IB, plus available-for-sale securities held for the IB's proprietary purposes (included within Fixed Income); 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 Trading revenue. This VAR does not include the accrual loan portfolio, which is not marked to market.
(c) Average and period-end VARs are less than the sum of the VARs of its market risk components, which is due to risk offsets resulting from portfolio diversification. The diversification effect reflects the fact that the risks are not perfectly correlated. The risk of a portfolio of positions is therefore usually less than the sum of the risks of the positions themselves.
(d) Designated as not meaningful ("NM") because the minimum and maximum may occur on different days for different risk components, and hence it is not meaningful to compute a portfolio diversification effect.
(e) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

IB's Average Total Trading and Credit Portfolio VAR decreased to $88 million during 2005 compared with $90 million for the same period in 2004. Period-end VAR increased over the same period to $108 million from $78 million. Commodities and other VAR increased due to the expansion of the energy trading business. The decrease in average Total Trading and Credit Portfolio VAR was driven by increased portfolio diversification as fixed income risk decreased and foreign exchange, equities and commodities risk increased. Trading VAR diversification increased to $59 million, or 41% of the sum of the components, from $43 million, or 34% of the sum of the components. The diversification effect between the trading portfolio and the credit portfolio also increased to $12 million, or 12% of the sum of the components, from $9 million, or 9% 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.

VAR backtesting

To evaluate the soundness of its VAR model, the Firm conducts daily backtesting of VAR against daily financial results, based upon market risk-related revenue. Market risk-related revenue is defined as the change in value of the mark-to-market 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 year ended December 31, 2005. The chart shows that the IB posted market risk-related gains on 208 out of 260 days in this period, with 20 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 52 days, with no loss greater than $90 million, and with no loss exceeding the VAR measure.



Loss advisories

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

Economic value stress testing

While VAR reflects the risk of loss due to 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 stress test loss (pre-tax) in the IB's trading portfolio ranged from $469 million to $1.4 billion, and $202 million to $1.2 billion, for the years ended December 31, 2005 and 2004, respectively. The 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

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 December 31, 2005 and 2004, follows:

	Immediate change in rates		
(in millions)	+200bp	+100bp	-100bp
December 31, 2005	**$ 265**	**$ 172**	**$ (162)**
December 31, 2004	(557)	(164)	(180)

The Firm's risk to rising and falling interest rates is due primarily to corresponding increases and decreases in short-term funding costs.

RIFLE

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

Risk monitoring and control

Limits

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

MRM regularly reviews and updates risk limits, and senior management reviews and approves risk limits at least once a year. MRM further controls the Firm's exposure by specifically designating approved financial instruments and tenors, known as instrument authorities, for each business segment.

The Firm maintains different levels of limits. Corporate-level limits include VAR, stress and loss advisories. Similarly, line of business limits include VAR, stress and loss advisories, and are supplemented by nonstatistical measurements and instrument authorities. Businesses are responsible for adhering to established limits, against which exposures are monitored and reported. Limit breaches are reported in a timely manner to senior management, and the affected business segment is required to take appropriate action to reduce trading positions. If the business cannot do this within an acceptable timeframe, senior management is consulted on the appropriate action.

Qualitative review

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

Model review

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

Reviews are conducted for new or changed models, as well as previously accepted models, to assess whether there have been any changes in the product or market that may impact the model's validity and whether there are theoretical or competitive developments that may require reassessment of the model's adequacy. For a summary of valuations based upon models, see Critical Accounting Estimates used by the Firm on pages 81–83 of this Annual Report.

Risk reporting

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

Operational risk management

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

Overview

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

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

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

During 2005, the Firm substantially completed the implementation of Phoenix, a new internally-designed operational risk software tool. Phoenix integrates the individual components of the operational risk management framework into a unified, web-based tool. Phoenix is intended to enable the Firm to enhance its reporting and analysis of operational risk data by enabling risk identification, measurement, monitoring, reporting and analysis to be done in an integrated manner, thereby enabling efficiencies in the Firm's management of its operational risk.

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

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

Risk identification and measurement

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

In 2005, JPMorgan Chase substantially completed a multi-year effort to redesign the underlying architecture of its firmwide self-assessment process. The goal of the self-assessment process is for each business to identify the key operational risks specific to its environment and assess the degree to which it maintains appropriate controls. Action plans are developed for control issues identified, and businesses are held accountable for tracking and resolving these issues on a timely basis.

All businesses were required to perform self-assessments in 2005. Going forward, the Firm will utilize the self-assessment process as a dynamic risk management tool.

Risk monitoring

The Firm has a process for monitoring operational risk-event data, permitting analysis of errors and losses as well as trends. Such analysis, performed both at a line of business level and by risk-event type, enables identification of the causes associated with risk events faced by the businesses. Where available, the internal data can be supplemented with external data for comparative analysis with industry patterns. The data reported will enable the Firm to back-test against self-assessment results.

Risk reporting and analysis

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

Audit alignment

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

Reputation and fiduciary risk management

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

Policy review office

The Firm also has a specific structure to address certain transactions with clients, especially complex derivatives and structured finance transactions, that have the potential to adversely affect its reputation. This structure reinforces the Firm's procedures for examining transactions in terms of appropriateness, ethical issues and reputational risk, and it intensifies the Firm's scrutiny of the purpose and effect of its transactions from the client's point of view, with the goal that these transactions are not used to mislead investors or others. The structure operates at three levels: as part of every business' transaction approval process; through review by regional Reputation Risk Committees; and through oversight by the Policy Review Office.

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

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

The Policy Review Office is the most senior approval level for client transactions involving reputation risk issues. The mandate of the Office is to opine on specific transactions brought by the Regional Committees and consider changes in policies or practices relating to reputation risk. The head of the Office consults with the Firm's most senior executives on specific topics and provides regular updates. Aside from governance and guidance on specific transactions, the objective of the policy review process is to reinforce a culture, through a "case study" approach, that ensures that all employees, regardless of seniority, understand the basic principles of reputation risk control and can recognize and address issues as they arise.

In 2006, this structure, which until now has been focused primarily on Investment Bank activities, will be expanded to include the activities of Commercial Banking and the Private Bank. These lines of business will implement training and review procedures similar to those in the Investment Bank and their activities also will be subject to the oversight of the Policy Review Office.

Fiduciary risk management

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

Private equity risk management

Risk management

The Firm makes direct principal investments in private equity. The illiquid nature and long-term holding period associated with these investments differentiates private equity risk from the risk of positions held in the trading portfolios. The Firm's approach to managing private equity risk is consistent with the Firm's general risk governance structure. Controls are in place establishing target levels for total and annual investment in order to control the overall size of the portfolio. Industry and geographic concentration limits are in place intended to ensure diversification of the portfolio, and periodic reviews are performed on the portfolio to substantiate the valuations of the investments. The Valuation Control Group within the Finance area is responsible for reviewing the accuracy of the carrying values of private equity investments held by Private Equity. At December 31, 2005, the carrying value of the private equity portfolios of JPMorgan Partners and ONE Equity Partners businesses was $6.2 billion, of which $479 million represented positions traded in the public market.

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 a controlled and appropriate manner. The Firm believes its estimates for determining the valuation of its assets and liabilities are appropriate. The following is a brief description of the Firm's critical accounting estimates involving significant valuation judgments.

Allowance for credit losses

JPMorgan Chase's allowance for credit losses covers the wholesale and consumer loan portfolios as well as the Firm's portfolio of wholesale lending-related commitments. The Allowance for 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 this Annual Report.

Wholesale loans and lending-related commitments

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

The Firm uses a risk rating system to determine the credit quality of its wholesale loans. Wholesale loans are reviewed for information affecting the obligor's ability to fulfill its obligations. In assessing the risk rating of a particular loan, among the factors considered include the obligor's debt capacity and financial flexibility, the level of the obligor's earnings, the amount and sources for repayment, the level and nature of contingencies, management strength, and the industry and geography in which the obligor operates. These factors are based upon an evaluation of historical and current information, and involve subjective assessment and interpretation. Emphasizing one factor over another, or considering additional factors that may be relevant in determining the risk rating of a particular loan but which are not currently an explicit part of the Firm's methodology, could impact the risk rating assigned by the Firm to that loan.

Management applies its judgment to derive loss factors associated with each credit facility. These loss factors are determined by facility structure, collateral and type of obligor. Wherever possible, the Firm uses independent, verifiable data or the Firm's own historical loss experience in its models for estimating these loss factors. Many factors can affect management's estimates of loss, including volatility of loss given default, probability of default and rating migrations. Judgment is applied to determine whether the loss given default should be calculated as an average over the entire credit cycle or at a particular point in the credit cycle. The application of different loss given default factors would change the amount of the Allowance for credit losses determined appropriate by the Firm. Similarly, there are judgments as to which external data on probability of default should be used and when they should be used. Choosing data that are not reflective of the Firm's specific loan portfolio characteristics could also affect loss estimates.

Management also applies its judgment to adjust the loss factors derived, taking into consideration model imprecision, external factors and economic events that have occurred but are not yet reflected in the loss factors. The resultant adjustments to the statistical calculation on the performing portfolio are determined by creating estimated ranges using historical experience of both loss given default and probability of default. Factors related to concentrated and deteriorating industries are also incorporated where relevant. The estimated ranges and the determination of the appropriate point within the range are based upon management's view of uncertainties that relate to current macroeconomic and political conditions, quality of underwriting standards and other relevant internal and external factors affecting the credit quality of the current portfolio. The adjustment to the statistical calculation for the wholesale loan portfolio for the period ended December 31, 2005, was $621 million, the higher-end within the range, based upon management's assessment of current economic conditions.

Consumer loans

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

Adjustments to the statistical calculation are accomplished in part by analyzing the historical loss experience for each major product segment. Management analyzes the range of credit loss experienced for each major portfolio segment, taking into account economic cycles, portfolio seasoning and underwriting criteria, and then formulates a range that incorporates relevant risk factors that impact overall credit performance. The recorded adjustment to the statistical calculation for the period ended December 31, 2005, was $1.2 billion, based upon management's assessment of current economic conditions.

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 and private equity investments. Held-for-sale loans, mortgage servicing rights ("MSRs") and commodities inventory are carried at the lower of fair value or cost. At December 31, 2005, approximately $386 billion of the Firm's assets were recorded at fair value.

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The majority of the Firm's assets reported at fair value are based upon quoted market prices or on internally developed models that utilize independently sourced market parameters, including interest rate yield curves, option volatilities and currency rates.

The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market parameters. For financial instruments that are actively traded and have quoted market prices or parameters readily available, there is little-to-no subjectivity in determining fair value. When observable market prices and parameters do not exist, management judgment is necessary to estimate fair value. The valuation process takes into consideration factors such as liquidity and concentration concerns and, for the derivatives portfolio, counterparty credit risk (see the discussion of CVA on page 70 of this Annual Report). For example, there is often limited market data to rely on when estimating the fair value of a large or aged position. Similarly, judgment must be applied in estimating prices for less readily observable external parameters. Finally, other factors such as model assumptions, market dislocations and unexpected correlations can affect estimates of fair value. Imprecision in estimating these factors can impact the amount of revenue or loss recorded for a particular position.

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

As few derivative contracts are listed on an exchange, the majority of the Firm's derivative positions are valued using internally developed models that use as their basis readily observable market parameters – that is, parameters that are actively quoted and can be validated to external sources, including industry-pricing services. Certain derivatives, however, are valued based upon models with significant unobservable market parameters – that is, parameters that must be estimated and are, therefore, subject to management judgment to substantiate the model valuation. These instruments are normally either less actively traded or trade activity is one-way. Examples include long-dated interest rate or currency swaps, where swap rates may be unobservable for longer maturities, and certain credit products, where correlation and recovery rates are unobservable. Due to the lack of observable market data, the Firm defers the initial trading profit for these financial instruments. The deferred profit is recognized in Trading revenue on a systematic basis and when observable market data becomes available. Management's judgment also includes recording fair value adjustments (i.e., reductions) to model valuations to account for parameter uncertainty when valuing complex or less actively traded derivative transactions. The following table summarizes the Firm's trading and available-for-sale portfolios by valuation methodology at December 31, 2005:

	Trading assets		Trading liabilities		
	Securities purchased[(a)]	Derivatives[(b)]	Securities sold[(a)]	Derivatives[(b)]	AFS securities
Fair value based upon:					
Quoted market prices	**86%**	**2%**	**97%**	**2%**	**91%**
Internal models with significant observable market parameters	**12**	**96**	**2**	**97**	**6**
Internal models with significant unobservable market parameters	**2**	**2**	**1**	**1**	**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.

To ensure that the valuations are appropriate, the Firm has various controls in place. These include: an independent review and approval of valuation models; detailed review and explanation for profit and loss analyzed daily and over time; decomposing the model valuations for certain structured derivative instruments into their components and benchmarking valuations, where possible, to similar products; and validating valuation estimates through actual cash settlement. As markets and products develop and the pricing for certain derivative products becomes more transparent, the Firm refines its valuation methodologies. The Valuation Control Group within the Finance area, a group independent of the risk-taking function, is responsible for reviewing the accuracy of the valuations of positions taken within the Investment Bank.

For a discussion of market risk management, including the model review process, see Market risk management on pages 75–78 of this Annual Report. For further details regarding the Firm's valuation methodologies, see Note 29 on pages 126–128 of this Annual Report.

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

Commodities inventory
The majority of commodities inventory includes bullion and base metals where fair value is determined by reference to prices in highly active and liquid markets. The fair value of other commodities inventory is determined primarily using prices and data derived from less liquid and developing markets where the underlying commodities are traded.

Private equity investments
Valuation of private investments held primarily by the Private Equity business within Corporate requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity and the long-term nature of such assets. Private investments are initially valued based upon cost. The carrying values of private investments are adjusted from cost to reflect both positive and negative changes evidenced by financing events with third-party capital providers. In addition, these investments are subject to ongoing impairment reviews by Private Equity's senior investment professionals. A variety of factors are reviewed and monitored to assess impairment including, but not limited to, operating performance and future expectations of the particular portfolio investment, industry valuations of comparable public companies, changes in market outlook and the third-party financing environment over time. The Valuation Control Group within the Finance area is responsible for reviewing the accuracy of the carrying values of private investments held by Private Equity. For additional information about private equity investments,

see the Private equity risk management discussion on page 80 and Note 9 on pages 103–105 of this Annual Report.

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

For MSRs, the model considers portfolio characteristics, contractually specified servicing fees and prepayment assumptions, delinquency rates, late charges, other ancillary revenues, costs to service and other economic factors. During the fourth quarter of 2005, the Company began utilizing an option adjusted spread ("OAS") valuation approach when determining the fair value of MSRs. This approach, when used in conjunction with the Firm's proprietary prepayment model, projects MSR cash flows over multiple interest rate scenarios, which are then discounted at risk-adjusted rates, to estimate an expected fair value of the MSRs. The OAS valuation approach is expected to provide improved estimates of fair value. The initial valuation of MSRs under OAS did not have a material impact to the Firm's financial statements.

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

For both MSRs and certain other retained interests in securitizations, the Firm compares its fair value estimates and assumptions to observable market data where available and to recent market activity and actual portfolio experience. Management believes that the assumptions used to estimate fair values are supportable and reasonable.

For a further discussion of the most significant assumptions used to value retained interests in securitizations and MSRs, as well as the applicable stress tests for those assumptions, see Notes 13 and 15 on pages 108–111 and 114–116, respectively, of this Annual Report.

Goodwill impairment
Under SFAS 142, goodwill must be allocated to reporting units and tested for impairment. The Firm tests goodwill for impairment at least annually or more frequently if events or circumstances, such as adverse changes in the business climate, indicate that there may be justification for conducting an interim test. Impairment testing is performed at the reporting-unit level (which is generally one level below the six major business segments identified in Note 31 on pages 130–131 of this Annual Report, plus Private Equity which is included in Corporate). The first part of the test is a comparison, at the reporting unit level, of the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value is less than the carrying value, then the second part of the test is needed to measure the amount of potential goodwill impairment. The implied fair value of the reporting unit goodwill is calculated and compared to the carrying amount of goodwill recorded in the Firm's financial records. If the carrying value of reporting unit goodwill exceeds the implied fair value of that goodwill, then the Firm would recognize an impairment loss in the amount of the difference, which would be recorded as a charge against Net income.

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

Goodwill was not impaired as of December 31, 2005 or 2004, nor was any goodwill written off due to impairment during the years ended December 31, 2005, 2004 and 2003. See Note 15 on page 114 of this Annual Report for additional information related to the nature and accounting for goodwill and the carrying values of goodwill by major business segment.

Accounting and reporting developments

Accounting for income taxes – repatriation of foreign earnings under the American Jobs Creation Act of 2004
On October 22, 2004, the American Jobs Creation Act of 2004 (the "Act") was signed into law. The Act creates a temporary incentive for U.S. companies to repatriate accumulated foreign earnings at a substantially reduced U.S. effective tax rate by providing a dividends received deduction on the repatriation of certain foreign earnings to the U.S. taxpayer (the "repatriation provision"). The new deduction is subject to a number of limitations and requirements.

In the fourth quarter of 2005, the Firm applied the repatriation provision to $1.9 billion of cash from foreign earnings, resulting in a net tax benefit of $55 million. The $1.9 billion of cash will be used in accordance with the Firm's domestic reinvestment plan pursuant to the guidelines set forth in the Act.

Accounting for share-based payments
In December 2004, the FASB issued SFAS 123R, which revises SFAS 123 and supersedes APB 25. In March 2005, the Securities and Exchange Commission ("SEC") issued SAB 107 which provides interpretive guidance on SFAS 123R. Accounting and reporting under SFAS 123R is generally similar to the SFAS 123 approach. However, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based upon their fair values. Pro forma disclosure is no longer an alternative. SFAS 123R permits adoption using one of two methods – modified prospective or modified retrospective. In April 2005, the SEC approved a new rule that, for public companies, delays the effective date of SFAS 123R to no later than January 1, 2006. The Firm adopted SFAS 123R on January 1, 2006, under the modified prospective method.

The Firm continued to account for certain stock options that were outstanding as of December 31, 2002, under APB 25 using the intrinsic value method. Therefore, compensation expense for some previously granted awards that was not recognized under SFAS 123 will be recognized commencing January 1, 2006, under SFAS 123R. Had the Firm adopted SFAS 123R in prior periods, the impact would have approximated that shown in the SFAS 123 pro forma disclosures in Note 7 on pages 100–102 of this Annual Report, which presents net income and earnings per share as if all outstanding awards were accounted for at fair value.

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 will recognize compensation expense on the grant date without giving consideration to the impact of post-employment restrictions. This will result in an increase in compensation expense for the fiscal quarter ended March 31, 2006 of approximately $300 million, as compared with the expense that would have been recognized under the Firm's prior accounting policy. The Firm will also accrue in 2006 the estimated cost of stock awards to be granted to retirement-eligible employees in January 2007.

Accounting for conditional asset retirement obligations
In March 2005, FASB issued FIN 47 to clarify the term "conditional asset retirement obligation" as used in SFAS 143. Conditional asset retirement obligations are legal obligations to perform an asset retirement activity in which the timing and/or method of settlement are conditional based upon a future event that may or may not be within the control of the company. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. FIN 47 clarifies that a company is required to recognize a liability for the fair value of the conditional asset retirement obligation if the fair value of the liability can be reasonably estimated and provides guidance for determining when a company would have sufficient information to reasonably estimate the fair value of the obligation. The Firm adopted FIN 47 on December 31, 2005. The implementation did not have a material impact on its financial position or results of operations.

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.

This new standard 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 fair value election can be applied on an instrument-by-instrument basis to existing instruments at the date of adoption and can be applied to new instruments on a prospective basis.

Currently, the Firm is planning to adopt this standard effective January 1, 2006. In addition, the Firm is assessing to which qualifying existing and newly issued instruments it will apply the fair value election. Implementation of this standard is not expected to have a material impact on the Firm's financial position or results of operations.

Nonexchange-traded commodity derivative contracts at fair value

In the normal course of business, JPMorgan Chase trades nonexchange-traded commodity derivative contracts. To determine the fair value of these contracts, the Firm uses various fair value estimation techniques, which are primarily based upon internal models with significant observable market parameters. The Firm's nonexchange-traded commodity derivative contracts are primarily energy-related contracts. The following table summarizes the changes in fair value for nonexchange-traded commodity derivative contracts for the year ended December 31, 2005:

For the year ended December 31, 2005 (in millions)	Asset position	Liability position
Net fair value of contracts outstanding at January 1, 2005	$ 1,449	$ 999
Effect of legally enforceable master netting agreements	2,304	2,233
Gross fair value of contracts outstanding at January 1, 2005	3,753	3,232
Contracts realized or otherwise settled during the period	(12,589)	(10,886)
Fair value of new contracts	37,518	30,691
Changes in fair values attributable to changes in valuation techniques and assumptions	—	—
Other changes in fair value	(11,717)	(7,635)
Gross fair value of contracts outstanding at December 31, 2005	16,965	15,402
Effect of legally enforceable master netting agreements	(10,014)	(10,078)
Net fair value of contracts outstanding at December 31, 2005	$ 6,951	$ 5,324

The following table indicates the schedule of maturities of nonexchange-traded commodity derivative contracts at December 31, 2005:

At December 31, 2005 (in millions)	Asset position	Liability position
Maturity less than 1 year	$ 6,682	$ 6,254
Maturity 1–3 years	8,231	7,590
Maturity 4–5 years	1,616	1,246
Maturity in excess of 5 years	436	312
Gross fair value of contracts outstanding at December 31, 2005	16,965	15,402
Effects of legally enforceable master netting agreements	(10,014)	(10,078)
Net fair value of contracts outstanding at December 31, 2005	$ 6,951	$ 5,324