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

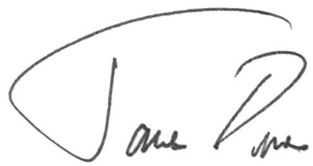
JPMorgan Chase's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records, that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Firm's assets; (2) provide reasonable assurance that transactions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

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

Management has completed an assessment of the effectiveness of the Firm's internal control over financial reporting as of December 31, 2007. In making the assessment, management used the framework in "Internal Control – Integrated Framework" promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based upon the assessment performed, management concluded that as of December 31, 2007, JPMorgan Chase's internal control over financial reporting was effective based upon the COSO criteria. Additionally, based upon management's assessment, the Firm determined that there were no material weaknesses in its internal control over financial reporting as of December 31, 2007.

The effectiveness of the Firm's internal control over financial reporting as of December 31, 2007, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.



James Dimon
Chairman and Chief Executive Officer

Michael J. Cavanagh
Executive Vice President and Chief Financial Officer

February 20, 2008

PRICEWATERHOUSECOOPERS

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

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in stockholders' equity and comprehensive income and cash flows present fairly, in all material respects, the financial position of JPMorgan Chase & Co. and its subsidiaries (the "Firm") at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Firm maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Firm's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's report on internal control over financial reporting." Our responsibility is to express opinions on these financial statements and on the Firm's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 4, Note 5, and Note 26 to the consolidated financial statements, effective January 1, 2007 the Firm adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurement," Statement of Financial Accounting Standards No. 159, "Fair Value Option for Financial Assets and Financial Liabilities," and FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes."

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

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

PricewaterhouseCoopers LLP

February 20, 2008

CONSOLIDATED STATEMENTS OF INCOME

JPMorgan Chase & Co.

Year ended December 31, (in millions, except per share data)	**2007**	2006	2005
Revenue			
Investment banking fees	**$ 6,635**	$ 5,520	$ 4,088
Principal transactions	**9,015**	10,778	8,072
Lending & deposit-related fees	**3,938**	3,468	3,389
Asset management, administration and commissions	**14,356**	11,855	9,988
Securities gains (losses)	**164**	(543)	(1,336)
Mortgage fees and related income	**2,118**	591	1,054
Credit card income	**6,911**	6,913	6,754
Other income	**1,829**	2,175	2,684
Noninterest revenue	**44,966**	40,757	34,693
Interest income	**71,387**	59,107	45,075
Interest expense	**44,981**	37,865	25,520
Net interest income	**26,406**	21,242	19,555
Total net revenue	**71,372**	61,999	54,248
Provision for credit losses	**6,864**	3,270	3,483
Noninterest expense			
Compensation expense	**22,689**	21,191	18,065
Occupancy expense	**2,608**	2,335	2,269
Technology, communications and equipment expense	**3,779**	3,653	3,602
Professional & outside services	**5,140**	4,450	4,662
Marketing	**2,070**	2,209	1,917
Other expense	**3,814**	3,272	6,199
Amortization of intangibles	**1,394**	1,428	1,490
Merger costs	**209**	305	722
Total noninterest expense	**41,703**	38,843	38,926
Income from continuing operations before income tax expense	**22,805**	19,886	11,839
Income tax expense	**7,440**	6,237	3,585
Income from continuing operations	**15,365**	13,649	8,254
Income from discontinued operations	**—**	795	229
Net income	**$15,365**	$14,444	$ 8,483
Net income applicable to common stock	**$15,365**	$14,440	$ 8,470
Per common share data			
Basic earnings per share			
Income from continuing operations	**$ 4.51**	$ 3.93	$ 2.36
Net income	**4.51**	4.16	2.43
Diluted earnings per share			
Income from continuing operations	**4.38**	3.82	2.32
Net income	**4.38**	4.04	2.38
Average basic shares	**3,404#**	3,470#	3,492#
Average diluted shares	**3,508**	3,574	3,557
Cash dividends per common share	**$ 1.48**	$ 1.36	$ 1.36

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

CONSOLIDATED BALANCE SHEETS

JPMorgan Chase & Co.

December 31, (in millions, except share data)	**2007**	2006
Assets		
Cash and due from banks	**$ 40,144**	$ 40,412
Deposits with banks	**11,466**	13,547
Federal funds sold and securities purchased under resale agreements (included $19,131 at fair value at December 31, 2007)	**170,897**	140,524
Securities borrowed	**84,184**	73,688
Trading assets (included assets pledged of $79,229 at December 31, 2007, and $82,474 at December 31, 2006)	**491,409**	365,738
Securities (included $85,406 and $91,917 at fair value at December 31, 2007 and 2006, respectively, and assets pledged of $3,958 and $39,571 at December 31, 2007 and 2006, respectively)	**85,450**	91,975
Loans (included $8,739 at fair value at December 31, 2007)	**519,374**	483,127
Allowance for loan losses	**(9,234)**	(7,279)
Loans, net of Allowance for loan losses	**510,140**	475,848
Accrued interest and accounts receivable	**24,823**	22,891
Premises and equipment	**9,319**	8,735
Goodwill	**45,270**	45,186
Other intangible assets:		
Mortgage servicing rights	**8,632**	7,546
Purchased credit card relationships	**2,303**	2,935
All other intangibles	**3,796**	4,371
Other assets (included $22,151 at fair value at December 31, 2007)	**74,314**	58,124
Total assets	**$ 1,562,147**	$ 1,351,520
Liabilities		
Deposits (included $6,389 at fair value at December 31, 2007)	**$ 740,728**	$ 638,788
Federal funds purchased and securities sold under repurchase agreements (included $5,768 at fair value at December 31, 2007)	**154,398**	162,173
Commercial paper	**49,596**	18,849
Other borrowed funds (included $10,777 at fair value at December 31, 2007)	**28,835**	18,053
Trading liabilities	**157,867**	147,957
Accounts payable, accrued expense and other liabilities (including the Allowance for lending-related commitments of $850 and $524 at December 31, 2007 and 2006, respectively, and $25 at fair value at December 31, 2007)	**94,476**	88,096
Beneficial interests issued by consolidated variable interest entities (included $3,004 at fair value at December 31, 2007)	**14,016**	16,184
Long-term debt (included $70,456 and $25,370 at fair value at December 31, 2007 and 2006, respectively)	**183,862**	133,421
Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities	**15,148**	12,209
Total liabilities	**1,438,926**	1,235,730
Commitments and contingencies (see Note 29 on pages 167–168 of this Annual Report)		
Stockholders' equity		
Preferred stock ($1 par value; authorized 200,000,000 shares at December 31, 2007 and 2006; issued 0 shares at December 31, 2007 and 2006)	**—**	—
Common stock ($1 par value; authorized 9,000,000,000 shares at December 31, 2007 and 2006; issued 3,657,671,234 shares and 3,657,786,282 shares at December 31, 2007 and 2006, respectively)	**3,658**	3,658
Capital surplus	**78,597**	77,807
Retained earnings	**54,715**	43,600
Accumulated other comprehensive income (loss)	**(917)**	(1,557)
Treasury stock, at cost (290,288,540 shares and 196,102,381 shares at December 31, 2007 and 2006, respectively)	**(12,832)**	(7,718)
Total stockholders' equity	**123,221**	115,790
Total liabilities and stockholders' equity	**$ 1,562,147**	$ 1,351,520

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

JPMorgan Chase & Co.

Year ended December 31, (in millions, except per share data)	**2007**	2006	2005
Preferred stock			
Balance at beginning of year	**$ —**	$ 139	$ 339
Redemption of preferred stock	**—**	(139)	(200)
Balance at end of year	**—**	—	139
Common stock			
Balance at beginning of year	**3,658**	3,618	3,585
Issuance of common stock	**—**	40	33
Balance at end of year	**3,658**	3,658	3,618
Capital surplus			
Balance at beginning of year	**77,807**	74,994	72,801
Shares issued and commitments to issue common stock for employee stock-based compensation awards and related tax effects	**790**	2,813	2,193
Balance at end of year	**78,597**	77,807	74,994
Retained earnings			
Balance at beginning of year	**43,600**	33,848	30,209
Cumulative effect of change in accounting principles	**915**	172	—
Balance at beginning of year, adjusted	**44,515**	34,020	30,209
Net income	**15,365**	14,444	8,483
Cash dividends declared:			
Preferred stock	**—**	(4)	(13)
Common stock ($1.48, $1.36 and $1.36 per share for 2007, 2006 and 2005, respectively)	**(5,165)**	(4,860)	(4,831)
Balance at end of year	**54,715**	43,600	33,848
Accumulated other comprehensive income (loss)			
Balance at beginning of year	**(1,557)**	(626)	(208)
Cumulative effect of change in accounting principles	**(1)**	—	—
Balance at beginning of year, adjusted	**(1,558)**	(626)	(208)
Other comprehensive income (loss)	**641**	171	(418)
Adjustment to initially apply SFAS 158	**—**	(1,102)	—
Balance at end of year	**(917)**	(1,557)	(626)
Treasury stock, at cost			
Balance at beginning of year	**(7,718)**	(4,762)	(1,073)
Purchase of treasury stock	**(8,178)**	(3,938)	(3,412)
Reissuance from treasury stock	**3,199**	1,334	—
Share repurchases related to employee stock-based compensation awards	**(135)**	(352)	(277)
Balance at end of year	**(12,832)**	(7,718)	(4,762)
Total stockholders' equity	**$123,221**	$115,790	$107,211
Comprehensive income			
Net income	**$ 15,365**	$ 14,444	$ 8,483
Other comprehensive income (loss)	**641**	171	(418)
Comprehensive income	**$ 16,006**	$ 14,615	$ 8,065

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

JPMorgan Chase & Co.

Year ended December 31, (in millions)	**2007**	2006	2005
Operating activities			
Net income	**$ 15,365**	$ 14,444	$ 8,483
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Provision for credit losses	**6,864**	3,270	3,483
Depreciation and amortization	**2,427**	2,149	2,828
Amortization of intangibles	**1,394**	1,428	1,490
Deferred tax expense (benefit)	**1,307**	(1,810)	(1,791)
Investment securities (gains) losses	**(164)**	543	1,336
Gains on disposition of businesses	**—**	(1,136)	(1,254)
Stock-based compensation	**2,025**	2,368	1,563
Originations and purchases of loans held-for-sale	**(116,471)**	(178,355)	(108,611)
Proceeds from sales and securitizations of loans held-for-sale	**105,731**	170,874	102,602
Net change in:			
Trading assets	**(121,240)**	(61,664)	(3,845)
Securities borrowed	**(10,496)**	916	(27,290)
Accrued interest and accounts receivable	**(1,932)**	(1,170)	(1,934)
Other assets	**(21,628)**	(7,193)	1,352
Trading liabilities	**12,681**	(4,521)	(12,578)
Accounts payable, accrued expense and other liabilities	**4,284**	7,815	5,532
Other operating adjustments	**9,293**	2,463	(1,602)
Net cash used in operating activities	**(110,560)**	(49,579)	(30,236)
Investing activities			
Net change in:			
Deposits with banks	**2,081**	8,168	104
Federal funds sold and securities purchased under resale agreements	**(29,814)**	(6,939)	(32,469)
Held-to-maturity securities:			
Proceeds	**14**	19	33
Available-for-sale securities:			
Proceeds from maturities	**31,143**	24,909	31,053
Proceeds from sales	**98,450**	123,750	82,902
Purchases	**(122,507)**	(201,530)	(81,749)
Proceeds from sales and securitizations of loans held-for-investment	**34,925**	20,809	23,861
Other changes in loans, net	**(83,437)**	(70,837)	(40,436)
Net cash received (used) in business acquisitions or dispositions	**(70)**	185	(1,039)
All other investing activities, net	**(3,903)**	1,839	4,796
Net cash used in investing activities	**(73,118)**	(99,627)	(12,944)
Financing activities			
Net change in:			
Deposits	**113,512**	82,105	31,415
Federal funds purchased and securities sold under repurchase agreements	**(7,833)**	36,248	(1,862)
Commercial paper and other borrowed funds	**41,412**	12,657	2,618
Proceeds from the issuance of long-term debt and capital debt securities	**95,141**	56,721	43,721
Repayments of long-term debt and capital debt securities	**(49,410)**	(34,267)	(26,883)
Net proceeds from the issuance of stock and stock-related awards	**1,467**	1,659	682
Excess tax benefits related to stock-based compensation	**365**	302	—
Redemption of preferred stock	**—**	(139)	(200)
Treasury stock purchased	**(8,178)**	(3,938)	(3,412)
Cash dividends paid	**(5,051)**	(4,846)	(4,878)
All other financing activities, net	**1,561**	6,247	3,868
Net cash provided by financing activities	**182,986**	152,749	45,069
Effect of exchange rate changes on cash and due from banks	**424**	199	(387)
Net (decrease) increase in cash and due from banks	**(268)**	3,742	1,502
Cash and due from banks at the beginning of the year	**40,412**	36,670	35,168
Cash and due from banks at the end of the year	**$ 40,144**	$ 40,412	$ 36,670
Cash interest paid	**$ 43,472**	$ 36,415	$ 24,583
Cash income taxes paid	**7,472**	5,563	4,758

Note: In 2006, the Firm exchanged selected corporate trust businesses for The Bank of New York's consumer, business banking and middle-market banking businesses. The fair values of the noncash assets exchanged was $2.15 billion.

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

Note 1 – Basis of presentation

JPMorgan Chase & Co. ("JPMorgan Chase" or the "Firm"), a financial holding company incorporated under Delaware law in 1968, is a leading global financial services firm and one of the largest banking institutions in the United States of America ("U.S."), with operations worldwide. The Firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing and asset management. For a discussion of the Firm's business segment information, see Note 34 on pages 175–177 of this Annual Report.

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

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

Consolidation

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

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

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

There are two different accounting frameworks applicable to SPEs: the qualifying SPE ("QSPE") framework under SFAS 140 and the variable interest entity ("VIE") framework under FIN 46R. The applicable framework depends on the nature of the entity and the Firm's relation to that entity. The QSPE framework is applicable when an entity transfers (sells) financial assets to an SPE meeting certain criteria defined in SFAS 140. These criteria are designed to ensure that the activities of the entity are essentially predetermined at the inception of the vehicle and that the transferor of the financial assets cannot exercise control over the entity and the assets therein. Entities meeting these criteria are not consolidated by the transferor or other counterparties as long as they do not have the unilateral ability to liquidate or to cause the entity to no longer meet the QSPE criteria. The Firm primarily follows the QSPE model for securitizations of its residential and commercial mortgages, and credit card, automobile and education loans. For further details, see Note 16 on pages 139–145 of this Annual Report.

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

FIN 46R requires a variable interest holder (i.e., a counterparty to a VIE) to consolidate the VIE if that party will absorb a majority of the expected losses of the VIE, receive the majority of the expected residual returns of the VIE, or both. This party is considered the primary beneficiary. In making this determination, the Firm thoroughly evaluates the VIE's design, capital structure and relationships among the variable interest holders. When the primary beneficiary cannot be identified through a qualitative analysis, the Firm performs a quantitative analysis, which computes and allocates expected losses or residual returns to variable interest holders. The allocation of expected cash flows in this analysis is based upon the relative rights and preferences of each variable interest holder in the VIE's capital structure. The Firm reconsiders whether it is the primary beneficiary of a VIE when certain events occur as required by FIN 46R. For further details, see Note 17 on pages 146–154 of this Annual Report.

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

Investments in companies that are considered to be voting-interest entities under FIN 46R in which the Firm has significant influence over operating and financing decisions are either accounted for in accordance with the equity method of accounting or at fair value if elected under SFAS 159 ("Fair Value Option"). These investments are generally included in Other assets with income or loss included in Other income.

For a discussion of the accounting for Private equity investments, see Note 6 on page 122 of this Annual Report.

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

Use of estimates in the preparation of consolidated financial statements

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, of revenue and expense, and of disclosures of contingent assets and liabilities. Actual results could be different from these estimates. For discussion of Critical accounting estimates used by the Firm, see pages 96–98 of this Annual Report.

Foreign currency translation

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

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

Statements of cash flows

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

Significant accounting policies

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

Fair value measurement	Note 4	Page 111
Fair value option	Note 5	Page 119
Principal transactions activities	Note 6	Page 122
Other noninterest revenue	Note 7	Page 123
Pension and other postretirement employee benefit plans	Note 9	Page 124
Employee stock-based incentives	Note 10	Page 131
Noninterest expense	Note 11	Page 134
Securities	Note 12	Page 134
Securities financing activities	Note 13	Page 136
Loans	Note 14	Page 137
Allowance for credit losses	Note 15	Page 138
Loan securitizations	Note 16	Page 139
Variable interest entities	Note 17	Page 146
Goodwill and other intangible assets	Note 18	Page 154
Premises and equipment	Note 19	Page 158
Income taxes	Note 26	Page 164
Commitments and contingencies	Note 29	Page 167
Accounting for derivative instruments and hedging activities	Note 30	Page 168
Off–balance sheet lending-related financial instruments and guarantees	Note 31	Page 170

Note 2 – Business changes and developments

Purchase of additional interest in Highbridge Capital Management

In January 2008, JPMorgan Chase acquired an additional equity interest in Highbridge Capital Management, LLC ("Highbridge"), a manager of hedge funds with $27 billion of assets under management. As a result, the Firm owns 77.5% of Highbridge as of January 2008. The Firm had acquired a majority interest in Highbridge in 2004.

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

On October 1, 2006, JPMorgan Chase completed the acquisition of The Bank of New York Company, Inc.'s ("The Bank of New York") consumer, business banking and middle-market banking businesses in exchange for selected corporate trust businesses plus a cash payment of $150 million. The Firm also may make a future payment to The Bank of New York of up to $50 million depending on certain new account openings. The acquisition added 339 branches and more than 400 ATMs, and it significantly strengthened Retail Financial Services' distribution network in the New York tri-state area. The Bank of New York businesses acquired were valued at a premium of $2.3 billion; the Firm's corporate trust businesses that were transferred (i.e., trustee, paying agent, loan agency and document management services) were valued at a premium of $2.2 billion. This transaction included the acquisition of approximately $7.7 billion in loans net of Allowance for loan losses and $12.9 billion in deposits from The Bank of New York. The Firm also recognized core deposit intangibles of $485 million which will be amortized using an accelerated method over a 10-year period. JPMorgan Chase recorded an after-tax gain of $622 million related to this transaction in the fourth quarter of 2006. For additional discussion related to the transaction, see Note 3 on page 110 of this Annual Report.

JPMorgan Partners management

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

Sale of insurance underwriting business

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

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

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

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

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

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

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

Note 3 – Discontinued operations

On October 1, 2006, JPMorgan Chase completed the acquisition of The Bank of New York's consumer, small-business and middle-market banking businesses in exchange for selected corporate trust businesses plus a cash payment of $150 million. The Firm may also make a future payment to The Bank of New York of up to $50 million depending on certain new account openings.

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

Selected income statements data[a]

Year ended December 31, (in millions)	2006	2005
Other noninterest revenue	$ 407	$ 509
Net interest income	264	276
Gain on sale of discontinued operations	1,081	—
Total net revenue	1,752	785
Noninterest expense	385	409
Income from discontinued operations before income taxes	1,367	376
Income tax expense	572	147
Income from discontinued operations	$ 795	$ 229

(a) There was no income from discontinued operations during 2007.

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

Selected balance sheet data (in millions)

	October 1, 2006
Goodwill and other intangibles	$ 838
Other assets	547
Total assets	$ 1,385
Deposits	$ 24,011
Other liabilities	547
Total liabilities	$ 24,558

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

Note 4 – Fair value measurement

In September 2006, the FASB issued SFAS 157 ("Fair Value Measurements"), which is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. The Firm chose early adoption for SFAS 157 effective January 1, 2007. SFAS 157:

- Defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value;
- Establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date;
- Nullifies the guidance in EITF 02-3, which required the deferral of profit at inception of a transaction involving a derivative financial instrument in the absence of observable data supporting the valuation technique;
- Eliminates large position discounts for financial instruments quoted in active markets and requires consideration of the Firm's creditworthiness when valuing liabilities; and
- Expands disclosures about instruments measured at fair value.

The Firm also chose early adoption for SFAS 159 effective January 1, 2007. SFAS 159 provides an option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments and written loan commitments not previously recorded at fair value. The Firm elected fair value accounting for certain assets and liabilities not previously carried at fair value. For more information, see Note 5 on pages 119–121 of this Annual Report.

Following is a description of the Firm's valuation methodologies for assets and liabilities measured at fair value. Such valuation methodologies were applied to all of the assets and liabilities carried at fair value effective January 1, 2007, whether as a result of the adoption of SFAS 159 or previously carried at fair value.

The Firm has an established and well-documented process for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon internally developed models that primarily use, as inputs, market-based or independently sourced market parameters, including but not limited to yield curves, interest rates, volatilities, equity or debt prices, foreign exchange rates and credit curves. In addition to market information, models also incorporate transaction details, such as maturity. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments include amounts to reflect counterparty credit quality, the Firm's creditworthiness, constraints on liquidity and unobservable parameters that are applied consistently over time.

- Credit valuation adjustments ("CVA") are necessary when the market price (or parameter) is not indicative of the credit quality of the counterparty. As few classes of derivative contracts are listed on an exchange, the majority of derivative positions are valued using internally developed models that use as their basis observable market parameters. Market practice is to quote parameters equivalent to an "AA" credit rating; thus, all counterparties are assumed to have the same credit quality. Therefore, an adjustment is necessary to reflect the credit quality of each derivative counterparty to arrive at fair value.
- Debit valuation adjustments ("DVA") are necessary to reflect the credit quality of the Firm in the valuation of liabilities measured at fair value. This adjustment was incorporated into the Firm's valuations commencing January 1, 2007, in accordance with SFAS 157. The methodology to determine the adjustment is consistent with CVA and incorporates JPMorgan Chase's credit spread as observed through the credit default swap market.
- Liquidity valuation adjustments are necessary when the Firm may not be able to observe a recent market price for a financial instrument that trades in inactive (or less active) markets or to reflect the cost of exiting larger-than-normal market-size risk positions (liquidity adjustments are not taken for positions classified within level 1 of the fair value hierarchy). The Firm tries to ascertain the amount of uncertainty in the initial valuation based upon the degree of liquidity of the market in which the financial instrument trades and makes liquidity adjustments to the carrying value of the financial instrument. The Firm measures the liquidity adjustment based upon the following factors: (1) the amount of time since the last relevant pricing point; (2) whether there was an actual trade or relevant external quote; and (3) the volatility of the principal risk component of the financial instrument. Costs to exit larger-than-normal market-size risk positions are determined based upon the size of the adverse market move that is likely to occur during the period required to bring a position down to a nonconcentrated level.
- Unobservable parameter valuation adjustments are necessary when positions are valued using internally developed models that use as their basis unobservable parameters – that is, parameters that must be estimated and are, therefore, subject to management judgment. These positions are normally traded less actively. Examples include certain credit products where parameters such as correlation and recovery rates are unobservable. Unobservable parameter valuation adjustments are applied to mitigate the possibility of error and revision in the estimate of the market price provided by the model.

The Firm has numerous controls in place intended to ensure that its fair valuations are appropriate. An independent model review group reviews the Firm's valuation models and approves them for use for specific products. All valuation models within the Firm are subject to this review process. A price verification group, independent from the risk taking function, ensures observable market prices and market-based parameters are used for valuation wherever possible. For those products with material parameter risk for which observable market levels do not exist, an independent review of the assumptions made on pricing is performed. Additional review includes deconstruction of the model valuations for certain structured instruments into their components, and benchmarking valuations, where possible, to similar products; validating valuation estimates through actual cash settlement; and detailed review and explanation of recorded gains and losses, which are analyzed daily and over time. Valuation adjustments, which are also determined by the independent price verification group, are based upon established policies and are applied consistently over time. Any changes to the valuation methodology are reviewed by management to confirm the changes are justified. As markets and products develop and the pricing for certain products becomes more or less transparent, the Firm continues to refine its valuation methodologies.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Firm believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Valuation Hierarchy

SFAS 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows.

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

Assets

Securities purchased under resale agreements ("resale agreements")

To estimate the fair value of resale agreements, cash flows are evaluated taking into consideration any derivative features of the resale agreement and are then discounted using the appropriate market rates for the applicable maturity. As the inputs into the valuation are primarily based upon readily observable pricing information, such resale agreements are generally classified within level 2 of the valuation hierarchy.

Loans and unfunded lending-related commitments

The fair value of corporate loans and unfunded lending-related commitments is calculated using observable market information including pricing from actual market transactions or broker quotations where available. Where pricing information is not available for the specific loan, the valuation is generally based upon quoted market prices of similar instruments, such as loans and bonds. These comparable instruments share characteristics that typically include industry, rating, capital structure, seniority, and consideration of counterparty credit risk. In addition, general market conditions, including prevailing market spreads for credit and liquidity risk, are also considered in the valuation process.

For certain loans that are expected to be securitized, such as commercial and residential mortgages, fair value is estimated based upon observable pricing of asset-backed securities with similar collateral and incorporates adjustments (i.e., reductions) to these prices to account for securitization uncertainties including portfolio composition, market conditions and liquidity to arrive at the whole loan price. When data from recent market transactions is available it is incorporated as appropriate. If particular loans are determined to be impaired because of poor borrower performance and hence are not qualified for securitization, they are marked for individual sale with consideration of potential liquidation proceeds and property repossession/liquidation information, as appropriate.

The Firm's loans carried at fair value and reported in Trading assets are generally classified within level 2 of the valuation hierarchy, although subprime loans reside in level 3. Loans carried at fair value and reported within Loans are predominantly classified within level 3 due to the lack of observable pricing. These loans include leveraged lending funded loans, high-yield bridge financing and purchased nonperforming loans.

Securities

Where quoted prices are available in an active market, securities are classified in level 1 of the valuation hierarchy. Level 1 securities included highly liquid government bonds, mortgage products for which there are quoted prices in active markets and exchange-traded equities. If quoted market prices are not available for the specific security, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Examples of such instruments are collateralized mortgage obligations and high-yield debt securities which would generally be classified within level 2 of the valuation hierarchy. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within level 3 of the valuation hierarchy. For instance, in the valuation of certain collateralized mortgage and debt obligations and high-yield debt securities the determination of fair value may require benchmarking to similar instruments or analyzing default and recovery rates. For cash collateralized debt obligations ("CDOs"), external price information is not available. Therefore, cash CDOs are valued using market-standard models, such as Intex, to model the specific collateral composition and cash flow structure of each deal; key inputs to the model are market spreads data for each credit rating, collateral type and other relevant contractual features. Asset-backed securities are valued based on external prices or spread data, using current market assumptions on prepayments and defaults. For those asset-backed securities where the external price data is not observable or the limited available data is opaque, the collateral performance is monitored and the value of the security is reviewed versus the ABX index, an index of mortgage-backed securities backed by subprime mortgages.

Commodities

Commodities inventory is carried at the lower of cost or fair value. The fair value for commodities inventory is determined primarily using pricing and data derived from the markets on which the underlying commodities are traded. Market prices may be adjusted for liquidity. The Firm also has positions in commodity-based derivatives that can be traded on an exchange or over-the-counter. The pricing inputs to these derivatives include forward curves of underlying commodities, basis curves, volatilities, correlations, and occasionally other model parameters. The valuation of these derivatives is based upon calibrating to market transactions, as well as to independent pricing information from sources such as brokers and dealer consensus pricing services. Where inputs are unobservable, they are benchmarked to observable market data based upon historic and implied correlations, then adjusted for uncertainty where appropriate. The majority of commodities inventory and commodities-based derivatives are classified within level 2 of the valuation hierarchy.

Derivatives

Exchange-traded derivatives valued using quoted prices are classified within level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, 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. Depending on the types and contractual terms of derivatives, fair value can be modeled using a series of techniques, such as the Black-Scholes option pricing model, simulation models or a combination of various models, which are consistently applied. Where derivative products have been established for some time, the Firm uses models that are widely accepted in the financial services industry. These models reflect the contractual terms of the derivatives, including the period to maturity, and market-based parameters such as interest rates, volatility, and the credit quality of the counterparty. Further, many of these models do not contain a high level of subjectivity as the methodologies used in the models do not require significant judgment, and inputs to the model are readily observable from actively quoted markets, as is the case for "plain vanilla" interest rate swaps and option contracts and credit default swaps. Such instruments are generally classified within level 2 of the valuation hierarchy.

Derivatives that are valued based upon models with significant unobservable market parameters and that are normally traded less actively, have trade activity that is one way, and/or are traded in less-developed markets are classified within level 3 of the valuation hierarchy. Level 3 derivatives include credit default swaps referenced to mortgage-backed securities, where valuations are benchmarked to implied spreads from similar underlying loans in the cash market, as well as relevant observable market indices. In addition, the prepayment and loss assumptions on the underlying loans are priced using a combination of historical data, prices on market transactions, and other prepayment and default scenarios and analysis. Other complex products, such as those sensitive to correlation between two or more underlyings, also fall within level 3 of the hierarchy. For instance, the correlation sensitivity is material to the overall valuation of options on baskets of single name stocks; the valuation of these instruments are typically not observable due to the customized nature. Correlation for products such as these are typically estimated based on an observable basket of stocks, then adjusted to reflect the differences between the underlying equities.

Mortgage servicing rights and certain retained interests in securitizations

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

- For MSRs, the Firm uses an option adjusted spread ("OAS") valuation model in conjunction with the Firm's proprietary prepayment model to project MSR cash flows over multiple interest rate scenarios, which are then discounted at risk-adjusted rates to estimate an expected fair value of the MSRs. The OAS model considers portfolio characteristics, contractually specified servicing fees, prepayment assumptions, delinquency rates, late charges, other ancillary revenue, costs to service and other economic factors. The Firm reassesses and periodically adjusts the underlying inputs and assumptions used in the OAS model to reflect market conditions and assumptions that a market participant would consider in valuing the MSR asset. Due to the nature of the valuation inputs, MSRs are classified within level 3 of the valuation hierarchy.
- For certain retained interests in securitizations (such as interest-only strips), a single interest rate path DCF model is used and generally includes assumptions based upon projected finance charges related to the securitized assets, estimated net credit losses, prepayment assumptions and contractual interest paid to third-party investors. Changes in the assumptions used may have a significant impact on the Firm's valuation of retained interests and such interests are therefore typically classified within level 3 of the valuation hierarchy.

For both MSRs and certain other retained interests in securitizations, the Firm compares its fair value estimates and assumptions to observable market data where available and to recent market activity and actual portfolio experience. For further discussion of the most significant assumptions used to value retained interests in securitizations and MSRs, as well as the applicable stress tests for those assumptions, see Note 16 on pages 139–145 and Note 18 on pages 154–156 of this Annual Report.

Private equity investments

The valuation of nonpublic private equity 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. As such, private equity investments are valued initially based upon cost. Each quarter, valuations are reviewed utilizing available market data to determine if the carrying value of these investments should be adjusted. Such market data primarily includes observations of the trading multiples of public companies considered comparable to the private companies being valued. Valuations are adjusted to account for company-specific issues, the lack of liquidity inherent in a nonpublic investment and the fact that comparable public companies are not identical to the companies being valued. Such valuation adjustments are necessary because in the absence of a committed buyer and completion of due diligence similar to that performed in an actual negotiated sale process, there may be company-specific issues that are not fully known that may affect value. In addition, a variety of additional factors are reviewed by management, including, but not limited to, financing and sales transactions with third parties, current operating performance and future expectations of the particular investment, changes in market outlook and the third-party financing environment. The Firm applies its valuation methodology consistently from period to period, and the Firm believes that its valuation methodology and associated valuation adjustments are appropriate and similar to those used by other market participants. Nonpublic private equity investments are included in level 3 of the valuation hierarchy.

Private equity investments also include publicly held equity investments, generally obtained through the initial public offering of privately held equity investments. Publicly held investments in liquid markets are marked-to-market at the quoted public value less adjustments for regulatory or contractual sales restrictions. Discounts for restrictions are quantified by analyzing the length of the restriction period and the volatility of the equity security. Publicly held investments are primarily classified in level 2 of the valuation hierarchy.

Liabilities

Securities sold under repurchase agreements ("repurchase agreements")

To estimate the fair value of repurchase agreements, cash flows are evaluated taking into consideration any derivative features and are then discounted using the appropriate market rates for the applicable maturity. As the inputs into the valuation are primarily based upon observable pricing information, repurchase agreements are classified within level 2 of the valuation hierarchy.

Beneficial interests issued by consolidated VIEs

The fair value of beneficial interests issued by consolidated VIEs (beneficial interests) is estimated based upon the fair value of the underlying assets held by the VIEs. The valuation of beneficial interests does not include an adjustment to reflect the credit quality of the Firm as the holders of these beneficial interests do not have recourse to the general credit of JPMorgan Chase. As the inputs into the valuation are generally based upon readily observable pricing information, the majority of beneficial interests issued by consolidated VIEs are classified within level 2 of the valuation hierarchy.

Deposits, Other borrowed funds and Long-term debt

Included within Deposits, Other borrowed funds and Long-term debt are structured notes issued by the Firm that are financial instruments containing embedded derivatives. To estimate the fair value of structured notes, cash flows are evaluated taking into consideration any derivative features and are then discounted using the appropriate market rates for the applicable maturities. In addition, the valuation of structured notes includes an adjustment to reflect the credit quality of the Firm (i.e., the DVA). Where the inputs into the valuation are primarily based upon readily observable pricing information, the structured notes are classified within level 2 of the valuation hierarchy. Where significant inputs are unobservable, structured notes are classified within level 3 of the valuation hierarchy.

The following table presents the financial instruments carried at fair value as of December 31, 2007, by caption on the Consolidated balance sheet and by SFAS 157 valuation hierarchy (as described above).

Assets and liabilities measured at fair value on a recurring basis

December 31, 2007 (in millions)	Quoted market prices in active markets (Level 1)	Internal models with significant observable market parameters (Level 2)	Internal models with significant unobservable market parameters (Level 3)	FIN 39 netting[(d)]	Total carrying value in the Consolidated balance sheet
Federal funds sold and securities purchased under resale agreements	$ —	$ 19,131	$ —	$ —	$ 19,131
Trading assets:					
Debt and equity instruments[(a)(b)]	202,483	187,724	24,066	—	414,273
Derivative receivables	18,574	871,105	20,188	(832,731)	77,136
Total trading assets	221,057	1,058,829	44,254	(832,731)	491,409
Available-for-sale securities	71,941	13,364	101	—	85,406
Loans	—	359	8,380	—	8,739
Mortgage servicing rights	—	—	8,632	—	8,632
Other assets:					
Private equity investments	68	322	6,763	—	7,153
All other	10,784	1,054	3,160	—	14,998
Total other assets	10,852	1,376	9,923	—	22,151
Total assets at fair value	$303,850	$ 1,093,059	$ 71,290	$(832,731)	$ 635,468
Deposits	$ —	$ 5,228	$ 1,161	$ —	$ 6,389
Federal funds purchased and securities sold under repurchase agreements	—	5,768	—	—	5,768
Other borrowed funds	—	10,672	105	—	10,777
Trading liabilities:					
Debt and equity instruments	73,023	15,659	480	—	89,162
Derivative payables	19,553	852,055	19,555	(822,458)	68,705
Total trading liabilities	92,576	867,714	20,035	(822,458)	157,867
Accounts payable, accrued expense and other liabilities[(c)]	—	—	25	—	25
Beneficial interests issued by consolidated VIEs	—	2,922	82	—	3,004
Long-term debt	—	48,518	21,938	—	70,456
Total liabilities at fair value	$ 92,576	$ 940,822	$ 43,346	$(822,458)	$ 254,286

(a) Included loans classified as Trading assets. For additional detail, see Note 6 on page 122 of this Annual Report.
(b) Included physical commodities inventory that are accounted for at the lower of cost or fair value.
(c) Included within Accounts payable, accrued expense and other liabilities is the fair value adjustment for unfunded lending-related commitments.
(d) FIN 39 permits the netting of Derivative receivables and Derivative payables when a legally enforceable master netting agreement exists between the Firm and a derivative counterparty. A master netting agreement is an agreement between two counterparties who have multiple derivative contracts with each other that provide for the net settlement of all contracts, as well as cash collateral, through a single payment, in a single currency, in the event of default on or termination of any one contract.

Changes in level 3 recurring fair value measurements

The table below includes a rollforward of the balance sheet amounts for the year ended December 31, 2007 (including the change in fair value), for financial instruments classified by the Firm within level 3 of the valuation hierarchy. When a determination is made to classify a financial instrument within level 3, the determination is based upon the significance of the unobservable parameters to the overall fair value measurement. However, level 3 financial instruments typically include, in addition to the unobservable or level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources); accordingly, the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology. Also, the Firm risk manages the observable components of level 3 financial instruments using securities and derivative positions that are classified within level 1 or 2 of the valuation hierarchy; as these level 1 and level 2 risk management instruments are not included below, the gains or losses in the tables do not reflect the effect of the Firm's risk management activities related to such level 3 instruments.

	Fair value measurements using significant unobservable inputs[(a)]					
For the year ended December 31, 2007 (in millions)	Fair value, January 1, 2007	Total realized/unrealized gains/(losses)	Purchases, issuances settlements, net	Transfers in and/or out of Level 3	Fair value, December 31, 2007	Change in unrealized gains and (losses) related to financial instruments held at December 31, 2007
Assets:						
Trading assets:						
Debt and equity instruments	$ 9,320	$ (916)[(b)(c)]	$ 5,902	$ 9,760	$ 24,066	$ (912)[(b)(c)]
Net Derivative receivables	(2,800)	1,674[(b)]	257	1,502	633	1,979[(b)]
Available-for-sale securities	177	38[(d)]	(21)	(93)	101	(5)[(d)]
Loans	643	(346)[(b)]	8,013	70	8,380	(36)[(b)]
Other assets:						
Private equity investments	5,493	4,051[(b)]	(2,764)	(17)	6,763	1,711[(b)]
All other	1,591	37[(e)]	1,059	473	3,160	(19)[(e)]
Liabilities:						
Deposits	$ (385)	$ (42)[(b)]	$ (667)	$ (67)[(f)]	$ (1,161)	$ (38)[(b)]
Other borrowed funds	—	(67)	(34)	(4)[(f)]	(105)	(135)
Trading liabilities:						
Debt and equity instruments	(32)	383[(b)]	(125)	(706)[(f)]	(480)	(734)[(b)]
Accounts payable, accrued expense and other liabilities	—	(460)[(b)]	435	—	(25)	(25)[(b)]
Beneficial interests issued by consolidated VIEs	(8)	6	1	(81)[(f)]	(82)	—
Long-term debt	(11,386)	(1,142)[(b)]	(6,633)	(2,777)[(f)]	(21,938)	(468)[(b)]

(a) MSRs are classified within level 3 of the valuation hierarchy. For a rollforward of balance sheet amounts related to MSRs, see Note 18 on pages 154–157 of this Annual Report.
(b) Reported in Principal transactions revenue.
(c) Changes in fair value for Retail Financial Services mortgage loans originated with the intent to sell are measured at fair value under SFAS 159 and reported in Mortgage fees and related income.
(d) Realized gains (losses) are reported in Securities gains (losses). Unrealized gains (losses) are reported in Accumulated other comprehensive income (loss).
(e) Reported in Other income.
(f) Represents a net transfer of a liability balance.

Assets and liabilities measured at fair value on a nonrecurring basis

Certain assets, liabilities and unfunded lending-related commitments are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). The following table presents the financial instruments carried on the Consolidated balance sheet by caption and by level within the SFAS 157 valuation hierarchy (as described above) as of December 31, 2007, for which a nonrecurring change in fair value has been recorded during the year ended December 31, 2007.

December 31, 2007 (in millions)	Quoted market prices in active markets (Level 1)	Internal models with significant observable market parameters (Level 2)	Internal models with significant unobservable market parameters (Level 3)	Total carrying value in the Consolidated balance sheet
Loans[(a)]	$ —	$ 2,818	$ 16,196	$ 19,014
Other assets	—	267	126	393
Total assets at fair value on a nonrecurring basis	$ —	$ 3,085	$ 16,322	$ 19,407
Accounts payable, accrued expense and other liabilities	$ —	$ —	$ 103	$ 103[(b)]
Total liabilities at fair value on a nonrecurring basis	$ —	$ —	$ 103	$ 103

(a) Includes debt financing and other loan warehouses held-for-sale.
(b) Represents the fair value adjustment associated with $3.2 billion of unfunded held-for-sale lending-related commitments.

Nonrecurring fair value changes
The following table presents the total change in value of financial instruments for which a fair value adjustment has been included in the Consolidated statement of income for the year ended December 31, 2007, related to financial instruments held at December 31, 2007.

Year ended December 31, 2007 (in millions)	2007
Loans	$ (720)
Other assets	(161)
Accounts payable, accrued expense and other liabilities	2
Total nonrecurring fair value gains (losses)	$ (879)

In the above table, Loans principally include changes in fair value for loans carried on the balance sheet at the lower of cost or fair value; and Accounts payable, accrued expense and other liabilities principally includes the change in fair value for unfunded lending-related commitments within the leveraged lending portfolio.

Level 3 assets analysis
Level 3 assets (including assets measured at the lower of cost or fair value) were 5% of total Firm assets at December 31, 2007. These assets increased during 2007 principally during the second half of the year, when liquidity in mortgages and other credit products fell dramatically. The increase was primarily due to an increase in leveraged loan balances within level 3 as the ability of the Firm to syndicate this risk to third parties became limited by the credit environment. In addition, there were transfers from level 2 to level 3 during 2007. These transfers were principally for instruments within the mortgage market where inputs which are significant to their valuation became unobservable during the year. Subprime and Alt-A whole loans, subprime home equity securities, commercial mortgage-backed mezzanine loans and credit default swaps referenced to asset-backed securities constituted the majority of the affected instruments, reflecting a significant decline in liquidity in these instruments in the third and fourth quarters of 2007, as new issue activity was nonexistent and independent pricing information was no longer available for these assets.

Transition
In connection with the initial adoption of SFAS 157, the Firm recorded the following on January 1, 2007:

- A cumulative effect increase to Retained earnings of $287 million, primarily related to the release of profit previously deferred in accordance with EITF 02-3;
- An increase to pretax income of $166 million ($103 million after-tax) related to the incorporation of the Firm's creditworthiness in the valuation of liabilities recorded at fair value; and
- An increase to pretax income of $464 million ($288 million after-tax) related to valuations of nonpublic private equity investments.

Prior to the adoption of SFAS 157, the Firm applied the provisions of EITF 02-3 to its derivative portfolio. EITF 02-3 precluded the recognition of initial trading profit in the absence of: (a) quoted market prices, (b) observable prices of other current market transactions or (c) other observable data supporting a valuation technique. In accordance with EITF 02-3, the Firm recognized the deferred profit in Principal transactions revenue on a systematic basis (typically straight-line amortization over the life of the instruments) and when observable market data became available.

Prior to the adoption of SFAS 157 the Firm did not incorporate an adjustment into the valuation of liabilities carried at fair value on the Consolidated balance sheet. Commencing January 1, 2007, in accordance with the requirements of SFAS 157, an adjustment was made to the valuation of liabilities measured at fair value to reflect the credit quality of the Firm.

Prior to the adoption of SFAS 157, privately held investments were initially valued based upon cost. The carrying values of privately held investments were adjusted from cost to reflect both positive and negative changes evidenced by financing events with third-party capital providers. The investments were also subject to ongoing impairment reviews by private equity senior investment professionals. The increase in pretax income related to nonpublic Private equity investments in connection with the adoption of SFAS 157 was due to there being sufficient market evidence to support an increase in fair values using the SFAS 157 methodology, although there had not been an actual third-party market transaction related to such investments.

Financial disclosures required by SFAS 107
SFAS 107 requires disclosure of the estimated fair value of certain financial instruments and the methods and significant assumptions used to estimate their fair values. Many but not all of the financial instruments held by the Firm are recorded at fair value on the Consolidated balance sheets. Financial instruments within the scope of SFAS 107 that are not carried at fair value on the Consolidated balance sheets are discussed below. Additionally, certain financial instruments and all nonfinancial instruments are excluded from the scope of SFAS 107. Accordingly, the fair value disclosures required by SFAS 107 provide only a partial estimate of the fair value of JPMorgan Chase. For example, the Firm has developed long-term relationships with its customers through its deposit base and credit card accounts, commonly referred to as core deposit intangibles and credit card relationships. In the opinion of management, these items, in the aggregate, add significant value to JPMorgan Chase, but their fair value is not disclosed in this Note.

Financial instruments for which fair value approximates carrying value
Certain financial instruments that are not carried at fair value on the Consolidated balance sheets are carried at amounts that approximate fair value due to their short-term nature and generally negligible credit risk. These instruments include cash and due from banks, deposits with banks, federal funds sold, securities purchased under resale agreements with short-dated maturities, securities borrowed, short-term receivables and accrued interest receivable, commercial paper, federal funds purchased, securities sold under repurchase agreements with short-dated maturities, other borrowed funds, accounts payable and accrued liabilities. In addition, SFAS 107 requires that the fair value for deposit liabilities with no stated maturity (i.e., demand, savings and certain money market deposits) be equal to their carrying value. SFAS 107 does not allow for the recognition of the inherent funding value of these instruments.

Financial instruments for which fair value does not approximate carrying value

Loans

The majority of the Firm's loans are not carried at fair value on a recurring basis on the Consolidated balance sheets nor are they actively traded. The following describes the inputs and assumptions that the Firm considers in arriving at an estimate of fair value for the following portfolios of loans.

Wholesale

Fair value for the wholesale loan portfolio is estimated, primarily using the cost of credit derivatives, which is adjusted to account for the differences in recovery rates between bonds, upon which the cost of credit derivatives is based, and loans.

Consumer

- Fair values for consumer installment loans (including automobile financings and consumer real estate), for which market rates for comparable loans are readily available, are based upon discounted cash flows adjusted for prepayments. The discount rate used for consumer installment loans are based on the current market rates adjusted for credit, liquidity and other risks that are applicable to a particular asset class.
- Fair value for credit card receivables is based upon discounted expected cash flows. The discount rates used for credit card receivables incorporate only the effects of interest rate changes, since the expected cash flows already reflect an adjustment for credit risk.

Interest-bearing deposits

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

Long-term debt related instruments

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

Lending-related commitments

The majority of the Firm's unfunded lending-related commitments are not carried at fair value on a recurring basis on the Consolidated balance sheets nor are they actively traded. Although there is no liquid secondary market for wholesale commitments, the Firm estimates the fair value of its wholesale lending-related commitments primarily using the cost of credit derivatives (which is adjusted to account for the difference in recovery rates between bonds, upon which the cost of credit derivatives is based, and loans) and loan equivalents (which represent the portion of an unused commitment expected, based upon the Firm's average portfolio historical experience, to become outstanding in the event an obligor defaults). The Firm estimates the fair value of its consumer commitments to extend credit based upon the primary market prices to originate new commitments. It is the change in current primary market prices that provides the estimate of the fair value of these commitments. On this basis, the estimated fair value of the Firm's lending-related commitments at December 31, 2007 and 2006, was a liability of $1.9 billion and $210 million, respectively.

The following table presents the carrying value and estimated fair value of financial assets and liabilities as required by SFAS 107.

	2007			2006		
December 31, (in billions)	Carrying value	Estimated fair value	Appreciation/ (depreciation)	Carrying value	Estimated fair value	Appreciation/ (depreciation)
Financial assets						
Assets for which fair value approximates carrying value	**$ 160.6**	**$ 160.6**	**$ —**	$ 150.5	$ 150.5	$ —
Federal funds sold and securities purchased under resale agreements (included $19.1 at fair value at December 31, 2007)	**170.9**	**170.9**	**—**	140.5	140.5	—
Trading assets	**491.4**	**491.4**	**—**	365.7	365.7	—
Securities	**85.4**	**85.4**	**—**	92.0	92.0	—
Loans	**510.1**	**510.7**	**0.6**	475.8	480.0	4.2
Mortgage servicing rights at fair value	**8.6**	**8.6**	**—**	7.5	7.5	—
Other (included $22.2 at fair value at December 31, 2007)	**66.6**	**67.1**	**0.5**	54.3	54.9	0.6
Total financial assets	**$ 1,493.6**	**$1,494.7**	**$ 1.1**	$ 1,286.3	$ 1,291.1	$ 4.8
Financial liabilities						
Deposits (included $6.4 at fair value at December 31, 2007)	**$ 740.7**	**$ 741.3**	**$ (0.6)**	$ 638.8	$ 638.9	$ (0.1)
Federal funds purchased and securities sold under repurchase agreements (included $5.8 at fair value at December 31, 2007)	**154.4**	**154.4**	**—**	162.2	162.2	—
Commercial paper	**49.6**	**49.6**	**—**	18.8	18.8	—
Other borrowed funds (included $10.8 at fair value at December 31, 2007)	**28.8**	**28.8**	**—**	18.1	18.1	—
Trading liabilities	**157.9**	**157.9**	**—**	148.0	148.0	—
Accounts payable, accrued expense and other liabilities	**89.0**	**89.0**	**—**	82.5	82.5	—
Beneficial interests issued by consolidated VIEs (included $3.0 at fair value at December 31, 2007)	**14.0**	**13.9**	**0.1**	16.2	16.2	—
Long-term debt and Junior subordinated deferrable interest debentures (included $70.5 and $25.4 at fair value at December 31, 2007 and 2006, respectively)	**199.0**	**198.7**	**0.3**	145.6	147.1	(1.5)
Total financial liabilities	**$ 1,433.4**	**$1,433.6**	**$ (0.2)**	$ 1,230.2	$ 1,231.8	$ (1.6)
Net appreciation			**$ 0.9**			$ 3.2

Note 5 – Fair value option

In February 2007, the FASB issued SFAS 159, which is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. The Firm chose early adoption for SFAS 159 effective January 1, 2007. SFAS 159 provides an option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments, and written loan commitments not previously carried at fair value.

The Firm's fair value elections were intended to mitigate the volatility in earnings that had been created by recording financial instruments and the related risk management instruments on a different basis of accounting or to eliminate the operational complexities of applying hedge accounting. The following table provides detail regarding the Firm's elections by consolidated balance sheet line as of January 1, 2007.

(in millions)	Carrying value of financial instruments as of January 1, 2007[c]	Transition gain/(loss) recorded in Retained earnings[d]	Adjusted carrying value of financial instruments as of January 1, 2007
Federal funds sold and securities purchased under resale agreements	$ 12,970	$ (21)	$ 12,949
Trading assets – Debt and equity instruments	28,841	32	28,873
Loans	759	55	814
Other assets[a]	1,176	14	1,190
Deposits[b]	(4,427)	21	(4,406)
Federal funds purchased and securities sold under repurchase agreements	(6,325)	20	(6,305)
Other borrowed funds	(5,502)	(4)	(5,506)
Beneficial interests issued by consolidated VIEs	(2,339)	5	(2,334)
Long-term debt	(39,025)	198	(38,827)
Pretax cumulative effect of adoption of SFAS 159		320	
Deferred income taxes		(122)	
Reclassification from Accumulated other comprehensive income (loss)		1	
Cumulative effect of adoption of SFAS 159		$ 199	

(a) Included in Other assets are items, such as receivables, that are eligible for the fair value option election but were not elected by the Firm as these assets are not managed on a fair value basis.
(b) Included within Deposits are structured deposits that are carried at fair value pursuant to the fair value option. Other time deposits which are eligible for election, but are not managed on a fair value basis, continue to be carried on an accrual basis. Demand deposits are not eligible for election under the fair value option.
(c) Included in the January 1, 2007, carrying values are certain financial instruments previously carried at fair value by the Firm such as structured liabilities elected pursuant to SFAS 155 and loans purchased as part of the Investment Bank's trading activities.
(d) When fair value elections were made, certain financial instruments were reclassified on the Consolidated balance sheet (for example, warehouse loans were moved from Loans to Trading assets). The transition adjustment for these financial instruments has been included in the line item in which they were classified subsequent to the fair value election.

Elections

The following is a discussion of the primary financial instruments for which fair value elections were made and the basis for those elections:

Loans and unfunded lending-related commitments
On January 1, 2007, the Firm elected to record, at fair value, the following:

- Loans and unfunded lending-related commitments that are extended as part of the Investment Bank's principal investing activities. The transition amount related to these loans included a reversal of the Allowance for loan losses of $56 million.
- Certain Loans held-for-sale. These loans were reclassified to Trading assets – Debt and equity instruments. This election enabled the Firm to record loans purchased as part of the Investment Bank's commercial mortgage securitization activity and proprietary activities at fair value and discontinue SFAS 133 fair value hedge relationships for certain originated loans.

Beginning on January 1, 2007, the Firm chose to elect fair value as the measurement attribute for the following loans originated or purchased after that date:

- Loans purchased or originated as part of the Investment Bank's securitization warehousing activities
- Prime mortgage loans originated with the intent to sell within Retail Financial Services ("RFS")

Warehouse loans elected to be reported at fair value are classified as Trading assets – Debt and equity instruments. For additional information regarding warehouse loans, see Note 16 on pages 139–145 of this Annual Report.

The election to fair value the above loans did not include loans within these portfolios that existed on January 1, 2007, based upon the short holding period of the loans and/or the negligible impact of the elections.

Beginning in the third quarter of 2007, the Firm elected the fair value option for newly originated bridge financing activity in the Investment Bank ("IB"). These elections were made to align further the accounting basis of the bridge financing activities with their related risk management practices. For these activities the loans continue to be classified within Loans on the Consolidated balance sheet; the fair value of the unfunded commitments is recorded within Accounts payable, accrued expense and other liabilities.

Resale and Repurchase Agreements

On January 1, 2007, the Firm elected to record at fair value resale and repurchase agreements with an embedded derivative or a maturity greater than one year. The intent of this election was to mitigate volatility due to the differences in the measurement basis for the agreements (which were previously accounted for on an accrual basis) and the associated risk management arrangements (which are accounted for on a fair value basis). An election was not made for short-term agreements as the carrying value for such agreements generally approximates fair value. For additional information regarding these agreements, see Note 13 on page 136 of this Annual Report.

Structured Notes

The IB issues structured notes as part of its client-driven activities. Structured notes are financial instruments that contain embedded derivatives and are included in Long-term debt. On January 1, 2007, the Firm elected to record at fair value all structured notes not previously elected or eligible for election under SFAS 155. The election was made to mitigate the volatility due to the differences in the measurement basis for structured notes and the associated risk management arrangements and to eliminate the operational burdens of having different accounting models for the same type of financial instrument.

Changes in Fair Value under the Fair Value option election

The following table presents the changes in fair value included in the Consolidated statement of income for the year ended December 31, 2007, for items for which the fair value election was made. The profit and loss information presented below only includes the financial instruments that were elected to be measured at fair value; related risk management instruments, which are required to be measured at fair value, are not included in the table.

Year ended December 31, 2007 (in millions)	Principal transactions[b]	Other	Total changes in fair value recorded
Federal funds sold and securities purchased under resale agreements	$ 580	$ —	$ 580
Trading assets:			
Debt and equity instruments, excluding loans	421	(1)[c]	420
Loans reported as trading assets:			
Changes in instrument-specific credit risk	(517)	(157)[c]	(674)
Other changes in fair value	188	1,033[c]	1,221
Loans:			
Changes in instrument-specific credit risk	102	—	102
Other changes in fair value	40	—	40
Other assets	—	30[d]	30
Deposits(a)	(906)	—	(906)
Federal funds purchased and securities sold under repurchase agreements	(78)	—	(78)
Other borrowed funds(a)	(412)	—	(412)
Trading liabilities	(17)	—	(17)
Accounts payable, accrued expense and other liabilities	(460)	—	(460)
Beneficial interests issued by consolidated VIEs	(228)	—	(228)
Long-term debt:			
Changes in instrument-specific credit risk(a)	771	—	771
Other changes in fair value	(2,985)	—	(2,985)

(a) Total changes in instrument-specific credit risk related to structured notes was $806 million for the year ended December 31, 2007, which includes adjustments for structured notes classified within Deposits and Other borrowed funds as well as Long-term debt.
(b) Included in the amounts are gains and losses related to certain financial instruments previously carried at fair value by the Firm such as structured liabilities elected pursuant to SFAS 155 and loans purchased as part of IB trading activities.
(c) Reported in Mortgage Fees and related income.
(d) Reported in Other income.

Determination of instrument-specific credit risk for items for which a fair value election was made

The following describes how the gains and losses included in earnings during 2007 that were attributable to changes in instrument-specific credit risk were determined:

- Loans: for floating-rate instruments, changes in value are all attributed to instrument-specific credit risk. For fixed-rate instruments, an allocation of the changes in value for the period is made between those changes in value that are interest rate-related and changes in value that are credit-related. Allocations are generally based upon an analysis of borrower-specific credit spread and recovery information, where available, or benchmarking to similar entities or industries.
- Long term debt: changes in value attributable to instrument–specific credit risk were derived principally from observable changes in the Firm's credit spread. The gain for 2007, was attributable to the widening of the Firm's credit spread.
- Resale and repurchase agreements: generally, with a resale or repurchase agreement, there is a requirement that collateral be maintained with a market value equal to or in excess of the principal amount loaned. As a result, there would be no adjustment or an immaterial adjustment for instrument-specific credit related to these agreements.

Difference between aggregate fair value and aggregate remaining contractual principal balance outstanding

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of December 31, 2007, for Loans and Long-term debt for which the SFAS 159 fair value option has been elected. The loans were classified in Trading assets – debt and equity instruments or Loans.

December 31, 2007 (in millions)	Remaining aggregate contractual principal amount outstanding	Fair value	Fair value over (under) remaining aggregate contractual principal amount outstanding
Loans			
Performing loans 90 days or more past due			
Loans reported as Trading assets	$ —	$ —	$ —
Loans	11	11	—
Nonaccrual loans			
Loans reported as Trading assets	3,044	1,176	(1,868)
Loans	15	5	(10)
Subtotal	3,070	1,192	(1,878)
All other performing loans			
Loans reported as Trading assets	56,164	56,638	474
Loans	9,011	8,580	(431)
Total loans	$ 68,245	$ 66,410	$ (1,835)
Long-term debt			
Principal protected debt	$ (24,262)	$ (24,033)	$ (229)
Nonprincipal protected debt[(a)]	NA	(46,423)	NA
Total Long-term debt	NA	$ (70,456)	NA
FIN 46R long-term beneficial interests			
Principal protected debt	$ (58)	$ (58)	$ —
Nonprincipal protected debt[(a)]	NA	(2,946)	NA
Total FIN 46R long-term beneficial interests	NA	$ (3,004)	NA

(a) Remaining contractual principal not applicable as the return of principal is based upon performance of an underlying variable, and therefore may not occur in full.

At December 31, 2007, the fair value of unfunded lending-related commitments for which the fair value option was elected was a $25 million liability, which is included in Accounts payable, accrued expense and other liabilities. The contractual amount of such commitments was $1.0 billion.

Note 6 – Principal transactions

Principal transactions revenue consists of realized and unrealized gains and losses from trading activities (including physical commodities inventories that are accounted for at the lower of cost or fair value), changes in fair value associated with financial instruments held by the Investment Bank for which the SFAS 159 fair value option was elected, and loans held-for-sale within the wholesale lines of business. For loans measured at fair value under SFAS 159, origination costs are recognized in the associated expense category as incurred. Principal transactions revenue also includes private equity gains and losses.

The following table presents Principal transactions revenue.

Year ended December 31, (in millions)	2007	2006	2005
Trading revenue	**$ 4,736**	$ 9,418	$ 6,263
Private equity gains[(a)]	**4,279**	1,360	1,809
Principal transactions	**$ 9,015**	$ 10,778	$ 8,072

(a) Includes Private Equity revenue on investments held in the Private Equity business within Corporate and those held in other business segments.

Trading assets and liabilities

Trading assets include debt and equity instruments held for trading purposes that JPMorgan Chase owns ("long" positions), certain loans for which the Firm manages on a fair value basis and has elected the SFAS 159 fair value option and physical commodities inventories that are accounted for at the lower of cost or fair value. Trading liabilities include debt and equity instruments that the Firm has sold to other parties but does not own ("short" positions). The Firm is obligated to purchase instruments at a future date to cover the short positions. Included in Trading assets and Trading liabilities are the reported receivables (unrealized gains) and payables (unrealized losses) related to derivatives. Trading positions are carried at fair value on the Consolidated balance sheets. For a discussion of the valuation of Trading assets and Trading liabilities, see Note 4 on pages 111–118 of this Annual Report.

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

December 31, (in millions)	2007	2006
Trading assets		
Debt and equity instruments:		
U.S. government and federal agency obligations	**$ 36,535**	$ 17,358
U.S. government-sponsored enterprise obligations	**43,838**	28,544
Obligations of state and political subdivisions	**13,090**	9,569
Certificates of deposit, bankers' acceptances and commercial paper	**8,252**	8,204
Debt securities issued by non-U.S. governments	**69,606**	58,387
Corporate debt securities	**51,033**	62,064
Equity securities	**91,212**	86,862
Loans[(a)]	**57,814**	16,595
Other[(b)]	**42,893**	22,554
Total debt and equity instruments	**414,273**	310,137
Derivative receivables:[(c)]		
Interest rate	**36,020**	28,932
Credit derivatives	**22,083**	5,732
Commodity	**9,419**	10,431
Foreign exchange	**5,616**	4,260
Equity	**3,998**	6,246
Total derivative receivables	**77,136**	55,601
Total trading assets	**$491,409**	$365,738

December 31, (in millions)	2007	2006
Trading liabilities		
Debt and equity instruments[(d)]	**$ 89,162**	$ 90,488
Derivative payables:[(c)]		
Interest rate	**25,542**	22,738
Credit derivatives	**11,613**	6,003
Commodity	**6,942**	7,329
Foreign exchange	**7,552**	4,820
Equity	**17,056**	16,579
Total derivative payables	**68,705**	57,469
Total trading liabilities	**$157,867**	$147,957

(a) The increase from December 31, 2006, is primarily related to loans for which the SFAS 159 fair value option has been elected.
(b) Consists primarily of private-label mortgage-backed securities and asset-backed securities.
(c) Included in Trading assets and Trading liabilities are the reported receivables (unrealized gains) and payables (unrealized losses) related to derivatives. These amounts are reported net of cash received and paid of $34.9 billion and $24.6 billion, respectively, at December 31, 2007, and $23.0 billion and $18.8 billion, respectively, at December 31, 2006, under legally enforceable master netting agreements.
(d) Primarily represents securities sold, not yet purchased.

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

Year ended December 31, (in millions)	2007	2006	2005
Trading assets – debt and equity instruments	**$ 381,415**	$ 280,079	$ 237,073
Trading assets – derivative receivables	**65,439**	57,368	57,365
Trading liabilities – debt and equity instruments[(a)]	**$ 94,737**	$ 102,794	$ 93,102
Trading liabilities – derivative payables	**65,198**	57,938	55,723

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

Private equity

Private equity investments are recorded in Other assets on the Consolidated balance sheet. The following table presents the carrying value and cost of the Private equity investment portfolio, held by the Private Equity business within Corporate, for the dates indicated.

December 31,	2007		2006[(a)]	
(in millions)	Carrying value	Cost	Carrying value	Cost
Total private equity investments	**$7,153**	**$6,231**	$ 6,081	$7,326

(a) 2006 has been revised to reflect the current presentation.

Private Equity includes investments in buyouts, growth equity and venture opportunities. These investments are accounted for under investment company guidelines. Accordingly, these investments, irrespective of the percentage of equity ownership interest held, are carried on the Consolidated balance sheets at fair value. Realized and unrealized gains and losses arising from changes in value are reported in Principal transactions revenue in the Consolidated statements of income in the period that the gains or losses occur. For a discussion of the valuation of Private equity investments, see Note 4 on pages 111–118 of this Annual Report.

Note 7 – Other noninterest revenue

Investment banking fees

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

The following table presents the components of Investment banking fees.

Year ended December 31, (in millions)	2007	2006	2005
Underwriting:			
Equity	**$ 1,713**	$ 1,179	$ 864
Debt	**2,650**	2,703	1,969
Total Underwriting	**4,363**	3,882	2,833
Advisory	**2,272**	1,638	1,255
Total	**$ 6,635**	$ 5,520	$ 4,088

Lending & deposit-related fees

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

Asset management, administration and commissions

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

Mortgage fees and related income

This revenue category primarily reflects Retail Financial Services' mortgage banking revenue, including fees and income derived from mortgages originated with the intent to sell; mortgage sales and servicing; the impact of risk management activities associated with the mortgage pipeline, warehouse and MSRs; and revenue related to any residual interests held from mortgage securitizations. This revenue category also includes gains and losses on sales and lower of cost or fair value adjustments for mortgage loans held-for-sale, as well as changes in fair value for mortgage loans originated with the intent to sell and measured at fair value under SFAS 159. For loans measured at fair value under SFAS 159, origination costs are recognized in the associated expense category as incurred. Costs to originate loans held-for-sale and accounted for at the lower of cost or fair value are deferred and recognized as a component of the gain or loss on sale. Net interest income from mortgage loans and securities gains and losses on available-for-sale ("AFS") securities used in mortgage-related risk management activities are not included in Mortgage fees and related income. For a further discussion of MSRs, see Note 18 on pages 154–156 of this Annual Report.

Credit card income

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

Credit card revenue sharing agreements

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

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

Note 8 – Interest income and Interest expense

Details of Interest income and Interest expense were as follows.

Year ended December 31, (in millions)	2007	2006	2005
Interest income[(a)]			
Loans	**$36,660**	$ 33,121	$ 26,056
Securities	**5,232**	4,147	3,129
Trading assets	**17,041**	10,942	9,117
Federal funds sold and securities purchased under resale agreements	**6,497**	5,578	3,562
Securities borrowed	**4,539**	3,402	1,618
Deposits with banks	**1,418**	1,265	660
Interests in purchased receivables[(b)]	**—**	652	933
Total interest income	**71,387**	59,107	45,075
Interest expense[(a)]			
Interest-bearing deposits	**21,653**	17,042	9,986
Short-term and other liabilities	**16,142**	14,086	10,002
Long-term debt	**6,606**	5,503	4,160
Beneficial interests issued by consolidated VIEs	**580**	1,234	1,372
Total interest expense	**44,981**	37,865	25,520
Net interest income	**26,406**	21,242	19,555
Provision for credit losses	**6,864**	3,270	3,483
Net interest income after Provision for credit losses	**$19,542**	$ 17,972	$ 16,072

(a) Interest income and Interest expense include the current period interest accruals for financial instruments measured at fair value except for financial instruments containing embedded derivatives that would be separately accounted for in accordance with SFAS 133 absent the SFAS 159 fair value election; for those instruments, all changes in value, including any interest elements, are reported in Principal transactions revenue.

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

Note 9 – Pension and other postretirement employee benefit plans

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

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

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

Defined benefit pension plans

The Firm has a qualified noncontributory U.S. defined benefit pension plan that provides benefits to substantially all U.S. employees. The U.S. plan employs a cash balance formula, in the form of pay and interest credits, to determine the benefits to be provided at retirement, based upon eligible compensation and years of service. Employees begin to accrue plan benefits after completing one year of service, and benefits generally vest after five years of service (effective January 1, 2008, benefits will vest after three years of service). The Firm also offers benefits through defined benefit pension plans to qualifying employees in certain non-U.S. locations based upon factors such as eligible compensation, age and/or years of service.

It is the Firm's policy to fund the pension plans in amounts sufficient to meet the requirements under applicable employee benefit and local tax laws. The amount of potential 2008 contributions to its U.S. defined benefit pension plans, if any, is not reasonably estimable at this time. The amount of potential 2008 contributions to its non-U.S. defined benefit pension plans is $33 million.

JPMorgan Chase also has a number of defined benefit pension plans not subject to Title IV of the Employee Retirement Income Security Act. The most significant of these plans is the Excess Retirement Plan, pursuant to which certain employees earn pay and interest credits on compensation amounts above the maximum stipulated by law under a qualified plan. The Excess Retirement Plan is a nonqualified, noncontributory U.S. pension plan with an unfunded projected benefit obligation in the amount of $262 million and $301 million, at December 31, 2007 and 2006, respectively.

Defined contribution plans

JPMorgan Chase offers several defined contribution plans in the U.S. and in certain non-U.S. locations, all of which are administered in accordance with applicable local laws and regulations. The most significant of these plans is The JPMorgan Chase 401(k) Savings Plan (the "401(k) Savings Plan"), which covers substantially all U.S. employees. The 401(k) Savings Plan allows employees to make pretax and Roth 401(k) contributions to tax-deferred investment portfolios.

The JPMorgan Chase Common Stock Fund, which is an investment option under the 401(k) Savings Plan, is a nonleveraged employee stock ownership plan. The Firm matches eligible employee contributions up to a certain percentage of benefits-eligible compensation per pay period, subject to plan and legal limits. Employees begin to receive matching contributions after completing a one-year-of-service requirement and are immediately vested in the Firm's contributions when made. Employees with total annual cash compensation of $250,000 or more are not eligible for matching contributions. The 401(k) Savings Plan also permits discretionary profit-sharing contributions by participating companies for certain employees, subject to a specified vesting schedule.

OPEB plans

JPMorgan Chase offers postretirement medical and life insurance benefits ("OPEB") to certain retirees and postretirement medical benefits to qualifying U.S. employees. These benefits vary with length of service and date of hire and provide for limits on the Firm's share of covered medical benefits. The medical benefits are contributory, while the life insurance benefits are noncontributory. Postretirement medical benefits also are offered to qualifying U.K. employees.

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

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

	Defined benefit pension plans					
As of or for the year ended December 31,	U.S.		Non-U.S.		OPEB plans[d]	
(in millions)	**2007**	2006	**2007**	2006	**2007**	2006
Change in benefit obligation						
Benefit obligation, beginning of year	**$ (8,098)**	$ (8,054)	**$ (2,917)**	$ (2,378)	**$ (1,443)**	$ (1,395)
Benefits earned during the year	**(270)**	(281)	**(36)**	(37)	**(7)**	(9)
Interest cost on benefit obligations	**(468)**	(452)	**(144)**	(120)	**(74)**	(78)
Plan amendments	**—**	—	**2**	2	**—**	—
Liabilities of newly material plans	**—**	—	**(5)**	(154)[c]	**—**	—
Employee contributions	**NA**	NA	**(3)**	(2)	**(57)**	(50)
Net gain (loss)	**494**	(200)	**327**	(23)	**231**	(55)
Benefits paid	**789**	856	**90**	68	**165**	177
Expected Medicare Part D subsidy receipts	**NA**	NA	**NA**	NA	**(11)**	(13)
Curtailments	**—**	33	**4**	2	**(6)**	(12)
Settlements	**—**	—	**24**	37	**—**	—
Special termination benefits	**—**	—	**(1)**	(1)	**(1)**	(2)
Foreign exchange impact and other	**(3)**	—	**(84)**	(311)	**(1)**	(6)
Benefit obligation, end of year	**$ (7,556)**	$ (8,098)	**$ (2,743)**	$ (2,917)	**$ (1,204)**	$ (1,443)
Change in plan assets						
Fair value of plan assets, beginning of year	**$ 9,955**	$ 9,617	**$ 2,813**	$ 2,223	**$ 1,351**	$ 1,329
Actual return on plan assets	**753**	1,151	**57**	94	**87**	120
Firm contributions	**37**	43	**92**	241	**3**	2
Employee contributions	**—**	—	**3**	2	**—**	—
Assets of newly material plans	**—**	—	**3**	67[c]	**—**	—
Benefits paid	**(789)**	(856)	**(90)**	(68)	**(35)**	(100)
Settlements	**—**	—	**(24)**	(37)	**—**	—
Foreign exchange impact and other	**4**	—	**79**	291	**—**	—
Fair value of plan assets, end of year	**$ 9,960**[b]	$ 9,955[b]	**$ 2,933**	$ 2,813	**$ 1,406**	$ 1,351
Funded (unfunded) status[a]	**$ 2,404**	$ 1,857	**$ 190**	$ (104)	**$ 202**	$ (92)
Accumulated benefit obligation, end of year	**$ (7,184)**	$ (7,679)	**$ (2,708)**	$ (2,849)	**NA**	NA

(a) Overfunded plans with an aggregate balance of $3.3 billion and $2.3 billion at December 31, 2007 and 2006, respectively, are recorded in Other assets. Underfunded plans with an aggregate balance of $491 million and $596 million at December 31, 2007 and 2006, respectively, are recorded in Accounts payable, accrued expense and other liabilities.
(b) At December 31, 2007 and 2006, approximately $299 million and $282 million, respectively, of U.S. plan assets related to participation rights under participating annuity contracts.
(c) Reflects adjustments related to pension plans in Germany and Switzerland, which have defined benefit pension obligations that were not previously measured under SFAS 87 due to immateriality.
(d) Includes an unfunded accumulated postretirement benefit obligation of $49 million and $52 million at December 31, 2007 and 2006, respectively, for the U.K. plan.

The following table presents pension and OPEB amounts recorded in Accumulated other comprehensive income (loss), before tax.

	Defined benefit pension plans					
As of or for the year ended December 31,	U.S.		Non-U.S.		OPEB plans	
(in millions)	**2007**	2006	**2007**	2006	**2007**	2006
Net loss	**$ (250)**	$ (783)	**$ (434)**	$ (669)	**$ (98)**	$ (335)
Prior service cost (credit)	**(31)**	(36)	**2**	—	**58**	77
Accumulated other comprehensive income (loss), before tax, end of year	**$ (281)**	$ (819)	**$ (432)**	$ (669)	**$ (40)**	$ (258)

The following table presents the components of Net periodic benefit costs reported in the Consolidated statements of income and Other comprehensive income for the Firm's U.S. and non-U.S. defined benefit pension and OPEB plans.

	Defined benefit pension plans								
	U.S.			Non-U.S.			OPEB plans		
Year ended December 31, (in millions)	**2007**	2006	2005	**2007**	2006	2005	**2007**	2006	2005
Components of Net periodic benefit cost									
Benefits earned during the year	**$ 270**	$ 281	$ 293	**$ 36**	$ 37	$ 25	**$ 7**	$ 9	$ 13
Interest cost on benefit obligations	**468**	452	453	**144**	120	104	**74**	78	81
Expected return on plan assets	**(714)**	(692)	(694)	**(153)**	(122)	(109)	**(93)**	(93)	(90)
Amortization:									
Net loss	**—**	12	4	**55**	45	38	**14**	29	12
Prior service cost (credit)	**5**	5	5	**—**	—	1	**(16)**	(19)	(10)
Curtailment (gain) loss	**—**	2	3	**—**	1	—	**2**	2	(17)
Settlement (gain) loss	**—**	—	—	**(1)**	4	—	**—**	—	—
Special termination benefits	**—**	—	—	**1**	1	—	**1**	2	1
Net periodic benefit cost	**29**	60	64	**82**	86	59	**(11)**	8	(10)
Other defined benefit pension plans[a]	**4**	2	3	**27**	36	39	**NA**	NA	NA
Total defined benefit plans	**33**	62	67	**109**	122	98	**(11)**	8	(10)
Total defined contribution plans	**268**	254	237	**219**	199	155	**NA**	NA	NA
Total pension and OPEB cost included in Compensation expense	**$ 301**	$ 316	$ 304	**$ 328**	$ 321	$ 253	**$ (11)**	$ 8	$ (10)
Changes in plan assets and benefit obligations recognized in Other comprehensive income									
Net gain arising during the year	**$(533)**	NA	NA	**$(176)**	NA	NA	**$(223)**	NA	NA
Prior service credit arising during the year	**—**	NA	NA	**(2)**	NA	NA	**—**	NA	NA
Amortization of net loss	**—**	NA	NA	**(55)**	NA	NA	**(14)**	NA	NA
Amortization of prior service cost (credit)	**(5)**	NA	NA	**—**	NA	NA	**16**	NA	NA
Curtailment (gain) loss	**—**	NA	NA	**(5)**	NA	NA	**3**	NA	NA
Settlement loss	**—**	NA	NA	**1**	NA	NA	**—**	NA	NA
Total recognized in Other comprehensive income	**(538)**	NA	NA	**(237)**	NA	NA	**(218)**	NA	NA
Total recognized in Net periodic benefit cost and Other comprehensive income	**$(509)**	NA	NA	**$(155)**	NA	NA	**$(229)**	NA	NA

(a) Includes various defined benefit pension plans, which are individually immaterial.

The estimated amounts that will be amortized from AOCI into Net periodic benefit cost, before tax, in 2008 are as follows.

	Defined benefit pension plans		OPEB plans	
Year ended December 31, 2008 (in millions)	U.S.	Non-U.S.	U.S.	Non-U.S.
Net loss	$ —	$ 27	$ —	$ —
Prior service cost (credit)	4	—	(15)	—
Total	$ 4	$ 27	$ (15)	$ —

Plan assumptions

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

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

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

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

Weighted-average assumptions used to determine benefit obligations

	U.S.		Non-U.S.	
December 31,	**2007**	2006	**2007**	2006
Discount rate:				
Defined benefit pension plans	**6.60%**	5.95%	**2.25-5.80%**	2.25-5.10%
OPEB plans	**6.60**	5.90	**5.80**	5.10
Rate of compensation increase	**4.00**	4.00	**3.00-4.25**	3.00-4.00
Health care cost trend rate:				
Assumed for next year	**9.25**	10.00	**5.75**	6.63
Ultimate	**5.00**	5.00	**4.00**	4.00
Year when rate will reach ultimate	**2014**	2014	**2010**	2010

Weighted-average assumptions used to determine Net periodic benefit costs

	U.S.			Non-U.S.		
Year ended December 31,	**2007**	2006	2005	**2007**	2006	2005
Discount rate:						
Defined benefit pension plans	**5.95%**	5.70%	5.75%	**2.25-5.10%**	2.00-4.70%	2.00-5.30%
OPEB plans	**5.90**	5.65	5.25-5.75[(a)]	**5.10**	4.70	5.30
Expected long-term rate of return on plan assets:						
Defined benefit pension plans	**7.50**	7.50	7.50	**3.25-5.60**	3.25-5.50	3.25-5.75
OPEB plans	**7.00**	6.84	6.80	**NA**	NA	NA
Rate of compensation increase	**4.00**	4.00	4.00	**3.00-4.00**	3.00-3.75	1.75-3.75
Health care cost trend rate:						
Assumed for next year	**10.00**	10.00	10.00	**6.63**	7.50	7.50
Ultimate	**5.00**	5.00	5.00	**4.00**	4.00	4.00
Year when rate will reach ultimate	**2014**	2013	2012	**2010**	2010	2010

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

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

For the year ended **December 31, 2007** (in millions)	1-Percentage-point increase	1-Percentage-point decrease
Effect on total service and interest costs	**$ 4**	**$ (3)**
Effect on accumulated postretirement benefit obligation	**59**	**(51)**

At December 31, 2007, the Firm increased the discount rates used to determine its benefit obligations for the U.S. defined benefit pension and OPEB plans based upon current market interest rates, which will result in a decrease in expense of approximately $10 million for 2008. The 2008 expected long-term rate of return on U.S. pension plan assets and U.S. OPEB plan assets remained at 7.50% and 7.00%, respectively. The health care benefit obligation trend assumption declined from 10% in 2007 to 9.25% in 2008, declining to a rate of 5% in 2014. As of December 31, 2007, the interest crediting rate assumption and the assumed rate of compensation increase remained at 5.25% and 4.00%, respectively. At December 31, 2007, pension plan demographic assumptions were revised to reflect recent experience relating to form and timing of benefit distributions, and rates of turnover, which will result in a decrease in expense of approximately $9 million for 2008.

JPMorgan Chase's U.S. defined benefit pension and OPEB plan expense is most sensitive to the expected long-term rate of return on plan assets. With all other assumptions held constant, a 25–basis point decline in the expected long-term rate of return on U.S. plan assets would result in an increase of approximately $27 million in 2008 U.S. defined benefit pension and OPEB plan expense. A 25–basis point decline in the discount rate for the U.S. plans would result in a decrease in 2008 U.S. defined benefit pension and OPEB plan expense of approximately $3 million and an increase in the related projected benefit obligations of approximately $171 million. A 25-basis point decline in the discount rates for the non-U.S. plans would result in an increase in the 2008 non-U.S. defined benefit pension and OPEB plan expense of approximately $21 million. A 25-basis point increase in the interest crediting rate for the U.S. defined benefit pension plan would result in an increase in 2008 U.S. defined benefit pension expense of approximately $9 million and an increase in the related projected benefit obligations of approximately $64 million.

Investment strategy and asset allocation

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

The Firm's U.S. defined benefit pension plan assets are held in various trusts and are invested in a well-diversified portfolio of equities (including U.S. large and small capitalization and international equities), fixed income (including corporate and government bonds), Treasury inflation-indexed and high-yield securities, real estate, cash equivalents and alternative investments. Non-U.S. defined benefit pension plan assets are held in various trusts and are similarly invested in well-diversified portfolios of equity, fixed income and other securities. Assets of the Firm's COLI policies, which are used to fund partially the U.S. OPEB plan, are held in separate accounts with an insurance company and are invested in equity and fixed income index funds. In addition, tax-exempt municipal debt securities, held in a trust, were used to fund the U.S. OPEB plan in prior periods; as of December 31, 2006, there are no remaining assets in the trust. As of December 31, 2007, the assets used to fund the Firm's U.S. and non-U.S. defined benefit pension and OPEB plans do not include JPMorgan Chase common stock, except in connection with investments in third-party stock-index funds.

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

	Defined benefit pension plans								
	U.S.			Non-U.S.			OPEB plans[b]		
	Target	% of plan assets		Target	% of plan assets		Target	% of plan assets	
December 31,	Allocation	**2007**	2006	Allocation	**2007**	2006[a]	Allocation	**2007**	2006
Asset category									
Debt securities	10-30%	**28%**	31%	69%	**70%**	70%	50%	**50%**	50%
Equity securities	25-60	**45**	55	26	**25**	26	50	**50**	50
Real estate	5-20	**9**	8	1	**1**	1	—	**—**	—
Alternatives	15-50	**18**	6	4	**4**	3	—	**—**	—
Total	100%	**100%**	100%	100%	**100%**	100%	100%	**100%**	100%

(a) Represents the U.K. defined benefit pension plans only.
(b) Represents the U.S. OPEB plan only, as the U.K. OPEB plan is unfunded.

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

	U.S.			Non-U.S.		
December 31,	**2007**	2006	2005	**2007**	2006	2005
Actual rate of return:						
Defined benefit pension plans	**7.96%**	13.40%	7.50%	**0.06-7.51%**	2.80-7.30%	2.70-15.90%
OPEB plans	**6.51**	9.30	3.30	**NA**	NA	NA

Estimated future benefit payments

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

Year ended December 31, (in millions)	U.S. defined benefit pension plans	Non-U.S. defined benefit pension plans	OPEB before Medicare Part D subsidy	Medicare Part D subsidy
2008	$ 902	$ 89	$ 119	$ 11
2009	922	93	120	12
2010	587	97	122	13
2011	603	105	123	14
2012	626	111	124	16
Years 2013–2017	3,296	626	597	95

Note 10 – Employee stock-based incentives

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

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

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

In June 2007, the FASB ratified EITF 06-11, which requires that realized tax benefits from dividends or dividend equivalents paid on equity-classified share-based payment awards that are charged to retained earnings should be recorded as an increase to additional paid-in capital and included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards. Prior to the issuance of EITF 06-11, the Firm did not include these tax benefits as part of this pool of excess tax benefits. The Firm adopted EITF 06-11 on January 1, 2008. The adoption of this consensus did not have an impact on the Firm's Consolidated balance sheet or results of operations.

Employee stock-based awards

In 2007 and 2006, JPMorgan Chase granted long-term stock-based awards to certain key employees under the 2005 Long-Term Incentive Plan (the "2005 Plan"). In 2005, JPMorgan Chase granted long-term stock-based awards under the 1996 Long-Term Incentive Plan as amended (the "1996 plan") until May 2005, and after May 2005, under the 2005 Plan thereafter to certain key employees. These two plans, plus prior Firm plans and plans assumed as the result of acquisitions, constitute the Firm's stock-based compensation plans ("LTI Plans"). The 2005 Plan became effective on May 17, 2005, after approval by shareholders at the 2005 annual meeting. The 2005 Plan replaced three existing stock-based compensation plans – the 1996 Plan and two nonshareholder approved plans – all of which expired before the effectiveness of the 2005 Plan. Under the terms of the 2005 Plan, 275 million shares of common stock are available for issuance during its five-year term. The 2005 Plan is the only active plan under which the Firm is currently granting stock-based incentive awards.

Restricted stock units ("RSUs") are awarded at no cost to the recipient upon their grant. RSUs are generally granted annually and generally vest 50 percent after two years and 50 percent after three years and convert to shares of common stock at the vesting date. In addition, RSUs typically include full career eligibility provisions, which allow employees to continue to vest upon voluntary termination, subject to post-employment and other restrictions. All of these awards are subject to forfeiture until the vesting date. An RSU entitles the recipient to receive cash payments equivalent to any dividends paid on the underlying common stock during the period the RSU is outstanding.

Under the LTI Plans, stock options and SARs have been granted with an exercise price equal to the fair value of JPMorgan Chase's common stock on the grant date. The Firm typically awards SARs to certain key employees once per year, and it also periodically grants discretionary share-based payment awards to individual employees, primarily in the form of both employee stock options and SARs. The 2007 grant of SARs to key employees vests ratably over five years (i.e., 20 percent per year) and the 2006 and 2005 awards vest one-third after each of years 3, 4 and 5. These awards do not include any full career eligibility provisions and all awards generally expire 10 years after the grant date.

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

The Firm's policy for issuing shares upon settlement of employee share-based payment awards is to issue either new shares of common stock or treasury shares. On April 17, 2007, the Board of Directors approved a stock repurchase program that authorizes the repurchase of up to $10.0 billion of the Firm's common shares, which supersedes an $8.0 billion stock repurchase program approved in 2006. The $10.0 billion authorization includes shares to be repurchased to offset issuances under the Firm's employee stock-based plans. During 2007, the Firm settled all of its employee stock-based awards by issuing treasury shares.

In December 2005, the Firm accelerated the vesting of approximately 41 million unvested, out-of-the-money employee stock options granted in 2001 under the Growth and Performance Incentive Program, which were scheduled to vest in January 2007. These options were not modified other than to accelerate vesting. The related expense was approximately $145 million, and was recognized as compensation expense in the fourth quarter of 2005. The Firm believed that at the time the options were accelerated they had limited economic value since the exercise price of the accelerated options was $51.22 and the closing price of the Firm's common stock on the effective date of the acceleration was $39.69.

RSU activity

Compensation expense for RSUs is measured based upon the number of shares granted multiplied by the stock price at the grant date, and is recognized in Net income as previously described. The following table summarizes JPMorgan Chase's RSU activity for 2007.

Year ended December 31, 2007

(in thousands, except weighted average data)	Number of Shares	Weighted-average grant date fair value
Outstanding, January 1	88,456#	$ 38.50
Granted	47,608	48.29
Vested	(30,925)	38.09
Forfeited	(6,122)	42.56
Outstanding, December 31	99,017#	$ 43.11

The total fair value of shares that vested during the years ended December 31, 2007, 2006 and 2005, was $1.5 billion, $1.3 billion and $1.1 billion, respectively.

Employee stock option and SARs activity

Compensation expense, which is measured at the grant date as the fair value of employee stock options and SARs, is recognized in Net income as described above.

The following table summarizes JPMorgan Chase's employee stock option and SARs activity for the year ended December 31, 2007, including awards granted to key employees and awards granted in prior years under broad-based plans.

Year ended December 31, 2007

(in thousands, except weighted-average data)	Number of options/SARs	Weighted-average exercise price	Weighted-average remaining contractual life (in years)	Aggregate intrinsic value
Outstanding, January 1	376,227#	$ 40.31		
Granted	21,446	46.65		
Exercised	(64,453)	34.73		
Forfeited	(1,410)	40.13		
Canceled	(5,879)	48.10		
Outstanding, December 31	325,931#	$ 41.70	4.0	$ 1,601,780
Exercisable, December 31	281,327	41.44	3.2	1,497,992

The weighted-average grant date per share fair value of stock options and SARs granted during the years ended December 31, 2007, 2006 and 2005, was $13.38, $10.99 and $10.44, respectively. The total intrinsic value of options exercised during the years ended December 31, 2007, 2006 and 2005 was $937 million, $994 million and $364 million, respectively.

Impact of adoption of SFAS 123R

During 2006, the incremental expense related to the Firm's adoption of SFAS123R was $712 million. This amount represents an accelerated noncash recognition of costs that would otherwise have been incurred in future periods. Also as a result of adopting SFAS 123R, the Firm's Income from continuing operations (pretax) for the year ended December 31, 2006, was lower by $712 million, and each of Income from continuing operations (after-tax), and Net income for the year ended December 31, 2006, was lower by $442 million, than if the Firm had continued to account for share-based compensation under APB 25 and SFAS 123. Basic and diluted earnings per share from continuing operations, as well as basic and diluted Net income per share, for the year ended December 31, 2006 were $.13 and $.12 lower, respectively, than if the Firm had not adopted SFAS 123R.

The Firm recognized noncash compensation expense related to its various employee stock-based incentive awards of $2.0 billion, $2.4 billion (including the $712 million incremental impact of adopting SFAS 123R) and $1.6 billion for the years ended December 31, 2007, 2006, and 2005, respectively, in its Consolidated statements of income. These amounts included an accrual for the estimated cost of stock awards to be granted to full career eligible employees of $500 million and $498 million for the years ended December 31, 2007 and 2006 respectively. At December 31, 2007, approximately $1.3 billion (pretax) of compensation cost related to unvested awards has not yet been charged to Net income. That cost is expected to be amortized into compensation expense over a weighted-average period of 1.4 years. The Firm does not capitalize any compensation cost related to share-based compensation awards to employees.

Cash flows and tax benefits

Prior to adopting SFAS 123R, the Firm presented all tax benefits of deductions resulting from share-based compensation awards as operating cash flows in its Consolidated statements of cash flows. Beginning in 2006, SFAS 123R requires the cash flows resulting from the tax benefits of tax deductions in excess of the compensation expense recognized for those share-based compensation awards (i.e., excess tax benefits) to be classified as financing cash flows.

The total income tax benefit related to stock-based compensation arrangements recognized in the Firm's Consolidated statements of income for the years ended December 31, 2007, 2006 and 2005, was $810 million, $947 million and $625 million, respectively.

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

Year ended December 31, (in millions)	**2007**	2006	2005
Cash received for options exercised	**$ 2,023**	$ 1,924	$ 635
Tax benefit realized	**238**	211	65

Comparison of the fair and intrinsic value measurement methods

The following table presents Net income and basic and diluted earnings per share as reported, and as if all 2005 share-based payment awards were accounted for at fair value. All 2007 and 2006 awards were accounted for at fair value.

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

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

Year ended December 31,	**2007**	2006	2005
Weighted-average annualized valuation assumptions			
Risk-free interest rate	**4.78%**	5.11%	4.25%
Expected dividend yield	**3.18**	2.89	3.79
Expected common stock price volatility	**33**	23	37
Expected life (in years)	**6.8**	6.8	6.8

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

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

Note 11 – Noninterest expense

Merger costs

On July 1, 2004, Bank One Corporation merged with and into JPMorgan Chase ("the Merger"). Costs associated with the Merger and the Bank of New York transaction are reflected in the Merger costs caption of the Consolidated statements of income. A summary of such costs, by expense category, is shown in the following table for 2007, 2006 and 2005.

Year ended December 31, (in millions)	2007	2006	2005
Expense category			
Compensation	**$ (19)**	$ 26	$ 238
Occupancy	**17**	25	(77)
Technology and communications and other	**188**	239	561
Bank of New York transaction[(a)]	**23**	15	—
Total[(b)]	**$ 209**	$ 305	$ 722

(a) Represents Compensation and Technology and communications and other.
(b) With the exception of occupancy-related write-offs, all of the costs in the table require the expenditure of cash.

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

Year ended December 31, (in millions)	2007	2006	2005
Liability balance, beginning of period	**$ 155**	$ 311	$ 952
Recorded as merger costs	**186**	290	722
Recorded as goodwill	**(60)**	—	(460)
Liability utilized	**(281)**	(446)	(903)
Liability balance, end of period[(a)]	**$ —**	$ 155	$ 311

(a) Excludes $10 million and $21 million at December 31, 2007 and 2006, respectively, related to the Bank of New York transaction.

Note 12 – Securities

Securities are classified as AFS, Held-to-maturity ("HTM") or Trading. Trading securities are discussed in Note 6 on page 122 of this Annual Report. Securities are classified primarily as AFS when purchased as part of the Firm's management of its structural interest rate risk. AFS securities are carried at fair value on the Consolidated balance sheets. Unrealized gains and losses after any applicable SFAS 133 hedge accounting adjustments are reported as net increases or decreases to Accumulated other comprehensive income (loss). The specific identification method is used to determine realized gains and losses on AFS securities, which are included in Securities gains (losses) on the Consolidated statements of income. Securities that the Firm has the positive intent and ability to hold to maturity are classified as HTM and are carried at amortized cost on the Consolidated balance sheets. The Firm has not classified new purchases of securities as HTM for the past several years.

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

Year ended December 31, (in millions)	2007	2006	2005
Realized gains	**$ 667**	$ 399	$ 302
Realized losses	**(503)**	(942)	(1,638)
Net realized Securities gains (losses)[(a)]	**$ 164**	$ (543)	$ (1,336)

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

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

	2007				2006			
December 31, (in millions)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale securities								
U.S. government and federal agency obligations:								
U.S. treasuries	**$ 2,470**	**$ 14**	**$ 2**	**$ 2,482**	$ 2,398	$ —	$ 23	$ 2,375
Mortgage-backed securities	**8**	**1**	**—**	**9**	32	2	1	33
Agency obligations	**73**	**9**	**—**	**82**	78	8	—	86
U.S. government-sponsored enterprise obligations	**62,511**	**643**	**55**	**63,099**	75,434	334	460	75,308
Obligations of state and political subdivisions	**92**	**1**	**2**	**91**	637	17	4	650
Debt securities issued by non-U.S. governments	**6,804**	**18**	**28**	**6,794**	6,150	7	52	6,105
Corporate debt securities	**1,927**	**1**	**4**	**1,924**	611	1	3	609
Equity securities	**4,124**	**55**	**1**	**4,178**	3,689	125	1	3,813
Other[(a)]	**6,779**	**48**	**80**	**6,747**	2,890	50	2	2,938
Total available-for-sale securities	**$ 84,788**	**$ 790**	**$ 172**	**$ 85,406**	$ 91,919	$ 544	$ 546	$ 91,917
Held-to-maturity securities[(b)]								
Total held-to-maturity securities	**$ 44**	**$ 1**	**$ —**	**$ 45**	$ 58	$ 2	$ —	$ 60

(a) Primarily includes privately issued mortgage-backed securities and negotiable certificates of deposit.
(b) Consists primarily of mortgage-backed securities issued by U.S. government-sponsored entities.

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

2007 (in millions)	Securities with gross unrealized losses: Less than 12 months — Fair value	Less than 12 months — Gross unrealized losses	12 months or more — Fair value	12 months or more — Gross unrealized losses	Total Fair value	Total Gross unrealized losses
Available-for-sale securities						
U.S. government and federal agency obligations:						
U.S. treasuries	**$ 175**	**$ 2**	**$ —**	**$ —**	**$ 175**	**$ 2**
Mortgage-backed securities	**—**	**—**	**—**	**—**	**—**	**—**
Agency obligations	**—**	**—**	**—**	**—**	**—**	**—**
U.S. government-sponsored enterprise obligations	**—**	**—**	**1,345**	**55**	**1,345**	**55**
Obligations of state and political subdivisions	**21**	**2**	**—**	**—**	**21**	**2**
Debt securities issued by non-U.S. governments	**335**	**3**	**1,928**	**25**	**2,263**	**28**
Corporate debt securities	**1,126**	**3**	**183**	**1**	**1,309**	**4**
Equity securities	**—**	**—**	**4**	**1**	**4**	**1**
Other	**3,193**	**64**	**285**	**16**	**3,478**	**80**
Total securities with gross unrealized losses	**$ 4,850**	**$ 74**	**$ 3,745**	**$ 98**	**$ 8,595**	**$ 172**

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

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

Included in the $172 million of gross unrealized losses on AFS securities at December 31, 2007, was $98 million of unrealized losses that have existed for a period greater than 12 months. These securities are predominately rated AAA and the unrealized losses are primarily due to overall increases in market interest rates and not concerns regarding the underlying credit of the issuers. The majority of the securities with unrealized losses aged greater than 12 months are obligations of U.S. government-sponsored enterprises and have a fair value at December 31, 2007, that is within 4% of their amortized cost basis.

Due to the issuers' continued satisfaction of their obligations under the contractual terms of the securities, the Firm's evaluation of the fundamentals of the issuers' financial condition and other objective evidence, and the Firm's consideration of its intent and ability to hold the securities for a period of time sufficient to allow for the anticipated recovery in the market value of the securities, the Firm believes that these securities were not other-than-temporarily impaired as of December 31, 2007 and 2006.

The following table presents the amortized cost, estimated fair value and average yield at December 31, 2007, of JPMorgan Chase's AFS and HTM securities by contractual maturity.

By remaining maturity at **December 31, 2007** (in millions, except rates)	Available-for-sale securities			Held-to-maturity securities		
	Amortized cost	Fair value	Average yield[b]	Amortized cost	Fair value	Average yield[b]
Due in one year or less	$ 6,669	$ 6,673	4.28%	$ —	$ —	—%
Due after one year through five years	6,264	6,280	3.63	—	—	—
Due after five years through 10 years	1,315	1,286	4.66	40	41	6.88
Due after 10 years[a]	70,540	71,167	5.57	4	4	6.07
Total securities	$ 84,788	$ 85,406	5.31%	$ 44	$ 45	6.81%

(a) Includes securities with no stated maturity. Substantially all of the Firm's mortgage-backed securities and collateralized mortgage obligations are due in 10 years or more based upon contractual maturity. The estimated duration, which reflects anticipated future prepayments based upon a consensus of dealers in the market, is approximately four years for mortgage-backed securities and collateralized mortgage obligations.
(b) The average yield is based upon amortized cost balances at year-end. Yields are derived by dividing interest income by total amortized cost. Taxable-equivalent yields are used where applicable.

Note 13 – Securities financing activities

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

Resale agreements and repurchase agreements are generally treated as collateralized financing transactions carried on the Consolidated balance sheets at the amounts the securities will be subsequently sold or repurchased, plus accrued interest. On January 1, 2007, pursuant to the adoption of SFAS 159, the Firm elected fair value measurement for certain resale and repurchase agreements. For a further discussion of SFAS 159, see Note 5 on pages 119–121 of this Annual Report. These agreements continue to be reported within Securities purchased under resale agreements and Securities sold under repurchase agreements on the Consolidated balance sheets. Generally for agreements carried at fair value, current period interest accruals are recorded within Interest income and Interest expense with changes in fair value reported in Principal transactions revenue. However, for financial instruments containing embedded derivatives that would be separately accounted for in accordance with SFAS 133, all changes in fair value, including any interest elements, are reported in Principal transactions revenue. Where appropriate, resale and repurchase agreements with the same counterparty are reported on a net basis in accordance with FIN 41. JPMorgan Chase takes possession of securities purchased under resale agreements. On a daily basis, JPMorgan Chase monitors the market value of the underlying collateral, primarily U.S. and non-U.S. government and agency securities that it has received from its counterparties, and requests additional collateral when necessary.

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

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

December 31, (in millions)	**2007**	2006
Securities purchased under resale agreements[a]	**$169,305**	$122,479
Securities borrowed	**84,184**	73,688
Securities sold under repurchase agreements[b]	**$126,098**	$143,253
Securities loaned	**10,922**	8,637

(a) Included resale agreements of $19.1 billion accounted for at fair value at December 31, 2007.
(b) Included repurchase agreements of $5.8 billion accounted for at fair value at December 31, 2007.

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

At December 31, 2007, the Firm had received securities as collateral that could be repledged, delivered or otherwise used with a fair value of approximately $357.6 billion. This collateral was generally obtained under resale or securities borrowing agreements. Of these securities, approximately $333.7 billion were repledged, delivered or otherwise used, generally as collateral under repurchase agreements, securities lending agreements or to cover short sales.

Note 14 – Loans

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

- At the principal amount outstanding, net of the Allowance for loan losses, unearned income and any net deferred loan fees for loans held-for-investment;
- At the lower of cost or fair value, with valuation changes recorded in Noninterest revenue for loans that are classified as held-for-sale; or
- At fair value, with changes in fair value recorded in Noninterest revenue for loans classified as Trading assets or risk managed on a fair value basis.

See Note 5 on pages 119–121 of this Annual Report for further information on the Firm's elections of fair value accounting under SFAS 159. See Note 6 on page 122 of this Annual Report for further information on loans carried at fair value and classified as trading assets.

Interest income is recognized using the interest method, or on a basis approximating a level rate of return over the term of the loan.

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

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

Consumer loans are generally charged to the Allowance for loan losses upon reaching specified stages of delinquency, in accordance with the Federal Financial Institutions Examination Council policy. For example, credit card loans are charged off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification of the filing of bankruptcy, whichever is earlier. Residential mortgage products are generally charged off to net realizable value at no later than180 days past due. Other consumer products, if collateralized, are generally charged off to net realizable value at 120 days past due. Accrued interest on residential mortgage products, automobile financings, education financings and certain other consumer loans are accounted for in accordance with the nonaccrual loan policy discussed in the preceding paragraph. Interest and fees related to credit card loans continue to accrue until the loan is charged off or paid in full. Accrued interest on all other consumer loans is generally reversed against Interest income when the loan is charged off. A collateralized loan is considered an in-substance foreclosure and is reclassified to assets acquired in loan satisfactions, within Other assets, only when JPMorgan Chase has taken physical possession of the collateral, regardless of whether formal foreclosure proceedings have taken place.

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

December 31, (in millions)	**2007**	2006
U.S. wholesale loans:		
Commercial and industrial	**$ 97,347**	$ 77,788
Real estate	**13,388**	14,237
Financial institutions	**14,760**	14,103
Lease financing	**2,353**	2,608
Other	**5,405**	9,950
Total U.S. wholesale loans	**133,253**	118,686
Non-U.S. wholesale loans:		
Commercial and industrial	**59,153**	43,428
Real estate	**2,110**	1,146
Financial institutions	**17,225**	19,163
Lease financing	**1,198**	1,174
Other	**137**	145
Total non-U.S. wholesale loans	**79,823**	65,056
Total wholesale loans:(a)		
Commercial and industrial	**156,500**	121,216
Real estate(b)	**15,498**	15,383
Financial institutions	**31,985**	33,266
Lease financing	**3,551**	3,782
Other	**5,542**	10,095
Total wholesale loans	**213,076**	183,742
Total consumer loans:(c)		
Home equity	**94,832**	85,730
Mortgage	**56,031**	59,668
Auto loans and leases	**42,350**	41,009
Credit card(d)	**84,352**	85,881
Other	**28,733**	27,097
Total consumer loans	**306,298**	299,385
Total loans(e)(f)	**$ 519,374**	$483,127
Memo:		
Loans held-for-sale	**$ 18,899**	$ 55,251
Loans at fair value	**8,739**	—
Total loans held-for-sale and loans at fair value	**$ 27,638**	$ 55,251

(a) Includes Investment Bank, Commercial Banking, Treasury & Securities Services and Asset Management.
(b) Represents credits extended for real estate–related purposes to borrowers who are primarily in the real estate development or investment businesses and for which the primary repayment is from the sale, lease, management, operations or refinancing of the property.
(c) Includes Retail Financial Services, Card Services and the Corporate segment.
(d) Includes billed finance charges and fees net of an allowance for uncollectible amounts.
(e) Loans (other than those for which SFAS 159 fair value option has been elected) are presented net of unearned income and net deferred loan fees of $1.0 billion and $1.3 billion at December 31, 2007 and 2006, respectively.
(f) As a result of the adoption of SFAS 159, certain loans are accounted for at fair value and reported in Trading assets and therefore, such loans are no longer included in loans at December 31, 2007.

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

Year ended December 31, (in millions)	**2007**	2006[(b)]	2005[(b)]
Net gains/(losses) on sales of loans (including lower of cost or fair value adjustments)[(a)]	**$ 99**	$ 672	$ 464

(a) Excludes sales related to loans accounted for at fair value.
(b) Prior periods have been revised to reflect the current presentation.

Impaired loans

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

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

December 31, (in millions)	**2007**	2006
Impaired loans with an allowance	**$ 782**	$ 623
Impaired loans without an allowance[(a)]	**28**	66
Total impaired loans	**$ 810**	$ 689
Allowance for impaired loans under SFAS 114[(b)]	**224**	153

(a) When the discounted cash flows, collateral value or market price equals or exceeds the carrying value of the loan, then the loan does not require an allowance under SFAS 114.
(b) The allowance for impaired loans under SFAS 114 is included in JPMorgan Chase's Allowance for loan losses.

Year ended December 31, (in millions)	**2007**	2006	2005
Average balance of impaired loans during the period	**$ 645**	$ 990	$ 1,478
Interest income recognized on impaired loans during the period	**—**	2	5

Note 15 – Allowance for credit losses

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

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

The formula-based component covers performing wholesale and consumer loans. It is based on a statistical calculation, which is adjusted to take into consideration model imprecision, external factors and current economic events that have occurred but are not yet reflected in the factors used to derive the statistical calculation. The statistical calculation is the product of probability of default ("PD") and loss given default ("LGD"). For risk-rated loans (generally loans originated by the wholesale lines of business), these factors are differentiated by risk rating and maturity. PD estimates are based on observable external data, primarily credit-rating agency default statistics. LGD estimates are based on a study of actual credit losses over more than one credit cycle. For scored loans (generally loans originated by the consumer lines of business), loss is primarily determined by applying statistical loss factors and other risk indicators to pools of loans by asset type.

Management applies its judgment within estimated ranges to adjust the statistical calculation. Where adjustments are made to the statistical calculation for the risk-rated portfolios, the estimated ranges and the determination of the appropriate point within the range are based upon management's view of the quality of underwriting standards, relevant internal factors affecting the credit quality of the current portfolio and external factors such as current macroeconomic and political conditions that have occurred but are not yet reflected in the loss factors. Factors related to concentrated and deteriorating industries are also incorporated into the calculation where relevant. Adjustments to the statistical calculation for the scored loan portfolios are accomplished in part by analyzing the historical loss experience for each major product segment. The estimated ranges and the determination of the appropriate point within the range are based upon management's view of uncertainties that relate to current macroeconomic and political conditions, the quality of underwriting standards, and other relevant internal and external factors affecting the credit quality of the portfolio.

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

At least quarterly, the allowance for credit losses is reviewed by the Chief Risk Officer, the Chief Financial Officer and the Controller of the Firm and discussed with the Risk Policy and Audit Committees of the Board of Directors of the Firm. As of December 31, 2007, JPMorgan Chase deemed the allowance for credit losses to be appropriate (i.e., sufficient to absorb losses that are inherent in the portfolio, including those not yet identifiable).

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

Year ended December 31, (in millions)	2007	2006	2005
Allowance for loan losses at January 1	**$ 7,279**	$ 7,090	$ 7,320
Cumulative effect of change in accounting principles[a]	**(56)**	—	—
Allowance for loan losses at January 1, adjusted	**7,223**	7,090	7,320
Gross charge-offs	**(5,367)**	(3,884)	(4,869)
Gross recoveries	**829**	842	1,050
Net charge-offs	**(4,538)**	(3,042)	(3,819)
Provision for loan losses	**6,538**	3,153	3,575
Other[b]	**11**	78	14
Allowance for loan losses at December 31	**$ 9,234**	$ 7,279	$ 7,090
Components:			
Asset-specific[c]	**$ 188**	$ 118	$ 247
Formula-based[c]	**9,046**	7,161	6,843
Total Allowance for loan losses	**$ 9,234**	$ 7,279	$ 7,090

(a) Reflects the effect of the adoption of SFAS 159 at January 1, 2007. For a further discussion of SFAS 159, see Note 5 on pages 119–121of this Annual Report.
(b) 2006 amount primarily relates to loans acquired in the Bank of New York transaction.
(c) Prior periods have been revised to reflect current presentation.

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

Year ended December 31, (in millions)	2007	2006	2005
Allowance for lending-related commitments at January 1	**$ 524**	$ 400	$ 492
Provision for lending-related commitments	**326**	117	(92)
Other[a]	**—**	7	—
Allowance for lending-related commitments at December 31	**$ 850**	$ 524	$ 400
Components:			
Asset-specific	**$ 28**	$ 33	$ 60
Formula-based	**822**	491	340
Total Allowance for lending-related commitments	**$ 850**	$ 524	$ 400

(a) 2006 amount relates to the Bank of New York transaction.

Note 16 – Loan securitizations

JPMorgan Chase securitizes and sells a variety of its consumer and wholesale loans, including warehouse loans that are classified in Trading assets. Consumer activities include securitizations of residential real estate, credit card, automobile and education loans that are originated or purchased by RFS and Card Services ("CS"). Wholesale activities include securitizations of purchased residential real estate loans and commercial loans (primarily real estate–related) originated by the IB.

JPMorgan Chase–sponsored securitizations utilize SPEs as part of the securitization process. These SPEs are structured to meet the definition of a QSPE (as discussed in Note 1 on page 108 of this Annual Report); accordingly, the assets and liabilities of securitization-related QSPEs are not reflected in the Firm's Consolidated balance sheets (except for retained interests, as described below) but are included on the balance sheet of the QSPE purchasing the assets. The primary purpose of these vehicles is to meet investor needs and to generate liquidity for the Firm through the sale of loans to the QSPEs. Assets held by JPMorgan Chase-sponsored securitization-related QSPEs as of December 31, 2007 and 2006, were as follows.

December 31, (in billions)	2007	2006
Consumer activities		
Credit card	**$ 92.7**	$ 86.4
Auto	**2.3**	4.9
Residential mortgage:		
Prime[a]	**51.1**	34.3
Subprime	**10.6**	6.4
Education loans	**1.1**	—
Wholesale activities		
Residential mortgage:		
Prime[a]	**20.5**	18.1
Subprime	**13.1**	25.7
Commercial and other[b][c]	**109.6**	87.1
Total	**$ 301.0**	$ 262.9

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

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

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

Interests in the securitized loans may be retained by the Firm in the form of senior or subordinated interest-only strips, senior and subordinated tranches and escrow accounts. The classification of retained interests is dependent upon several factors, including the type of interest (e.g., whether the retained interest is represented by a security certificate) and when it was retained, due to the adoption of SFAS 155. The Firm has elected to fair value all interests in securitized loans retained after December 31, 2005, that have an embedded derivative required to be bifurcated under SFAS 155; these retained interests are classified primarily as Trading assets. Retained interests related to wholesale securitization activities are classified as Trading assets. Prior to the adoption of SFAS 155, for consumer activities, senior and subordinated retained interests represented by a security certificate were classified as AFS; retained interests not represented by a security certificate were classified in Other assets.

For those retained interests that are subject to prepayment risk (such that JPMorgan Chase may not recover substantially all of its investment) but are not required to be bifurcated under SFAS 155, the retained interests are recorded at fair value; subsequent adjustments are reflected in earnings or in Other comprehensive income (loss). Retained interests classified as AFS are subject to the impairment provisions of EITF 99-20.

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

2007, 2006 and 2005 Securitization activity

The following tables summarize new securitization transactions that were completed during 2007, 2006 and 2005; the resulting gains arising from such securitizations; certain cash flows received from such securitizations; and the key economic assumptions used in measuring the retained interests (if any) other than residential MSRs (for a discussion of residential MSRs, see Note 18 on pages 154–157 of this Annual Report), as of the dates of such sales.

Year ended December 31, 2007	Consumer activities					Wholesale activities		
(in millions, except rates and where otherwise noted)			Residential mortgage			Residential mortgage		
	Credit card	Auto	Prime[c]	Subprime[f]	Education loans	Prime[c]	Subprime	Commercial and other
Principal securitized	**$ 21,160**	**$ —**	**$ 22,778**	**$ 6,150**	**$ 1,168**	**$ 9,306**	**$ 613**	**$ 12,797**
Pretax gains	**177**	**—**	**26**[d]	**43**	**51**	**2**[d]	**—**	**—**
Cash flow information:								
Proceeds from securitizations	**$ 21,160**	**$ —**	**$ 22,572**	**$ 6,236**	**$ 1,168**	**$ 9,219**	**$ 608**	**$ 13,038**
Servicing fees collected	**179**	**—**	**36**	**17**	**2**	**—**	**—**	**7**
Other cash flows received	**935**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Proceeds from collections reinvested in revolving securitizations	**148,946**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Key assumptions (rates per annum):								
Prepayment rate[a]	**20.4% PPR**		**14.8-24.2% CPR**		**1.0-8.0% CPR**	**13.7-37.2% CPR**	**30.0-48.0% CPR**	**0.0-8.0% CPR**
Weighted-average life (in years)	**0.4**		**3.2-4.0**		**9.3**	**1.3-5.4**	**2.3-2.8**	**1.3-10.2**
Expected credit losses	**3.5-3.9%**		**—%**[e]		**—%**[e]	**0.6-1.6%**	**1.2-2.2%**	**0.0-1.0%**[e]
Discount rate	**12.0%**		**5.8-13.8%**		**9.0%**	**6.3-20.0%**	**12.1-26.7%**	**10.0-14.0%**

Year ended December 31, 2006 (in millions, except rates and where otherwise noted)	Consumer activities					Wholesale activities		
			Residential mortgage			Residential mortgage		
	Credit card	Auto	Prime[c]	Subprime[f]	Education loans	Prime[c]	Subprime	Commercial and other
Principal securitized	$ 9,735	$ 2,405	$ 14,179	$ 2,624	$ —	$ 16,075	$ 14,735	$ 13,858
Pretax gains (losses)	67	—	42	43	—	11	150	129
Cash flow information:								
Proceeds from securitizations	$ 9,735	$ 1,745	$ 14,102	$ 2,652	$ —	$ 16,065	$ 14,983	$ 14,248
Servicing fees collected	88	3	16	2	—	—	—	1
Other cash flows received	401	—	—	—	—	35	—	95
Proceeds from collections reinvested in revolving securitizations	151,186	—	—	—	—	—	—	—
Key assumptions (rates per annum):								
Prepayment rate[a]	20.0–22.2% PPR	1.4-1.5% ABS	18.2-24.6% CPR			10.0-41.3% CPR	36.0–45.0% CPR	0.0–36.2% CPR
Weighted-average life (in years)	0.4	1.4–1.9	3.0-3.6			1.7-4.0	1.5–2.4	1.5–6.1
Expected credit losses	3.3–4.2%	0.3–0.7%	—%[e]			0.1-3.3%	1.1-2.1%	0.0–0.9%[e]
Discount rate	12.0%	7.6–7.8%	8.4-12.7%			16.0-26.2%	15.1–22.0%	3.8–14.0%

Year ended December 31, 2005 (in millions, except rates and where otherwise noted)	Consumer activities					Wholesale activities		
			Residential mortgage			Residential mortgage		
	Credit card	Auto	Prime[c]	Subprime[f]	Education loans	Prime[c]	Subprime	Commercial and other
Principal securitized	$ 15,145	$ 3,762	$ 18,125	$ —	$ —	$ 5,447	$ 5,952	$ 11,292
Pretax gains (losses)	101	9[b]	21	—	—	3	(6)	134
Cash flow information:								
Proceeds from securitizations	$ 14,844	$ 2,622	$ 18,093	$ —	$ —	$ 5,434	$ 6,060	$ 11,398
Servicing fees collected	94	4	17	—	—	—	—	—
Other cash flows received	298	—	—	—	—	—	—	3
Proceeds from collections reinvested in revolving securitizations	129,696	—	—	—	—	—	—	—
Key assumptions (rates per annum):								
Prepayment rate[a]	16.7–20.0% PPR	1.5% ABS	9.1-12.1% CPR				22.0–43.0% CPR	0.0–50.0% CPR
Weighted-average life (in years)	0.4–0.5	1.4–1.5	5.6-6.7				1.4–2.6	1.0–4.4
Expected credit losses	4.7–5.7%	0.6–0.7%	—%[e]				0.6–2.0%	—%[e]
Discount rate	12.0%	6.3–7.3%	13.0-13.3%				16.0–18.5%	0.6–0.9%

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

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

(c) Includes Alt-A loans.

(d) As of January 1, 2007, the Firm adopted the fair value election for the IB warehouse and a portion of the RFS mortgage warehouse. The carrying value of these loans accounted for at fair value approximates the proceeds received from securitization.

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

(f) Interests in subprime residential mortgage securitizations for consumer activities are held by the Investment Bank and the key assumptions used in measuring these retailed interests are reported under subprime residential mortgages for wholesale activities.

In addition to the amounts reported for securitization activity in the preceding table, the Firm sold residential mortgage loans totaling $81.8 billion, $53.7 billion and $52.5 billion during 2007, 2006 and 2005, respectively, primarily for securitization by the Government National Mortgage Association ("GNMA"), Federal National Mortgage Association ("FNMA") and Federal Home Loan Mortgage Corporation ("Freddie Mac"); these sales resulted in pretax gains of $47 million, $251 million and $293 million, respectively.

Retained servicing

JPMorgan Chase retains servicing responsibilities for all originated and for certain purchased residential mortgage, credit card and automobile loan securitizations and for certain commercial activity securitizations it sponsors, and receives servicing fees based upon the securitized loan balance plus certain ancillary fees. The Firm also retains the right to service the residential mortgage loans it sells to GNMA, FNMA and Freddie Mac. For a discussion of mortgage servicing rights, see Note 18 on pages 154–157 of this Annual Report.

The Firm provides mortgage servicing on a recourse and nonrecourse basis. In nonrecourse servicing, the principal credit risk to the Firm is the cost of temporary servicing advances of funds (i.e., normal servicing advances). In recourse servicing, the servicer agrees to share credit risk with the owner of the mortgage loans such as FNMA or Freddie Mac or with a private investor, insurer or guarantor. Losses on recourse servicing occur primarily when foreclosure sale proceeds of the property underlying a defaulted mortgage are less than the outstanding principal balance and accrued interest of the loan and the cost of holding and disposing of the underlying property. The Firm's mortgage loan securitizations are primarily nonrecourse, thereby effectively transferring the risk of future credit losses to the purchaser of the securities issued by the trust. As of December 31, 2007 and 2006, the amount of recourse obligations totaled $557 million and $649 million, respectively.

Retained securitizations interest

At both December 31, 2007 and 2006, the Firm had, with respect to its credit card master trusts, $18.6 billion and $19.3 billion, respectively, related to undivided interests, and $2.7 billion and $2.5 billion, respectively, related to subordinated interests in accrued interest and fees on the securitized receivables, net of an allowance for uncollectible amounts. Credit card securitization trusts require the Firm to maintain a minimum undivided interest of 4% to 12% of the principal receivables in the trusts. The Firm maintained an average undivided interest in principal receivables in the trusts of approximately 19% for 2007 and 21% for 2006. The Firm also maintains escrow accounts up to predetermined limits for some credit card, automobile and education securitizations to cover the unlikely event of deficiencies in cash flows owed to investors. The amounts available in such escrow accounts are recorded in Other assets and, as of December 31, 2007, amounted to $97 million, $21 million and $3 million for credit card, automobile and education securitizations, respectively; as of December 31, 2006, these amounts were $153 million and $56 million for credit card and automobile securitizations, respectively.

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

December 31, (in millions)	**2007**	2006
Consumer activities		
Credit card[(a)(b)]	**$ 887**	$ 833
Auto[(a)(c)]	**85**	168
Residential mortgage[(a)]:		
Prime[(d)]	**128**	43
Subprime	**93**	112
Education loans	**55**	—
Wholesale activities[(e)(f)]		
Residential mortgages:		
Prime[(d)]	**253**	204
Subprime	**294**	828
Commercial and other	**42**	117
Total[(g)]	**$ 1,837**	$2,305

(a) Pretax unrealized gains/(losses) recorded in Stockholders' equity that relate to retained securitization interests on consumer activities totaled $(14) million and $3 million for credit card; $3 million and $4 million for automobile and $44 million and $51 million for residential mortgage at December 31, 2007 and 2006, respectively.
(b) The credit card retained interest amount noted above includes subordinated securities retained by the Firm totaling $284 million and $301 million at December 31, 2007 and 2006, respectively, that are classified as AFS securities. The securities are valued using quoted market prices and therefore are not included in the key economic assumptions and sensitivities table that follows.
(c) In addition to these auto retained interests, the Firm had $188 million of senior securities at December 31, 2006, that were classified as AFS securities. These securities were valued using quoted market prices and therefore were not included in the key economic assumption and sensitivities table that follows. The Firm did not have any such securities at December 31, 2007.
(d) Includes Alt-A loans.
(e) In addition to these wholesale retained interests, the Firm also retained subordinated securities totaling $22 million and $23 million at December 31, 2007 and 2006, respectively, predominately from resecuritizations activities that are classified as Trading assets. These securities are valued using quoted market prices and therefore are not included in the key assumptions and sensitivities table that follows.
(f) Some consumer activities securitization interests are retained by the Investment Bank and reported under Wholesale activities.
(g) In addition to the retained interests described above, the Firm also held investment-grade interests of $9.7 billion and $3.1 billion at December 31, 2007 and 2006, respectively, that the Firm expects to sell to investors in the normal course of its underwriting activity or that are purchased in connection with secondary market-making activities.

The table below outlines the key economic assumptions used to determine the fair value of the Firm's retained interests other than residential MSRs (for a discussion of residential MSRs, see Note 18 on pages 154–157 of this Annual Report) in its securitizations at December 31, 2007 and 2006, respectively; and it outlines the sensitivities of those fair values to immediate 10% and 20% adverse changes in those assumptions.

December 31, 2007 (in millions, except rates and where otherwise noted)	Consumer activities					Wholesale activities		
			Residential mortgage			Residential mortgage		
	Credit card	Auto	Prime[c]	Subprime	Education loans	Prime[c]	Subprime	Commercial and other
Weighted-average life (in years)	**0.4–0.5**	**0.9**	**3.7**	**1.8**	**8.8**	**2.9-4.9**	**3.3**	**0.3–11.0**
Prepayment rate[a]	**15.6-18.9% PPR**	**1.4% ABS**	**21.1% CPR**	**26.2% CPR**	**1.0–8.0% CPR**	**19.0-25.3% CPR**	**25.6% CPR**	**0.0–50.0%**[e] **CPR**
Impact of 10% adverse change	**$ (59)**	**$ (1)**	**$ (8)**	**$ (1)**	**$ (1)**	**$ (6)**	**(29)**	**$ (1)**
Impact of 20% adverse change	**(118)**	**(1)**	**(13)**	**(1)**	**(2)**	**(12)**	**(53)**	**(2)**
Loss assumption	**3.3-4.6%**	**0.6%**	**—%**[b]	**1.0%**	**—%**[b]	**0.6-3.0%**	**4.1%**	**0.0–0.9%**[b]
Impact of 10% adverse change	**$ (117)**	**$ (2)**	**$ —**	**$ (2)**	**$ —**	**$ (13)**	**$ (66)**	**$ (1)**
Impact of 20% adverse change	**(234)**	**(3)**	**—**	**(5)**	**—**	**(25)**	**(115)**	**(1)**
Discount rate	**12.0%**	**6.8%**	**12.2%**	**15.0-30.0%**[d]	**9.0%**	**11.0-23.9%**	**19.3%**	**1.0–18.0%**
Impact of 10% adverse change	**$ (2)**	**$ —**	**$ (5)**	**$ (2)**	**$ (3)**	**$ (13)**	**$ (14)**	**$ —**
Impact of 20% adverse change	**(4)**	**(1)**	**(10)**	**(4)**	**(5)**	**(26)**	**(27)**	**(1)**

December 31, 2006 (in millions, except rates and where otherwise noted)	Consumer activities					Wholesale activities		
			Residential mortgage			Residential mortgage		
	Credit card	Auto	Prime[c]	Subprime	Education loans	Prime[c]	Subprime	Commercial and other
Weighted-average life (in years)	0.4–0.5	1.1	3.4	0.2-1.2	—	2.3-2.5	1.9	0.2–5.9
Prepayment rate[a]	17.5–20.4% PPR	1.4% ABS	19.3% CPR	31.1-41.8% CPR	—	10.0-33.6% CPR	42.9% CPR	0.0–50.0%[e] CPR
Impact of 10% adverse change	$ (52)	$ (1)	$ (2)	$ (2)	$ —	$ (9)	$ (35)	$ (1)
Impact of 20% adverse change	(104)	(3)	(5)	(2)	—	(17)	(45)	(2)
Loss assumption	3.5–4.1%	0.7%	—%[b]	1.4-5.1%	—	0.1-0.7%	2.2%	0.0–1.3%[b]
Impact of 10% adverse change	$ (87)	$ (4)	$ —	$ (4)	$ —	$ (3)	$ (42)	$ (1)
Impact of 20% adverse change	(175)	(7)	—	(8)	—	(7)	(82)	(1)
Discount rate	12.0%	7.6%	8.4%	15.0–30.0%[d]	—	16.0-20.0%	16.9%	0.5–14.0%
Impact of 10% adverse change	$ (2)	$ (1)	$ (1)	$ (2)	$ —	$ (7)	$ (18)	$ (1)
Impact of 20% adverse change	(3)	(2)	(3)	(4)	—	(16)	(32)	(2)

(a) PPR: principal payment rate; ABS: absolute prepayment speed; CPR: constant prepayment rate.
(b) Expected credit losses for prime residential mortgage, education loans and certain wholesale securitizations are minimal and are incorporated into other assumptions.
(c) Includes Alt-A loans.
(d) Residual interests from subprime mortgage Net Interest Margin securitizations are valued using a 30% discount rate.
(e) Prepayment risk on certain wholesale retained interests for commercial and other are minimal and are incorporated into other assumptions.

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

Expected static-pool net credit losses include actual incurred losses plus projected net credit losses, divided by the original balance of the outstandings comprising the securitization pool. The table below displays the expected static-pool net credit losses for 2007, 2006 and 2005, based upon securitizations occurring in that year.

	Loans securitized in:[a]					
	2007		2006		2005	
	Residential mortgage[b]	Auto	Residential mortgage[b]	Auto	Residential mortgage[b]	Auto
December 31, 2007	**7.8%**	**NA**	16.1%	0.7%	11.6%	0.5%
December 31, 2006	**NA**	**NA**	4.4	0.6	3.5	0.7
December 31, 2005	**NA**	**NA**	NA	NA	3.3	0.9

(a) Static-pool losses are not applicable to credit card securitizations due to their revolving nature.
(b) Primarily includes subprime residential mortgages securitized as part of wholesale activities. Expected losses for prime residential mortgage securitizations are minimal for consumer activities.

The table below presents information about delinquencies, net charge-offs (recoveries) and components of reported and securitized financial assets at December 31, 2007 and 2006 (see footnote (c) below).

	Total Loans		Nonaccrual and 90 days or more past due[e]		Net loan charge-offs (recoveries) Year ended	
December 31, (in millions)	**2007**	2006	**2007**	2006	**2007**	2006
Home Equity	**$ 94,832**	$ 85,730	**$ 810**	$ 454	**$ 564**	$ 143
Mortgage	**56,031**	59,668	**1,798**	769	**190**	56
Auto loans and leases	**42,350**	41,009	**116**	132	**354**	238
Credit card	**84,352**	85,881	**1,554**	1,344	**3,116**	2,488
All other loans	**28,733**	27,097	**341**	322	**242**	139
Total consumer loans	**306,298**	299,385	**4,619**[f]	3,021[f]	**4,466**	3,064
Total wholesale loans	**213,076**	183,742	**589**	420	**72**	(22)
Total loans reported	**519,374**	483,127	**5,208**	3,441	**4,538**	3,042
Securitized consumer loans						
Residential mortgage:						
Prime[a]	**9,510**	4,180	**64**	1	**1**	1
Subprime	**2,823**	3,815	**146**	190	**46**	56
Automobile	**2,276**	4,878	**6**	10	**13**	15
Credit card	**72,701**	66,950	**1,050**	962	**2,380**	2,210
Other loans	**1,141**	—	**—**	—	**—**	—
Total consumer loans securitized	**88,451**	79,823	**1,266**	1,163	**2,440**	2,282
Securitized wholesale activities						
Residential mortgage:						
Prime[a]	**8,791**	12,528	**419**	63	**2**	—
Subprime	**12,156**	14,747	**2,710**	481	**361**	13
Commercial and other	**3,419**	13,756	**—**	6	**11**	3
Total securitized wholesale activities	**24,366**	41,031	**3,129**	550	**374**	16
Total loans securitized[b]	**112,817**	120,854	**4,395**	1,713	**2,814**	2,298
Total loans reported and securitized[c]	**$ 632,191**[d]	$ 603,981	**$ 9,603**	$ 5,154	**$ 7,352**	$ 5,340

(a) Includes Alt-A loans.
(b) Total assets held in securitization-related SPEs were $301.0 billion and $262.9 billion at December 31, 2007 and 2006, respectively. The $112.8 billion and $120.9 billion of loans securitized at December 31, 2007 and 2006, respectively, excludes $168.1 billion and $122.5 billion of securitized loans, in which the Firm's only continuing involvement is the servicing of the assets; $18.6 billion and $19.3 billion of seller's interests in credit card master trusts; and $1.5 billion and $256 million of escrow accounts and other assets, respectively.
(c) Represents both loans on the Consolidated balance sheets and loans that have been securitized, but excludes loans for which the Firm's only continuing involvement is servicing of the assets.
(d) Includes securitized loans that were previously recorded at fair value and classified as Trading assets.
(e) Includes nonperforming loans held-for-sale of $45 million and $120 million at December 31, 2007 and 2006, respectively.
(f) Excludes nonperforming assets related to (i) loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by U.S. government agencies of $1.5 billion and $1.2 billion at December 31, 2007 and 2006, respectively, and (ii) education loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of $279 million and $219 million at December 31, 2007 and 2006, respectively. These amounts for GNMA and education loans are excluded, as reimbursement is proceeding normally.

Subprime adjustable-rate mortgage loan modifications

See the Glossary of Terms on page 183 of this Annual Report for the Firm's definition of subprime loans. Within the confines of the limited decision-making abilities of a QSPE under SFAS 140, the operating documents that govern existing subprime securitizations generally authorize the servicer to modify loans for which default is reasonably foreseeable, provided that the modification is in the best interests of the QSPE's beneficial interest holders, and would not result in a REMIC violation.

In December 2007, the American Securitization Forum ("ASF") issued the "Streamlined Foreclosure and Loss Avoidance Framework for Securitized Subprime Adjustable Rate Mortgage Loans" ("the Framework"). The Framework provides guidance for servicers to streamline evaluation procedures for borrowers with certain subprime adjustable rate mortgage ("ARM") loans to more efficiently provide modifications of such loans with terms that are more appropriate for the individual needs of such borrowers. The Framework applies to all first-lien subprime ARM loans that have a fixed rate of interest for an initial period of 36 months or less, are included in securitized pools, were originated between January 1, 2005, and July 31, 2007, and have an initial interest rate reset date between January 1, 2008, and July 31, 2010 ("ASF Framework Loans").

The Framework categorizes the population of ASF Framework Loans into three segments. Segment 1 includes loans where the borrower is current and is likely to be able to refinance into any available mortgage product. Segment 2 includes loans where the borrower is current, is unlikely to be able to refinance into any readily available mortgage industry product and meets certain defined criteria. Segment 3 includes loans where the borrower is not current, as defined, and does not meet the criteria for Segments 1 or 2.

ASF Framework Loans in Segment 2 of the Framework are eligible for fast-track modification under which the interest rate will be kept at the existing initial rate, generally for five years following the interest rate reset date. The Framework indicates that for Segment 2 loans, JPMorgan Chase, as servicer, may presume that the borrower will be unable to make payments pursuant to the original terms of the borrower's loan after the initial interest rate reset date. Thus, the Firm may presume that a default on that loan by the borrower is reasonably foreseeable unless the terms of the loan are modified. JPMorgan Chase has adopted the loss mitigation approaches under the Framework for securitized subprime loans that meet the specific Segment 2 screening criteria, and it expects to begin modifying Segment 2 loans by the end of the first quarter of 2008. The Firm believes that the adoption of the Framework will not affect the off-balance sheet accounting treatment of JPMorgan Chase-sponsored QSPEs that hold Segment 2 subprime loans.

The total amount of assets owned by Firm-sponsored QSPEs that hold ASF Framework Loans (including those loans that are not serviced by the Firm) as of December 31, 2007, was $20.0 billion. Of this amount, $9.7 billion relates to ASF Framework Loans serviced by the Firm. Based on current economic conditions, the Firm estimates that approximately 20%, 10% and 70% of the ASF Framework Loans it services that are owned by Firm-sponsored QSPEs will fall within Segments 1, 2 and 3, respectively. This estimate could change substantially as a result of unanticipated changes in housing values, economic conditions, investor/borrower behavior and other factors.

The total principal amount of beneficial interests issued by Firm-sponsored securitizations that hold ASF Framework Loans as of December 31, 2007, was as follows.

December 31, 2007 (in millions)	**2007**
Third-party	$19,636
Retained interest	412
Total	$20,048

Note 17 – Variable interest entities

Refer to Note 1 on page 108 of this Annual Report for a further description of JPMorgan Chase's policies regarding consolidation of variable interest entities.

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

- Investment Bank: Utilizes VIEs to assist clients in accessing the financial markets in a cost-efficient manner. The IB is involved with VIEs through multi-seller conduits and for investor intermediation purposes as discussed below. The IB also securitizes loans through QSPEs, to create asset-backed securities, as further discussed in Note 16 on pages 139–145 of this Annual Report.
- Asset Management ("AM"): Provides investment management services to a limited number of the Firm's mutual funds deemed VIEs. AM earns a fixed fee based upon assets managed; the fee varies with each fund's investment objective and is competitively priced. For the limited number of funds that qualify as VIEs, AM's relationships with such funds are not considered significant variable interests under FIN 46R.
- Treasury & Securities Services: Provides services to a number of VIEs which are similar to those provided to non-VIEs. TSS earns market-based fees for the services it provides. The relationships resulting from TSS' services are not considered to be significant variable interests under FIN 46R.
- Commercial Banking ("CB"): Utilizes VIEs to assist clients in accessing the financial markets in a cost-efficient manner. This is often accomplished through the use of products similar to those offered in the IB. CB may assist in the structuring and/or ongoing administration of these VIEs and may provide liquidity, letters of credit and/or derivative instruments in support of the VIE. The relationships resulting from CB's services are not considered to be significant variable interests under FIN 46R.
- The Private Equity business, included in Corporate, may be involved with entities that could be deemed VIEs. Private equity activities are accounted for in accordance with the AICPA Audit and Accounting Guide *Investment Companies* (the "Guide"). In June 2007, the AICPA issued SOP 07-1, which provides guidance for determining whether an entity is within the scope of the Guide, and therefore qualifies to use the Guide's specialized accounting principles (referred to as "investment company accounting"). In May 2007, the FASB issued FSP FIN 46(R)-7, which amends FIN 46R to permanently exempt entities within the scope of the Guide from applying the provisions of FIN 46R to their investments. In February 2008, the FASB agreed to an indefinite delay of the effective date of SOP 07-1 in order to address implementation issues, which effectively delays FSP FIN 46(R)-7 as well for those companies, such as the Firm, that have not adopted SOP 07-1. Had FIN 46R been applied to VIEs subject to this deferral, the impact would have been immaterial to the Firm's consolidated financial statements as of December 31, 2007.

As noted above, the IB is primarily involved with multi-seller conduits and VIEs associated with investor intermediation activities. A discussion of these VIEs follows:

Multi-seller conduits

Funding and liquidity

The Firm is an active participant in the asset-backed securities business, and it helps customers meet their financing needs by providing access to the commercial paper markets through VIEs known as multi-seller conduits. Multi-seller conduit entities are separate bankruptcy-remote entities that purchase interests in, and make loans secured by, pools of receivables and other financial assets pursuant to agreements with customers of the Firm. The conduits fund their purchases and loans through the issuance of highly rated commercial paper to third-party investors. The primary source of repayment of the commercial paper is the cash flow from the pools of assets. In most instances, the assets are structured with deal-specific credit enhancements provided by the customers (i.e., sellers) to the conduits or other third parties. Deal-specific credit enhancements are generally structured to cover a multiple of historical losses expected on the pool of assets, and are typically in the form of overcollateralization provided by the seller, but also may include any combination of the following: recourse to the seller or originator, cash collateral accounts, letters of credit, excess spread, retention of subordinated interests or third-party guarantees. The deal-specific credit enhancements mitigate the Firm's potential losses on its agreements with the conduits.

JPMorgan Chase receives fees related to the structuring of multi-seller conduit transactions and receives compensation from the multi-seller conduits for its role as administrative agent, liquidity provider, and provider of program-wide credit enhancement.

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

The conduit's administrative agent can require the liquidity provider to perform under its asset purchase agreement with the conduit at any time. These agreements may cause the liquidity provider, including the Firm, to purchase an asset from the conduit at an amount above the asset's then current fair value – in effect providing a guarantee of the initial value of the reference asset as of the date of the agreement.

The Firm also provides the multi-seller conduit vehicles with program-wide liquidity facilities, in the form of uncommitted short-term revolving facilities that can be accessed by the conduits to handle funding increments too small to be funded by commercial paper, and in the form of uncommitted liquidity facilities that can be accessed by the conduits only in the event of short-term disruptions in the commercial paper market.

Because the majority of the liquidity facilities will only fund nondefaulted assets, program-wide credit enhancement is required to absorb losses on defaulted receivables in excess of losses absorbed by deal-specific credit enhancement. Program-wide credit enhancement may be provided by JPMorgan Chase in the form of standby letters of credit or by a third-party surety bond provider. The amount of program-wide credit enhancement required varies by conduit and ranges between 5% and 10% of total assets.

The following table summarizes the Firm's involvement with Firm-administered multi-seller conduits.

	Consolidated		Nonconsolidated		**Total**	
December 31, (in billions)	**2007**	2006	**2007**	2006	**2007**	2006
Total assets held by conduits	**$ —**	$ 3.4	**$ 61.2**	$ 43.6	**$ 61.2**	$ 47.0
Total commercial paper issued by conduits	**—**	3.4	**62.6**	44.1	**62.6**	47.5
Liquidity and credit enhancements						
Deal-specific liquidity facilities (Asset purchase agreements)	**—**	0.5	**87.3**	66.0	**87.3**	66.5
Program-wide liquidity facilities	**—**	1.0	**13.2**	4.0	**13.2**	5.0
Program-wide limited credit enhancements	**—**	—	**2.5**	1.6	**2.5**	1.6
Maximum exposure to loss[a]	**—**	1.0	**88.9**	67.0	**88.9**	68.0

(a) The Firm's maximum exposure to loss is limited to the amount of drawn commitments (i.e., sellers' assets held by the multi-seller conduits for which the Firm provides liquidity support) of $61.2 billion and $43.9 billion at December 31, 2007 and 2006, respectively, plus contractual but undrawn commitments of $27.7 billion and $24.1 billion at December 31, 2007 and 2006, respectively. Since the Firm provides credit enhancement and liquidity to Firm-administered, multi-seller conduits, the maximum exposure is not adjusted to exclude exposure that would be absorbed by third-party liquidity providers.

Assets funded by the multi-seller conduits

JPMorgan Chase's administered multi-seller conduits fund a variety of asset types for the Firm's clients. Asset types primarily include credit card receivables, auto loans and leases, trade receivables, education loans, commercial loans, residential mortgages, capital commitments (e.g., loans to private equity, mezzanine and real estate opportunity funds secured by capital commitments of highly rated institutional investors), and various other asset types. It is the Firm's intention that the assets funded by its administered multi-seller conduits be sourced only from the Firm's clients and not be originated by or transferred from JPMorgan Chase.

The following table presents information on the commitments and assets held by JPMorgan Chase's administered multi-seller conduits as of December 31, 2007 and 2006.

Summary of exposure to Firm-administered nonconsolidated multi-seller conduits

	2007				2006			
December 31, (in billions)	Unfunded commitments[(a)]	Funded assets	Liquidity provided by third parties	Total exposure	Unfunded commitments[(a)]	Funded assets	Liquidity provided by third parties	Total exposure
Asset types:								
Credit card	**$ 3.3**	**$ 14.2**	**$ —**	**$ 17.5**	$ 3.8	$ 10.6	$ —	$ 14.4
Automobile	**4.5**	**10.2**	**—**	**14.7**	4.2	8.2	—	12.4
Trade receivables	**6.0**	**6.6**	**—**	**12.6**	5.6	7.0	—	12.6
Education loans	**0.8**	**9.2**	**—**	**10.0**	0.3	0.9	—	1.2
Commercial	**2.7**	**5.5**	**(0.4)**	**7.8**	2.3	3.8	(0.5)	5.6
Residential mortgage	**4.6**	**3.1**	**—**	**7.7**	4.1	5.7	—	9.8
Capital commitments	**2.0**	**5.1**	**(0.6)**	**6.5**	0.8	2.0	(0.2)	2.6
Other	**3.8**	**7.3**	**(0.6)**	**10.5**	2.3	5.4	(0.3)	7.4
Total	**$ 27.7**	**$ 61.2**	**$ (1.6)**	**$ 87.3**	$ 23.4	$ 43.6	$ (1.0)	$ 66.0

	Ratings profile of VIE assets[(b)]						
December 31, 2007	Investment-grade				Noninvestment-grade	Funded	Wt. avg. expected
(in billions)	AAA to AAA-	AA+ to AA-	A+ to A-	BBB to BBB-	BB+ and below	assets	life (years)[(c)]
Asset types:							
Credit card	**$ 4.2**	**$ 9.4**	**$ 0.6**	**$ —**	**$ —**	**$ 14.2**	**1.5**
Automobile	**1.8**	**6.9**	**1.4**	**—**	**0.1**	**10.2**	**2.3**
Trade receivables	**—**	**4.7**	**1.7**	**0.2**	**—**	**6.6**	**1.3**
Education loans	**1.0**	**8.1**	**0.1**	**—**	**—**	**9.2**	**0.5**
Commercial	**0.5**	**4.2**	**0.7**	**0.1**	**—**	**5.5**	**2.6**
Residential mortgage	**1.5**	**0.8**	**0.8**	**—**	**—**	**3.1**	**1.5**
Capital commitments	**—**	**5.1**	**—**	**—**	**—**	**5.1**	**3.4**
Other	**2.0**	**4.6**	**0.4**	**0.2**	**0.1**	**7.3**	**2.0**
Total	**$ 11.0**	**$ 43.8**	**$ 5.7**	**$ 0.5**	**$ 0.2**	**$ 61.2**	**1.8**

	Ratings profile of VIE assets[(b)]						
December 31, 2006	Investment-grade				Noninvestment-grade	Funded	Wt. avg. expected
(in billions)	AAA to AAA-	AA+ to AA-	A+ to A-	BBB to BBB-	BB+ and below	assets	life (years)[(c)]
Asset types:							
Credit card	$ 1.0	$ 9.1	$ 0.4	$ 0.1	$ —	$ 10.6	1.1
Automobile	1.1	6.8	0.3	—	—	8.2	2.3
Trade receivables	0.1	5.0	1.7	0.2	—	7.0	1.1
Education loans	0.5	—	0.4	—	—	0.9	1.0
Commercial	0.7	2.2	0.9	—	—	3.8	3.0
Residential mortgage	—	5.1	0.6	—	—	5.7	0.9
Capital commitments	—	1.8	0.2	—	—	2.0	3.0
Other	2.0	3.1	0.1	0.2	—	5.4	2.0
Total	$ 5.4	$ 33.1	$ 4.6	$ 0.5	$ —	$ 43.6	1.7

(a) Unfunded commitments held by the conduits represent asset purchase agreements between the conduits and the Firm.
(b) The ratings scale is presented on an S&P equivalent basis.
(c) Weighted average expected life for each asset type is based upon the remainder of each conduit transaction's committed liquidity plus the expected weighted average life of the assets should the committed liquidity expire without renewal, or the expected time to sell the underlying assets in the securitization market.

The assets held by the multi-seller conduits are structured so that if the assets were rated, the Firm believes the majority of them would receive an "A" rating or better by external rating agencies. However, it is unusual for the assets held by the conduits to be explicitly rated by an external rating agency. Instead, the Firm's Credit Risk group assigns each asset purchase liquidity facility an internal risk-rating based on its assessment of the probability of default for the transaction. The ratings provided in the above table reflect the S&P-equivalent ratings of the internal rating grades assigned by the Firm.

The risk ratings are periodically reassessed as information becomes available. As a result of the deterioration in the credit markets during the second half of 2007, a number of asset purchase liquidity facilities had internal ratings downgrades. These downgrades involved facilities across various asset types. The largest concentration of downgrades related to residential mortgage and education loan exposures. As of December 31, 2007, 99% of the assets in the conduits were risk rated "A-" or better.

Commercial paper issued by the multi-seller conduits
The weighted average life of commercial paper issued by the multi-seller conduits was 51 days in 2007, compared with 36 days in 2006, and the average yield on the commercial paper was 5.3% in 2007, compared with 5.0% in 2006.

In the second half of 2007, the asset-backed commercial paper market was challenging as investors were concerned about potential subprime mortgage exposures. These concerns negatively affected the ability of many VIEs to reissue maturing commercial paper. However, investors have continued to purchase the commercial paper issued by the Firm-administered multi-seller conduits, although at higher yields and shorter maturities. Commercial paper spreads widened most significantly in December 2007, reflecting commercial paper investors' concerns about year-end redemptions and their need to have cash available.

In the normal course of business, JPMorgan Chase trades and invests in commercial paper, including commercial paper issued by the Firm-administered conduits. The percentage of commercial paper purchased by the Firm across all Firm-administered conduits during 2007 ranged from less than 1% to approximately 10% on any given day. The largest daily amount held by the Firm in any one multi-seller conduit during 2007 was approximately $2.7 billion, or 16%, of the conduit's commercial paper outstanding. Total commercial paper held by the Firm at December 31, 2007 and 2006, was $131 million and $1.3 billion, respectively. The Firm is not obligated under any agreement (contractual or noncontractual) to purchase the commercial paper issued by JPMorgan Chase-administered conduits.

Significant 2007 activity
In July 2007, a reverse repurchase agreement collateralized by prime residential mortgages held by a Firm-administered multi-seller conduit was put to JPMorgan Chase under its deal-specific liquidity facility. The asset was transferred to and recorded by JPMorgan Chase at its par value based on the fair value of the collateral that supported the reverse repurchase agreement. During the fourth quarter of 2007, additional information regarding the value of the collateral, including performance statistics, resulted in the determination by the Firm that the fair value of the collateral was impaired. Impairment losses will be allocated to the expected loss note ("ELN") holder (the party that absorbs the majority of the expected loss from the conduit) in accordance with the contractual provisions of the ELN note.

On October 29, 2007, certain structured CDO assets originated in the second quarter of 2007 and backed by subprime mortgages were transferred to the Firm from two Firm-administered multi-seller conduits. It became clear in October that commercial paper investors and rating agencies were becoming increasingly concerned about CDO assets backed by subprime mortgage exposures. Because of these concerns, and to ensure the continuing viability of the two conduits as financing vehicles for clients and as investment alternatives for commercial paper investors, the Firm, in its role as administrator, transferred the CDO assets out of the multi-seller conduits. The structured CDO assets were transferred to the Firm at their par value of $1.4 billion. As of December 31, 2007, the CDO assets were valued on the Consolidated balance sheet at $291 million.

There are no other structured CDO assets backed by subprime mortgages remaining in JPMorgan Chase-administered multi-seller conduits as of December 31, 2007. In addition, the Firm has no plans to permit the multi-seller conduits to purchase such assets in the future.

Consolidation analysis
The multi-seller conduits administered by the Firm are not consolidated at December 31, 2007, because each conduit had issued ELNs, the holders of which are committed to absorbing the majority of the expected loss of each respective conduit.

Implied support
The Firm's expected loss modeling treats all variable interests, other than the ELNs, as its own to determine consolidation. The Firm does not consider the October 2007 transfer of the structured CDO assets from the multi-seller conduits to JPMorgan Chase to be an indicator of JPMorgan Chase's intent to provide implicit support to the ELN holders. Instead, this action was a one-time, isolated event, limited to a specific type of asset that is not typically funded in the Firm's administered multi-seller conduits and for which the Firm has no plans (in its capacity as administrator) to allow the conduits to purchase in the future.

The Firm did not have and continues not to have any intent to protect any ELN holders from potential losses on any of the conduits' holdings and has no plans to remove any assets from any conduit unless required to do so in its role as administrator. Should such a transfer occur, the Firm would allocate losses on such assets between itself and the ELN holders in accordance with the terms of the applicable ELN.

Expected loss modeling
In 2006, the Firm restructured four multi-seller conduits that it administers. The restructurings included enhancing the Firm's expected loss model. In determining the primary beneficiary of the conduits it administers, the Firm uses a Monte Carlo–based model to estimate the expected losses of each of the conduits and considers the relative rights and obligations of each of the variable interest holders. The variability to be considered in the modeling of expected losses is based on the design of the entity. The Firm's traditional multi-seller conduits are designed to pass credit risk, not liquidity risk, to its variable interest holders, as the assets are intended to be held in the conduit for the longer term.

Under FIN 46R, the Firm is required to run the Monte Carlo-based expected loss model each time a reconsideration event occurs. In applying this guidance to the conduits, the following events are considered to be reconsideration events as they could affect the determination of the primary beneficiary of the conduits:

- New deals, including the issuance of new or additional variable interests (credit support, liquidity facilities, etc);
- Changes in usage, including the change in the level of outstanding variable interests (credit support, liquidity facilities, etc);
- Modifications of asset purchase agreements; and
- Sales of interests held by the primary beneficiary.

From an operational perspective, the Firm does not run its Monte Carlo-based expected loss model every time there is a reconsideration event due to the frequency of their occurrence. Instead, the Firm runs its expected loss model each quarter and includes a growth assumption for each conduit to ensure that a sufficient amount of ELNs exists for each conduit at any point during the quarter.

As part of its normal quarterly model review, the Firm reassesses the underlying assumptions and inputs of the expected loss model. During the second half of 2007, certain assumptions used in the model were adjusted to reflect the then current market conditions. Specifically, risk ratings and loss given default assumptions relating to residential subprime mortgage exposures were modified. For other nonmortgage-related asset classes, the Firm determined that the assumptions in the model required little adjustment. As a result of the updates to the model, during the fourth quarter of 2007 the terms of the ELNs were renegotiated to increase the level of commitment and funded amounts to be provided by the ELN holders. The total amount of expected loss notes outstanding at December 31, 2007 and 2006, were $130 million and $54 million, respectively. Management concluded that the model assumptions used were reflective of market participant's assumptions and appropriately considered the probability of a recurrence of recent market events.

Qualitative considerations
The multi-seller conduits are primarily designed to provide an efficient means for clients to access the commercial paper market. The Firm believes the conduits effectively disperse risk among all parties and that the preponderance of economic risk in the Firm's multi-seller conduits is not held by JPMorgan Chase. The percentage of assets in the multi-seller conduits that the Firm views as client-related represent 99% and 98% of the total conduits' holdings at December 31, 2007 and 2006, respectively.

Consolidated sensitivity analysis on capital
It is possible that the Firm could be required to consolidate a VIE if it were determined that the Firm became the primary beneficiary of the VIE under the provisions of FIN 46R. The factors involved in making the determination of whether or not a VIE should be consolidated are discussed above and in Note 1 on page 108 of this Annual Report.
The table below shows the impact on the Firm's reported assets, liabilities, Net income, Tier 1 capital ratio and Tier 1 leverage ratio if the Firm were required to consolidate all of the multi-seller conduits that it administers.

As of or for the year ending **December 31, 2007** (in billions, except ratios)	Reported	Pro forma
Assets	$ 1,562.1	$ 1,623.9
Liabilities	1,438.9	1,500.9
Net income	15.4	15.2
Tier 1 capital ratio	8.4%	8.4%
Tier 1 leverage ratio	6.0	5.8

The Firm could fund purchases of assets from VIEs should it become necessary.

Investor intermediation
As a financial intermediary, the Firm creates certain types of VIEs and also structures transactions, typically derivative structures, with these VIEs to meet investor needs. The Firm may also provide liquidity and other support. The risks inherent in the derivative instruments or liquidity commitments are managed similarly to other credit, market or liquidity risks to which the Firm is exposed. The principal types of VIEs for which the Firm is engaged in these structuring activities are municipal bond vehicles, credit-linked note vehicles and collateralized debt obligation vehicles.

Municipal bond vehicles
The Firm has created a series of secondary market trusts that provide short-term investors with qualifying tax-exempt investments, and that allow investors in tax-exempt securities to finance their investments at short-term tax-exempt rates. In a typical transaction, the vehicle purchases fixed-rate longer-term highly rated municipal bonds and funds the purchase by issuing two types of securities: (1) putable floating-rate certificates and (2) inverse floating-rate residual interests ("residual interests"). The maturity of each of the putable floating-rate certificates and the residual interests is equal to the life of the vehicle, while the maturity of the underlying municipal bonds is longer. Holders of the putable floating-rate certificates may "put", or tender, the certificates if the remarketing agent cannot successfully remarket the floating-rate certificates to another investor. A liquidity facility conditionally obligates the liquidity provider to fund the purchase of the tendered floating-rate certificates. Upon termination of the vehicle, if the proceeds from the sale of the underlying municipal bonds are not sufficient to repay the liquidity facility, the liquidity provider has recourse either to excess collateralization in the vehicle or the residual interest holders for reimbursement.

The third-party holders of the residual interests in these vehicles could experience losses if the face amount of the putable floating-rate certificates exceeds the market value of the municipal bonds upon termination of the vehicle. Certain vehicles require a smaller initial investment by the residual interest holders and thus do not result in excess collateralization. For these vehicles there exists a reimbursement obligation which requires the residual interest holders to post, during the life of the vehicle, additional collateral to the vehicle on a daily basis as the market value of the municipal bonds declines.

JPMorgan Chase often serves as the sole liquidity provider and remarketing agent of the putable floating-rate certificates. As the liquidity provider, the Firm has an obligation to fund the purchase of the putable floating-rate certificates; this obligation is triggered by the failure to remarket the putable floating-rate certificates. The liquidity provider's obligation to perform is conditional and is limited by certain termination events which include bankruptcy or failure to pay by the municipal bond issuer or credit enhancement provider, and the immediate downgrade of the municipal bond to below investment grade. In vehicles in which third-party investors own the residual interests, in addition to the termination events, the Firm's exposure as liquidity provider is further limited by the high credit quality of the underlying municipal bonds, and the excess collateralization in the vehicle or the reimbursement agreements with the residual interest holders.

As remarketing agent, the Firm may hold the putable floating-rate certificates; at December 31, 2007 and 2006, respectively, the Firm held $617 million and $275 million of these certificates on its Consolidated balance sheets. The largest amount held by the Firm at any time during 2007 was $1.0 billion, or 5%, of the municipal bond vehicles' outstanding putable floating-rate certificates. During 2007 and 2006, the Firm did not experience a draw on the liquidity facilities.

The long-term credit ratings of the putable floating-rate certificates are directly related to the credit ratings of the underlying municipal bonds, and to the credit rating of any insurer of the underlying municipal bond. A downgrade of a bond insurer would result in a downgrade of the insured municipal bonds, which would affect the rating of the putable floating-rate certificates. This could cause demand for these certificates by investors to decline or disappear, as putable floating-rate certificate holders typically require an "AA-" bond rating. At December 31, 2007 and 2006, 99% of the underlying municipal bonds held by vehicles to which the Firm served as liquidity provider were rated "AA-" or better. At December 31, 2007 and 2006, $702 million and $606 million, respectively, of the bonds were insured by a third party. During 2007 and 2006, the municipal bond vehicles did not experience any bankruptcy or downgrade termination events.

The Firm sometimes invests in the residual interests of municipal bond vehicles. For VIEs in which the Firm owns the residual interests, the Firm consolidates the VIEs. The likelihood that the Firm would have to consolidate VIEs where the Firm does not own the residual interests and that are currently off-balance sheet is remote.

Exposure to nonconsolidated municipal bond VIEs at December 31, 2007 and 2006, including the ratings profile of the VIE's assets, were as follows.

December 31, (in billions)	**2007** Fair value of assets held by VIEs	Liquidity facilities[(c)]	Excess/ (deficit)[(d)]	Total exposure	2006 Fair value of assets held by VIEs	Liquidity facilities[(c)]	Excess/ (deficit)[(d)]	Total exposure
Nonconsolidated Municipal bond vehicles[(a)(b)]	**$ 19.2**	**$ 18.1**	**$ 1.1**	**$ 18.1**	$ 11.1	$ 10.3	$ 0.8	$ 10.3

December 31, (in billions)	Ratings profile of VIE assets[(e)] Investment-grade: AAA to AAA-	AA+ to AA-	A+ to A-	BBB to BBB-	Noninvestment-grade: BB+ and below	Fair value of assets held by VIEs	Wt. avg. expected life of assets (years)
Nonconsolidated municipal bond vehicles[(a)]							
2007	**$ 14.6**	**$ 4.4**	**$ 0.2**	**$ —**	**$ —**	**$ 19.2**	**10.0**
2006	9.4	1.6	0.1	—	—	11.1	10.0

(a) Excluded $6.9 billion and $4.6 billion at December 31, 2007 and 2006, respectively, which were consolidated due to the Firm owning the residual interests.
(b) Certain of the municipal bond vehicles are structured to meet the definition of a QSPE (as discussed in Note 1 on page 108 of this Annual Report); accordingly, the assets and liabilities of QSPEs are not reflected in the Firm's Consolidated balance sheets (except for retained interests that are reported at fair value). Excluded nonconsolidated amounts of $7.1 billion and $4.7 billion at December 31, 2007 and 2006, respectively, related to QSPE municipal bond vehicles in which the Firm owned the residual interests.
(c) The Firm may serve as credit enhancement provider in municipal bond vehicles in which it serves as liquidity provider. The Firm provided insurance on underlying municipal bonds in the form of letters of credit in the amount of $103 million and $82 million at December 31, 2007 and 2006, respectively.
(d) Represents the excess (deficit) of municipal bond asset fair value available to repay the liquidity facilities if drawn.
(e) The ratings scale is presented on an S&P equivalent basis.

Credit-linked note vehicles

The Firm structures transactions with credit-linked note ("CLN") vehicles in which the VIE purchases highly rated assets (such as asset-backed securities) and enters into a credit derivative contract with the Firm to obtain exposure to a referenced credit which the VIE otherwise does not hold. The VIE then issues CLNs with maturities predominantly ranging from one to 10 years in order to transfer the risk of the referenced credit to the VIE's investors. Clients and investors often prefer using a CLN vehicle since the CLNs issued by the VIE generally carry a higher credit rating than such notes would if issued directly by JPMorgan Chase. The Firm's exposure to the CLN vehicles is generally limited to its rights and obligations under the credit derivative contract with the VIE as the Firm does not provide any additional financial support to the VIE. Accordingly, the Firm typically does not consolidate the CLN vehicles. As a derivative counterparty in a credit-linked note structure, the Firm has a senior claim on the collateral of the VIE and reports such derivatives on its balance sheet at fair value. Substantially all of the collateral purchased by such VIEs is investment-grade, with a significant majority being rated "AAA". The Firm divides its credit-linked note structures broadly into two types: static and managed.

In a static credit-linked note structure, the CLNs and associated credit derivative contract either reference a single credit (e.g., a multinational corporation) or all or part of a fixed portfolio of credits. The Firm generally buys protection from the VIE under the credit derivative. As a net buyer of credit protection, the Firm pays a premium to the VIE in return for the receipt of a payment (up to the notional amount of the derivative) if one or more reference credits defaults, or if the losses resulting from the default of the reference credits exceed specified levels.

In a managed credit-linked note structure, the CLNs and associated credit derivative generally reference all or part of an actively managed portfolio of credits. An agreement exists between a portfolio manager and the VIE that gives the portfolio manager the ability to substitute each referenced credit in the portfolio for an alternative credit. By participating in a structure where a portfolio manager has the ability to substitute credits within pre-agreed terms, the investors who own the CLNs seek to reduce the risk that any single credit in the portfolio will default. The Firm does not act as portfolio manager; its involvement with the VIE is generally limited to being a derivative counterparty. As a net buyer of credit protection, the Firm pays a premium to the VIE in return for the receipt of a payment (up to the notional of the derivative) if one or more credits within the portfolio defaults, or if the losses resulting from the default of reference credits exceed specified levels. Exposure to nonconsolidated credit-linked note VIEs at December 31, 2007 and 2006, was as follows.

	2007				2006			
December 31, (in billions)	Derivative receivable	Trading assets[(c)]	Total exposure[(d)]	Par value of collateral held by VIEs	Derivative receivable	Trading assets[(c)]	Total exposure[(d)]	Par value of collateral held by VIEs
Credit-linked notes[(a)]								
Static structure	**$ 0.8**	**$ 0.4**	**$ 1.2**	**$ 13.5**	$ 0.2	$ 0.1	$ 0.3	$15.9
Managed structure[(b)]	**4.5**	**0.9**	**5.4**	**12.8**	0.4	0.2	0.6	8.9
Total	**$ 5.3**	**$ 1.3**	**$ 6.6**	**$ 26.3**	$ 0.6	$ 0.3	$ 0.9	$24.8

(a) Excluded fair value of collateral of $2.5 billion and $2.0 billion at December 31, 2007 and 2006, respectively, which were consolidated.
(b) Includes synthetic CDO vehicles, which have similar risk characteristics to managed CLN vehicles; 2006 amounts have been revised to reflect this presentation. 2007 trading assets amounts include $291 million of transactions with subprime collateral.
(c) Trading assets principally comprise notes issued by VIEs, which from time to time are held as part of the termination of a deal or to support limited market-making.
(d) On-balance sheet exposure that includes Derivative receivables and trading assets.

Collateralized Debt Obligations vehicles

A CDO typically refers to a security that is collateralized by a pool of bonds, loans, equity, derivatives or other assets. The Firm's involvement with a particular CDO vehicle may take one or more of the following forms: arranger, warehouse funding provider, placement agent or underwriter, secondary market-maker for securities issued, or derivative counterparty.

Prior to the formal establishment of a CDO vehicle, there is a warehousing period where a VIE may be used to accumulate the assets which will be subsequently securitized and will serve as the collateral for the securities to be issued to investors. During this warehousing period, the Firm may provide all or a portion of the financing to the VIE, for which the Firm earns interest on the amounts it finances. A third-party asset manager that will serve as the manager for the CDO vehicle uses the warehouse funding provided by the Firm to purchase the financial assets. The funding commitments generally are one year in duration. In the event that the securitization of assets does not occur within the committed financing period, the warehoused assets are generally liquidated.

Because of the varied levels of support provided by the Firm during the warehousing period, which typically averages six to nine months, each CDO warehouse VIE is assessed in accordance with FIN 46(R) to determine whether the Firm is considered the primary beneficiary that should consolidate the VIE. In general, the Firm would consolidate the warehouse VIE unless another third party, typically the asset manager, provides significant protection for potential declines in the value of the assets held by the VIE. In those cases, the third party that provides the protection to the warehouse VIE would consolidate the VIE.

Once the portfolio of warehoused assets is large enough, the VIE will issue securities. The proceeds from the securities issuance will be used to repay the warehouse financing obtained from the Firm and other counterparties. In connection with the establishment of the CDO vehicle, the Firm typically earns a fee for arranging the CDO vehicle and distributing the securities (as placement agent and/or underwriter) and does not typically own any equity tranches issued. Once the CDO vehicle closes and issues securities, the Firm has no further obligation to provide further support to the vehicle. At the time of closing, the Firm may hold unsold positions that the Firm was not able to place with third-party investors. The amount of unsold positions at December 31, 2007, was insignificant. In addition, the Firm may on occasion hold some of the CDO vehicles' securities as a secondary market-maker or as a principal investor, or it may be a derivative counterparty to the vehicles. At December 31, 2007 and 2006, these amounts were not significant.

Exposures to CDO warehouse VIEs at December 31, 2007 and 2006, were as follows.

December 31, 2007 (in billions)	Funded loans	Unfunded commitments(a)	Total exposure(b)
CDO warehouse VIEs			
Consolidated	**$ 2.4**	**$ 1.9**	**$ 4.3**
Nonconsolidated	**2.7**	**3.4**	**6.1**
Total	**$ 5.1**	**$ 5.3**	**$ 10.4**

December 31, 2006 (in billions)	Funded loans	Unfunded commitments(a)	Total exposure(b)
CDO warehouse VIEs			
Consolidated	$ 2.3	$ 2.5	$ 4.8
Nonconsolidated	3.6	5.9	9.5
Total	$ 5.9	$ 8.4	$ 14.3

	Ratings profile of VIE assets(c)					
	Investment-grade				Noninvestment-grade	
December 31, (in billions)	AAA to AAA-	AA+ to AA-	A+ to A-	BBB to BBB-	BB+ and below	Total exposure
Nonconsolidated CDO warehouse VIEs						
2007	**$ —**	**$ —**	**$ —**	**$ —**	**$ 2.7**	**$ 2.7**
2006	—	—	—	0.8	2.8	3.6

(a) Typically contingent upon certain asset-quality conditions being met by asset managers.
(b) The aggregate of the fair value of loan exposure and any unfunded contractually committed financing.
(c) The ratings scale is based upon JPMorgan Chase's internal risk ratings and is presented on an S&P equivalent basis.

Consolidated VIE assets

The following table summarizes the Firm's total consolidated VIE assets, by classification, on the Consolidated balance sheets, as of December 31, 2007 and 2006.

December 31, (in billions)	2007	2006
Consolidated VIE assets		
Securities purchased under resale agreements[(a)]	**$ 0.1**	$ 8.0
Trading assets[(b)]	**14.4**	9.8
Investment securities	**—**	0.2
Loans[(a)]	**4.4**	15.9
Other assets	**0.7**	2.9
Total consolidated assets	**$ 19.6**	$ 36.8

(a) Included activity conducted by the Firm in a principal capacity, primarily in the IB.
(b) Included the fair value of securities and derivative receivables.

The interest-bearing beneficial interest liabilities issued by consolidated VIEs are classified in the line item titled, "Beneficial interests issued by consolidated variable interest entities" on the Consolidated balance sheets. The holders of these beneficial interests do not have recourse to the general credit of JPMorgan Chase. See Note 21 on page 159 of this Annual Report for the maturity profile of FIN 46 long-term beneficial interests.

Other topics related to VIEs

VIEs Structured by Unrelated Parties

The Firm enters into transactions with VIEs structured by other parties. These transactions include, for example, acting as a derivative counterparty, liquidity provider, investor, underwriter, placement agent, trustee or custodian. These transactions are conducted at arm's length, and individual credit decisions are based upon the analysis of the specific VIE, taking into consideration the quality of the underlying assets. Where these activities do not cause JPMorgan Chase to absorb a majority of the expected losses of the VIEs or to receive a majority of the residual returns of the VIEs, JPMorgan Chase records and reports these positions on its balance sheet similar to the way it would record and report positions from any other third-party transaction. These transactions are not considered significant for disclosure purposes under FIN 46(R).

Note 18 – Goodwill and other intangible assets

Goodwill is not amortized. It is instead tested for impairment in accordance with SFAS 142 at the reporting-unit segment, which is generally one level below the six major reportable business segments (as described in Note 34 on pages 175–177 of this Annual Report); plus Private Equity (which is included in Corporate). Goodwill is tested annually (during the fourth quarter) or more often if events or circumstances, such as adverse changes in the business climate, indicate there may be impairment. Intangible assets determined to have indefinite lives are not amortized but instead are tested for impairment at least annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the fair value of the indefinite-lived intangible asset to its carrying amount. Other acquired intangible assets determined to have finite lives, such as core deposits and credit card relationships, are amortized over their estimated useful lives in a manner that best reflects the economic benefits of the intangible asset. In addition, impairment testing is performed periodically on these amortizing intangible assets.

Goodwill and other intangible assets consist of the following.

December 31, (in millions)	2007	2006
Goodwill	**$ 45,270**	$ 45,186
Mortgage servicing rights	**8,632**	7,546
Purchased credit card relationships	**2,303**	2,935
All other intangibles:		
Other credit card–related intangibles	**$ 346**	$ 302
Core deposit intangibles	**2,067**	2,623
Other intangibles	**1,383**	1,446
Total All other intangible assets	**$ 3,796**	$ 4,371

Goodwill

The $84 million increase in Goodwill from 2006 primarily resulted from certain acquisitions by TSS and CS, and currency translation adjustments on the Sears Canada credit card acquisition. Partially offsetting these increases was a reduction in Goodwill from the adoption of FIN 48, as well as tax-related purchase accounting adjustments. For additional information see Note 26 on pages 164–165 of this Annual Report.

Goodwill was not impaired at December 31, 2007, or 2006, nor was any goodwill written off due to impairment during 2007 and 2006.

Goodwill attributed to the business segments was as follows.

December 31, (in millions)	2007	2006
Investment Bank	**$ 3,578**	$ 3,526
Retail Financial Services	**16,848**	16,955
Card Services	**12,810**	12,712
Commercial Banking	**2,873**	2,901
Treasury & Securities Services	**1,660**	1,605
Asset Management	**7,124**	7,110
Corporate (Private Equity)	**377**	377
Total Goodwill	**$ 45,270**	$ 45,186

Mortgage servicing rights

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

The amount initially capitalized as MSRs represents the amount paid to third parties to acquire MSRs or is the estimate of fair value, if retained upon the sale or securitization of mortgage loans. The Firm estimates the fair value of MSRs for initial capitalization and ongoing valuation using an option-adjusted spread model, which projects MSR cash flows over multiple interest rate scenarios in conjunction with the Firm's proprietary prepayment model, and then discounts these cash flows at risk-adjusted rates. The model considers portfolio characteristics, contractually specified servicing fees, prepayment assumptions, delinquency rates, late charges, other ancillary revenue and costs to service, and other economic factors. The Firm reassesses and periodically adjusts the underlying inputs and assumptions used in the OAS model to reflect market conditions and assumptions that a market participant would consider in valuing the MSR asset. During the fourth quarter of the 2007, the Firm's proprietary prepayment model was refined to reflect a decrease in estimated future mortgage prepayments based upon a number of market related factors including a downward trend in home prices, general tightening of credit underwriting standards and the associated impact on refinancing activity. The Firm compares fair value estimates and assumptions to observable market data where available and to recent market activity and actual portfolio experience.

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

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

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

Prior to the adoption of SFAS 156, the Firm designated certain derivatives used to risk manage MSRs (e.g., a combination of swaps, swaptions and floors) as SFAS 133 fair value hedges of benchmark interest rate risk. SFAS 133 hedge accounting allowed the carrying value of the hedged MSRs to be adjusted through earnings in the same period that the change in value of the hedging derivatives was recognized through earnings. The designated hedge period was daily. In designating the benchmark interest rate, the Firm considered the impact that the change in the benchmark rate had on the prepayment speed estimates in determining the fair value of the MSRs. Hedge effectiveness was assessed using a regression analysis of the change in fair value of the MSRs as a result of changes in benchmark interest rates and of the change in the fair value of the designated derivatives. The valuation adjustments to both the MSRs and SFAS 133 derivatives were recorded in Mortgage fees and related income. With the election to apply fair value accounting to the MSRs under SFAS 156, SFAS 133 hedge accounting is no longer necessary. For a further discussion on derivative instruments and hedging activities, see Note 30 on pages 168–169 of this Annual Report.

The following table summarizes MSR activity, certain key assumptions, and the sensitivity of the fair value of MSRs to adverse changes in those key assumptions for the years ended December 31, 2007 and 2006, during which period MSRs were accounted for under SFAS 156.

Year ended December 31, (in millions)	2007	2006
Balance at beginning of period after valuation allowance	**$ 7,546**	$ 6,452
Cumulative effect of change in accounting principle	**—**	230
Fair value at beginning of period	**7,546**	6,682
Originations of MSRs	**2,335**	1,512
Purchase of MSRs	**798**	627
Total additions	**3,133**	2,139
Change in valuation due to inputs and assumptions[(a)]	**(516)**	165
Other changes in fair value[(b)]	**(1,531)**	(1,440)
Total change in fair value	**(2,047)**	(1,275)
Fair value at December 31	**$ 8,632**	$ 7,546
Change in unrealized (losses) gains included in income related to MSRs held at December 31	**$ (516)**	NA

(a) Represents MSR asset fair value adjustments due to changes in market-based inputs, such as interest rates and volatility, as well as updates to assumptions used in the MSR valuation model. This caption also represents total realized and unrealized gains (losses) included in Net income per the SFAS 157 disclosure for fair value measurement using significant unobservable inputs (level 3). These changes in fair value are recorded in Mortgage fees and related income.

(b) Includes changes in the MSR value due to modeled servicing portfolio runoff (or time decay). This caption represents the impact of cash settlements per the SFAS 157 disclosure for fair value measurement using significant unobservable inputs (level 3). These changes in fair value are recorded in Mortgage fees and related income.

The table below outlines the key economic assumptions used to determine the fair value of the Firm's MSRs at December 31, 2007 and 2006, respectively; and it outlines the sensitivities of those fair values to immediate 10% and 20% adverse changes in those assumptions.

Year ended December 31, (in millions, except rates and where otherwise noted)	2007	2006
Weighted-average prepayment speed assumption (CPR)	**12.49%**	17.02%
Impact on fair value of 10% adverse change	**$ (481)**	$ (381)
Impact on fair value of 20% adverse change	**(926)**	(726)
Weighted-average discount rate	**10.53%**	9.32%
Impact on fair value of 10% adverse change	**$ (345)**	$ (254)
Impact on fair value of 20% adverse change	**(664)**	(491)
Contractual service fees, late fees and other ancillary fees included in Mortgage fees and related income	**$ 2,429**	$ 2,038
Third-party Mortgage loans serviced at December 31 (in billions)	**$ 614.7**	$ 526.7

CPR: Constant prepayment rate.

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

The following table summarizes MSR activity for the year ended December 31, 2005, during which period MSRs were accounted for under SFAS 140.

Year ended December 31, (in millions, except rates and where otherwise noted)	2005[c]
Balance at January 1	$ 6,111
Originations of MSRs	1,301
Purchase of MSRs	596
Total additions	1,897
Other-than-temporary impairment	(1)
Amortization	(1,295)
SFAS 133 hedge valuation adjustments	90
Balance at December 31	6,802
Less: valuation allowance[a]	350
Balance at December 31, after valuation allowance	$ 6,452
Estimated fair value at December 31	$ 6,682
Weighted-average prepayment speed assumption (CPR)	17.56%
Weighted-average discount rate	9.68%
Valuation allowance at January 1	$ 1,031
Other-than-temporary impairment[b]	(1)
SFAS 140 impairment (recovery) adjustment	(680)
Valuation allowance at December 31	$ 350
Contractual service fees, late fees and other ancillary fees included in Mortgage fees and related income	$ 1,769
Third-party Mortgage loans serviced at December 31 (in billions)	$ 467.5

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

Purchased credit card relationships and All other intangible assets

During 2007, Purchased credit card relationships and all other intangible assets decreased $632 million and $575 million, respectively, primarily as a result of amortization expense.

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

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

December 31, (in millions)	2007 Gross amount	2007 Accumulated amortization	2007 Net carrying value	2006 Gross amount	2006 Accumulated amortization	2006 Net carrying value
Purchased credit card relationships	**$ 5,794**	**$ 3,491**	**$ 2,303**	$ 5,716	$ 2,781	$ 2,935
All other intangibles:						
Other credit card–related intangibles	**422**	**76**	**346**	367	65	302
Core deposit intangibles	**4,281**	**2,214**	**2,067**	4,283	1,660	2,623
Other intangibles	**2,026**	**643**(a)	**1,383**	1,961	515(a)	1,446

(a) Includes amortization expense related to servicing assets on securitized automobile loans, which is recorded in Lending & deposit-related fees, of $9 million and $11 million for the years ended December 31, 2007 and 2006, respectively.

Amortization expense

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

Year ended December 31, (in millions)	2007	2006	2005
Purchased credit card relationships	**$ 710**	$ 731	$ 703
All other intangibles:			
Other credit card–related intangibles	**11**	6	36
Core deposit intangibles	**554**	568	623
Other intangibles(a)	**119**	123	128
Total amortization expense	**$1,394**	$ 1,428	$ 1,490

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

Future amortization expense

The following table presents estimated future amortization expense related to credit card relationships, core deposits and All other intangible assets at December 31, 2007.

Year ended December 31, (in millions)	Purchased credit card relationships	Other credit card-related intangibles	Core deposit intangibles	All other intangible assets	**Total**
2008	$ 615	$ 23	$ 479	$ 114	$ 1,231
2009	438	29	397	103	967
2010	356	38	336	86	816
2011	293	43	293	76	705
2012	254	51	251	73	629

Note 19 – Premises and equipment

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

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

Note 20 – Deposits

At December 31, 2007 and 2006, Noninterest-bearing and Interest-bearing deposits were as follows.

December 31, (in millions)	**2007**	2006
U.S. offices:		
Noninterest-bearing	**$ 129,406**	$ 132,781
Interest-bearing (included $1,909 at fair value at December 31, 2007)	**376,194**	337,812
Non-U.S. offices:		
Noninterest-bearing	**6,342**	7,662
Interest-bearing (included $4,480 at fair value at December 31, 2007)	**228,786**	160,533
Total	**$ 740,728**	$ 638,788

At December 31, 2007 and 2006, time deposits in denominations of $100,000 or more were as follows.

December 31, (in millions)	**2007**	2006
U.S.	**$134,529**	$ 110,812
Non-U.S.	**69,171**	51,138
Total	**$203,700**	$ 161,950

At December 31, 2007, the maturities of time deposits were as follows.

December 31, 2007 (in millions)	U.S.	Non-U.S.	**Total**
2008	$ 159,663	$ 84,260	$243,923
2009	2,040	307	2,347
2010	819	80	899
2011	530	156	686
2012	1,211	211	1,422
After 5 years	347	253	600
Total	$ 164,610	$ 85,267	$249,877

Note 21 – Long-term debt

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

By remaining maturity at **December 31, 2007** (in millions, except rates)		2007 Under 1 year	2007 1–5 years	2007 After 5 years	2007 **Total**	2006 Total
Parent company						
Senior debt:[a]	Fixed rate	**$ 5,466**	**$ 14,669**	**$ 9,251**	**$ 29,386**	$ 20,316
	Variable rate	**11,406**	**29,022**	**7,118**	**47,546**	28,264
	Interest rates[b]	**0.96–6.63%**	**0.75–7.43%**	**1.25–6.00%**	**0.75–7.43%**	0.75–12.48%
Subordinated debt:	Fixed rate	**$ 903**	**$ 9,387**	**$ 17,471**	**$ 27,761**	$ 26,012
	Variable rate	**24**	**36**	**1,828**	**1,888**	1,989
	Interest rates[b]	**5.75–6.75%**	**5.90–10.00%**	**1.92–9.88%**	**1.92–10.00%**	1.60–10.00%
	Subtotal	**$ 17,799**	**$ 53,114**	**$ 35,668**	**$ 106,581**	$ 76,581
Subsidiaries						
Senior debt:[a]	Fixed rate	**$ 1,493**	**$ 2,588**	**$ 2,325**	**$ 6,406**	$ 10,449
	Variable rate	**8,603**	**36,263**	**15,690**	**60,556**	41,216
	Interest rates[b]	**3.70–6.67%**	**4.38–4.87%**	**3.85–14.21%**	**3.70–14.21%**	1.76–17.00%
Subordinated debt:	Fixed rate	**$ 801**	**$ 9**	**$ 8,359**	**$ 9,169**	$ 4,025
	Variable rate	**—**	**—**	**1,150**	**1,150**	1,150
	Interest rates[b]	**6.13–6.70%**	**6.25%**	**4.38–8.25%**	**4.38–8.25%**	4.38–8.25%
	Subtotal	**$ 10,897**	**$ 38,860**	**$ 27,524**	**$ 77,281**	$ 56,840
Total long-term debt[c]		**$ 28,696**	**$ 91,974**	**$ 63,192**	**$ 183,862[e][f][g]**	$ 133,421
FIN 46R long-term beneficial interests:						
	Fixed rate	**$ 26**	**$ 503**	**$ 172**	**$ 701**	$ 777
	Variable rate	**9**	**1,646**	**4,853**	**6,508**	7,559
	Interest rates	**3.63–6.50%**	**1.73–8.75%**	**3.40–12.79%**	**1.73–12.79%**	1.73–12.79%
Total FIN 46R long-term beneficial interests[d]		**$ 35**	**$ 2,149**	**$ 5,025**	**$ 7,209**	$ 8,336

(a) Included are various equity-linked or other indexed instruments. Embedded derivatives separated from hybrid securities in accordance with SFAS 133 are reported at fair value and shown net with the host contract on the Consolidated balance sheets. Changes in fair value of separated derivatives are recorded in Principal transactions revenue. Hybrid securities which the Firm has elected to measure at fair value are classified in the line item of the host contract on the Consolidated balance sheets; changes in fair values are recorded in Principal transactions revenue in the Consolidated statements of income.

(b) The interest rates shown are the range of contractual rates in effect at year-end, including non-U.S. dollar-fixed- and variable-rate issuances, which excludes the effects of the associated derivative instruments used in SFAS 133 hedge accounting relationships, if applicable. The use of these derivative instruments modifies the Firm's exposure to the contractual interest rates disclosed in the table above. Including the effects of the SFAS 133 hedge accounting derivatives, the range of modified rates in effect at December 31, 2007, for total long-term debt was 0.11% to 14.21%, versus the contractual range of 0.75% to 14.21% presented in the table above.

(c) Included $70.5 billion and $25.4 billion of outstanding structured notes accounted for at fair value at December 31, 2007 and 2006, respectively.

(d) Included on the Consolidated balance sheets in Beneficial interests issued by consolidated variable interest entities. Also included $3.0 billion of outstanding structured notes accounted for at fair value at December 31, 2007.

(e) At December 31, 2007, long-term debt aggregating $10.8 billion was redeemable at the option of JPMorgan Chase, in whole or in part, prior to maturity, based upon the terms specified in the respective notes.

(f) The aggregate principal amount of debt that matures in each of the five years subsequent to 2007 is $28.7 billion in 2008, $30.6 billion in 2009, $25.3 billion in 2010, $15.1 billion in 2011 and $21.0 billion in 2012.

(g) Included $4.6 billion and $3.0 billion of outstanding zero-coupon notes at December 31, 2007 and 2006, respectively. The aggregate principal amount of these notes at their respective maturities was $7.7 billion and $6.8 billion, respectively.

The weighted-average contractual interest rate for total Long-term debt was 5.20% and 4.89% as of December 31, 2007 and 2006, respectively. In order to modify exposure to interest rate and currency exchange rate movements, JPMorgan Chase utilizes derivative instruments, primarily interest rate and cross-currency interest rate swaps, in conjunction with some of its debt issues. The use of these instruments modifies the Firm's interest expense on the associated debt. The modified weighted-average interest rate for total long-term debt, including the effects of related derivative instruments, was 5.13% and 4.99% as of December 31, 2007 and 2006, respectively.

JPMorgan Chase & Co. (Parent Company) has guaranteed certain debt of its subsidiaries, including both long-term debt and structured notes sold as part of the Firm's trading activities. These guarantees rank on a parity with all of the Firm's other unsecured and unsubordinated indebtedness. Guaranteed liabilities totaled $46 million and $30 million at December 31, 2007 and 2006, respectively.

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

At December 31, 2007, the Firm had established 22 wholly owned Delaware statutory business trusts ("issuer trusts") that had issued guaranteed capital debt securities.

The junior subordinated deferrable interest debentures issued by the Firm to the issuer trusts, totaling $15.1 billion and $12.2 billion at December 31, 2007 and 2006, respectively, were reflected in the Firm's Consolidated balance sheets in the Liabilities section under the caption "Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities" (i.e., trust preferred capital debt securities). The Firm also records the common capital securities issued by the issuer trusts in Other assets in its Consolidated balance sheets at December 31, 2007 and 2006.

The debentures issued to the issuer trusts by the Firm, less the common capital securities of the issuer trusts, qualify as Tier1 capital. The following is a summary of the outstanding trust preferred capital debt securities, including unamortized original issue discount, issued by each trust and the junior subordinated deferrable interest debenture issued by JPMorgan Chase to each trust as of December 31, 2007.

December 31, 2007 (in millions)	Amount of capital debt securities issued by trust[(a)]	Principal amount of debenture issued to trust[(b)]	Issue date	Stated maturity of capital securities and debentures	Earliest redemption date	Interest rate of capital securities and debentures	Interest payment/ distribution dates
Bank One Capital III	$ 474	$ 623	2000	2030	Any time	8.75%	Semiannually
Bank One Capital VI	525	554	2001	2031	Any time	7.20%	Quarterly
Chase Capital II	496	511	1997	2027	Any time	LIBOR + 0.50%	Quarterly
Chase Capital III	297	306	1997	2027	Any time	LIBOR + 0.55%	Quarterly
Chase Capital VI	249	256	1998	2028	Any time	LIBOR + 0.625%	Quarterly
First Chicago NBD Capital I	248	256	1997	2027	Any time	LIBOR + 0.55%	Quarterly
J.P. Morgan Chase Capital X	1,000	1,013	2002	2032	Any time	7.00%	Quarterly
J.P. Morgan Chase Capital XI	1,075	990	2003	2033	2008	5.88%	Quarterly
J.P. Morgan Chase Capital XII	400	387	2003	2033	2008	6.25%	Quarterly
JPMorgan Chase Capital XIII	472	487	2004	2034	2014	LIBOR + 0.95%	Quarterly
JPMorgan Chase Capital XIV	600	581	2004	2034	2009	6.20%	Quarterly
JPMorgan Chase Capital XV	995	1,024	2005	2035	Any time	5.88%	Semiannually
JPMorgan Chase Capital XVI	500	489	2005	2035	2010	6.35%	Quarterly
JPMorgan Chase Capital XVII	496	467	2005	2035	Any time	5.85%	Semiannually
JPMorgan Chase Capital XVIII	748	749	2006	2036	Any time	6.95%	Semiannually
JPMorgan Chase Capital XIX	562	564	2006	2036	2011	6.63%	Quarterly
JPMorgan Chase Capital XX	995	996	2006	2036	Any time	6.55%	Semiannually
JPMorgan Chase Capital XXI	844	846	2007	2037	2012	LIBOR + 0.95%	Quarterly
JPMorgan Chase Capital XXII	996	997	2007	2037	Any time	6.45%	Semiannually
JPMorgan Chase Capital XXIII	746	746	2007	2047	2012	LIBOR + 1.00%	Quarterly
JPMorgan Chase Capital XXIV	700	700	2007	2047	2012	6.88%	Quarterly
JPMorgan Chase Capital XXV	1,491	1,606	2007	2037	2037	6.80%	Semiannually
Total	$14,909	$15,148					

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

Note 22 – Preferred stock

JPMorgan Chase is authorized to issue 200 million shares of preferred stock, in one or more series, with a par value of $1 per share. There was no preferred stock outstanding at December 31, 2007 and 2006. Preferred stock outstanding at December 31, 2005, was 280,433 shares of 6.63% Series H cumulative preferred stock. On March 31, 2006, JPMorgan Chase redeemed all 280,433 shares. Dividends on shares of the Series H preferred stock were payable quarterly.

Note 23 – Common stock

At December 31, 2007, JPMorgan Chase was authorized to issue 9.0 billion shares of common stock with a $1 par value per share. Common shares issued (newly issued or distributed from treasury) by JPMorgan Chase during 2007, 2006 and 2005 were as follows.

December 31, (in millions)	**2007**	2006	2005
Issued – balance at January 1	**3,657.8#**	3,618.2#	3,584.8#
Newly issued:			
Employee benefits and compensation plans	**—**	39.3	34.0
Employee stock purchase plans	**—**	0.6	1.4
Total newly issued	**—**	39.9	35.4
Canceled shares	**(0.1)**	(0.3)	(2.0)
Total issued – balance at December 31	**3,657.7#**	3,657.8#	3,618.2#
Treasury – balance at January 1	**(196.1)#**	(131.5)#	(28.6)#
Purchase of treasury stock	**(168.2)**	(90.7)	(93.5)
Share repurchases related to employee stock-based awards[(a)]	**(2.7)**	(8.8)	(9.4)
Issued from treasury:			
Employee benefits and compensation plans	**75.7**	34.4	—
Employee stock purchase plans	**1.0**	0.5	—
Total issued from treasury	**76.7**	34.9	—
Total treasury – balance at December 31	**(290.3)**	(196.1)	(131.5)
Outstanding	**3,367.4#**	3,461.7#	3,486.7#

(a) Participants in the Firm's stock-based incentive plans may have shares withheld to cover income taxes. The shares withheld amounted to 2.7 million, 8.1 million and 8.2 million for 2007, 2006 and 2005, respectively.

On April 17, 2007, the Board of Directors approved a stock repurchase program that authorizes the repurchase of up to $10.0 billion of the Firm's common shares, which supersedes an $8.0 billion stock repurchase program approved in 2006. The $10.0 billion authorization includes shares to be repurchased to offset issuances under the Firm's employee stock-based plans. The actual number of shares repurchased is subject to various factors, including market conditions; legal considerations affecting the amount and timing of repurchase activity; the Firm's capital position (taking into account goodwill and intangibles); internal capital generation and alternative potential investment opportunities. The repurchase program does not include specific price targets or timetables; may be executed through open market purchases or privately negotiated transactions, or utilizing Rule 10b5-1 programs; and may be suspended at any time. During 2007, 2006 and 2005, the Firm repurchased 168 million shares, 91 million shares and 94 million shares, respectively, of common stock under stock repurchase programs approved by the Board of Directors.

As of December 31, 2007, approximately 431 million unissued shares of common stock were reserved for issuance under various employee or director incentive, compensation, option and stock purchase plans.

Note 24 – Earnings per share

SFAS 128 requires the presentation of basic and diluted earnings per share ("EPS") in the Consolidated statement of income. Basic EPS is computed by dividing net income applicable to common stock by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed using the same method, for the numerator, as basic EPS but, in the denominator, the number of common shares reflect, in addition to outstanding shares, the potential dilution that could occur if convertible securities or other contracts to issue common stock were converted or exercised into common stock. Net income available for common stock is the same for basic EPS and diluted EPS, as JPMorgan Chase had no convertible securities, and therefore, no adjustments to Net income available for common stock were necessary. The following table presents the calculation of basic and diluted EPS for 2007, 2006 and 2005.

Year ended December 31, (in millions, except per share amounts)	**2007**	2006	2005
Basic earnings per share			
Income from continuing operations	**$ 15,365**	$ 13,649	$ 8,254
Discontinued operations	**—**	795	229
Net income	**15,365**	14,444	8,483
Less: preferred stock dividends	**—**	4	13
Net income applicable to common stock	**$ 15,365**	$ 14,440	$ 8,470
Weighted-average basic shares outstanding	**3,404#**	3,470#	3,492#
Income from continuing operations per share	**$ 4.51**	$ 3.93	$ 2.36
Discontinued operations per share	**—**	0.23	0.07
Net income per share	**$ 4.51**	$ 4.16	$ 2.43
Diluted earnings per share			
Net income applicable to common stock	**$ 15,365**	$ 14,440	$ 8,470
Weighted-average basic shares outstanding	**3,404#**	3,470#	3,492#
Add: Employee restricted stock, RSUs, stock options and SARs	**104**	104	65
Weighted-average diluted shares outstanding[(a)]	**3,508#**	3,574#	3,557#
Income from continuing operations per share	**$ 4.38**	$ 3.82	$ 2.32
Discontinued operations per share	**—**	0.22	0.06
Net income per share	**$ 4.38**	$ 4.04	$ 2.38

(a) Options issued under employee benefit plans to purchase 129 million, 150 million and 280 million shares of common stock were outstanding for the years ended December 31, 2007, 2006 and 2005, respectively, but were not included in the computation of diluted EPS because the options were antidilutive.

Note 25 – Accumulated other comprehensive income (loss)

Accumulated other comprehensive income (loss) includes the after-tax change in SFAS 115 unrealized gains and losses on AFS securities, SFAS 52 foreign currency translation adjustments (including the impact of related derivatives), SFAS 133 cash flow hedging activities and SFAS 158 net loss and prior service cost (credit) related to the Firm's defined benefit pension and OPEB plans.

(in millions)	Unrealized gains (losses) on AFS securities[a]	Translation adjustments, net of hedges	Cash flow hedges	Net loss and prior service (credit) of defined benefit pension and OPEB plans[e]	Accumulated other comprehensive income (loss)
Balance at December 31, 2004	$ (61)	$ (8)	$ (139)	$ —	$ (208)
Net change	(163)[b]	—	(255)	—	(418)
Balance at December 31, 2005	(224)	(8)	(394)	—	(626)
Net change	253[c]	13	(95)	—	171
Adjustment to initially apply SFAS 158, net of taxes	—	—	—	(1,102)	(1,102)
Balance at December 31, 2006	29	5	(489)	(1,102)	(1,557)
Cumulative effect of changes in accounting principles (SFAS 159)	**(1)**	**—**	**—**	**—**	**(1)**
Balance at January 1, 2007, adjusted	**28**	**5**	**(489)**	**(1,102)**	**(1,558)**
Net change	**352**[d]	**3**	**(313)**	**599**	**641**
Balance at December 31, 2007	**$ 380**	**$ 8**	**$ (802)**	**$ (503)**	**$ (917)**

(a) Represents the after-tax difference between the fair value and amortized cost of the AFS securities portfolio and retained interests in securitizations recorded in Other assets.
(b) The net change during 2005 was due primarily to higher interest rates, partially offset by the reversal of unrealized losses from securities sales.
(c) The net change during 2006 was due primarily to the reversal of unrealized losses from securities sales.
(d) The net change during 2007 was due primarily to a decline in interest rates.
(e) For further discussion of SFAS 158, see Note 9 on pages 124–130 of this Annual Report.

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

	2007			2006			2005		
Year ended December 31, (in millions)	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Unrealized gains (losses) on AFS securities:									
Net unrealized holdings gains (losses) arising during the period	**$ 431**	**$ (176)**	**$ 255**	$ (403)	$ 144	$ (259)	$(1,706)	$ 648	$(1,058)
Reclassification adjustment for realized (gains) losses included in Net income	**164**	**(67)**	**97**	797	(285)	512	1,443	(548)	895
Net change	**595**	**(243)**	**352**	394	(141)	253	(263)	100	(163)
Translation adjustments:									
Translation	**754**	**(281)**	**473**	590	(236)	354	(584)	233	(351)
Hedges	**(780)**	**310**	**(470)**	(563)	222	(341)	584	(233)	351
Net change	**(26)**	**29**	**3**	27	(14)	13	—	—	—
Cash flow hedges:									
Net unrealized holdings gains (losses) arising during the period	**(737)**	**294**	**(443)**	(250)	98	(152)	(470)	187	(283)
Reclassification adjustment for realized (gains) losses included in Net income	**217**	**(87)**	**130**	93	(36)	57	46	(18)	28
Net change	**(520)**	**207**	**(313)**	(157)	62	(95)	(424)	169	(255)
Net loss and prior service cost (credit) of defined benefit pension and OPEB plans:[(a)]									
Net gains and prior service credits arising during the period	**934**	**(372)**	**562**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Reclassification adjustment for net loss and prior service credit included in Net income	**59**	**(22)**	**37**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Net change	**993**	**(394)**	**599**	NA	NA	NA	NA	NA	NA
Total Other comprehensive income (loss)	**$1,042**	**$ (401)**	**$ 641**	$ 264	$ (93)	$ 171	$ (687)	$ 269	$ (418)
Net loss and prior service cost (credit) of defined benefit pension and OPEB plans:									
Adjustments to initially apply SFAS 158[(a)]	**NA**	**NA**	**NA**	$(1,746)	$ 644	$(1,102)	NA	NA	NA

(a) For further discussion of SFAS 158 and details of changes to Accumulated other comprehensive income (loss), see Note 9 on pages 124–130 of this Annual Report.

Note 26 – Income taxes

In June 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in income taxes recognized under SFAS 109. FIN 48 addresses the recognition and measurement of tax positions taken or expected to be taken, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. The Firm adopted and applied FIN 48 under the transition provisions to all of its income tax positions at the required effective date of January 1, 2007, resulting in a $436 million cumulative effect increase to Retained earnings, a reduction in Goodwill of $113 million and a $549 million decrease in the liability for income taxes.

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

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

At December 31, 2007, and January 1, 2007, JPMorgan Chase's unrecognized tax benefits, excluding related interest expense and penalties, was $4.8 billion and $4.7 billion, respectively, of which $1.3 billion and $1.0 billion, if recognized, would reduce the annual effective tax rate. As JPMorgan Chase is presently under audit by a number of tax authorities, it is reasonably possible that unrecognized tax benefits could change significantly over the next 12 months. JPMorgan Chase does not expect that any such changes would have a material impact on its annual effective tax rate.

The following table presents a reconciliation of the beginning and ending amount of unrecognized tax benefits for the year ended December 31, 2007.

Unrecognized tax benefits
Year ended December 31, 2007 (in millions)

Balance at January 1, 2007	$ 4,677
Increases based on tax positions related to the current period	434
Decreases based on tax positions related to the current period	(241)
Increases based on tax positions related to prior periods	903
Decreases based on tax positions related to prior periods	(791)
Decreases related to settlements with taxing authorities	(158)
Decreases related to a lapse of applicable statute of limitations	(13)
Balance at December 31, 2007	$ 4,811

Pretax interest expense and penalties related to income tax liabilities recognized in Income tax expense was $516 million ($314 million after-tax) in 2007. Included in Accounts payable, accrued expense and other liabilities at January 1, 2007, in addition to the Firm's liability for unrecognized tax benefits, was $1.3 billion for income tax-related interest and penalties, of which the penalty component was insignificant. Accrued income tax-related interest and penalties increased to $1.6 billion at December 31, 2007, due to the continuing outstanding status of the unrecognized tax benefit liability, the penalty component of which remains insignificant.

JPMorgan Chase is subject to ongoing tax examinations by the tax authorities of the various jurisdictions in which it operates, including U.S. federal, state and non-U.S. jurisdictions. The Firm's consolidated federal income tax returns are presently under examination by the Internal Revenue Service (IRS) for the years 2003, 2004 and 2005. The consolidated federal income tax returns of heritage Bank One Corporation, which merged with and into JPMorgan Chase on July 1, 2004, are under examination for the years 2000 through 2003, and for the period January 1, 2004, through July 1, 2004. Both examinations are expected to conclude in the latter part of 2008. The IRS audit of the 2006 consolidated federal income tax return has not yet commenced. Certain administrative appeals are pending with the IRS relating to prior examination periods, for JPMorgan Chase for the years 2001 and 2002, and for Bank One and its predecessor entities for various periods from 1996 through 1999. For years prior to 2001, refund claims relating to income and credit adjustments, and to tax attribute carrybacks, for JPMorgan Chase and its predecessor entities, including Bank One, either have been or will be filed. Also, interest rate swap valuations by a Bank One predecessor entity for the years 1990 through 1993 are, and have been, the subject of litigation in both the Tax Court and the U.S. Court of Appeals.

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

December 31, (in millions)	2007	2006
Deferred tax assets		
Allowance for loan losses	**$ 3,800**	$ 2,910
Allowance for other than loan losses	**3,635**	3,533
Employee benefits	**3,391**	5,175
Non-U.S. operations	**285**	566
Fair value adjustments	**—**	427
Gross deferred tax assets	**$11,111**	$12,611
Deferred tax liabilities		
Depreciation and amortization	**$ 2,966**	$ 3,668
Leasing transactions	**2,304**	2,675
Non-U.S. operations	**1,790**	1,435
Fair value adjustments	**570**	—
Fee income	**548**	1,216
Other, net	**207**	78
Gross deferred tax liabilities	**$ 8,385**	$ 9,072
Valuation allowance	**$ 220**	$ 210
Net deferred tax asset	**$ 2,506**	$ 3,329

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

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

Year ended December 31, (in millions)	2007	2006	2005
Current income tax expense			
U.S. federal	**$ 2,805**	$ 5,512	$ 4,178
Non-U.S.	**2,985**	1,656	887
U.S. state and local	**343**	879	311
Total current income tax expense	**6,133**	8,047	5,376
Deferred income tax expense (benefit)			
U.S. federal	**1,122**	(1,628)	(2,063)
Non-U.S.	**(185)**	194	316
U.S. state and local	**370**	(376)	(44)
Total deferred income tax expense (benefit)	**1,307**	(1,810)	(1,791)
Total income tax expense from continuing operations	**7,440**	6,237	3,585
Total income tax expense from discontinued operations	**—**	572	147
Total income tax expense	**$ 7,440**	$ 6,809	$ 3,732

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

The preceding table does not reflect the tax effect of certain items that are recorded each period directly in Stockholders' equity as prescribed by SFAS 52, SFAS 115, SFAS 133 and SFAS 158, and certain tax benefits associated with the Firm's employee stock-based compensation plans. Also not reflected are the cumulative tax effects of initially implementing in 2007, SFAS 157, SFAS 159 and FIN 48, and in 2006, SFAS 155, SFAS 156 and SFAS 158. The tax effects of all items recorded directly to Stockholders' equity was an increase in Stockholders' equity of $159 million, $885 million, and $425 million in 2007, 2006, and 2005, respectively.

U.S. federal income taxes have not been provided on the undistributed earnings of certain non-U.S. subsidiaries, to the extent that such earnings have been reinvested abroad for an indefinite period of time. For 2007, such earnings approximated $1.4 billion on a pretax basis. At December 31, 2007, the cumulative amount of undistributed pretax earnings in these subsidiaries approximated $3.4 billion. It is not practicable at this time to determine the income tax liability that would result upon repatriation of these earnings.

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

The tax expense (benefit) applicable to securities gains and losses for the years 2007, 2006 and 2005 was $60 million, $(219) million and $(536) million, respectively.

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

Year ended December 31,	2007	2006	2005
Statutory U.S. federal tax rate	**35.0%**	35.0%	35.0%
Increase (decrease) in tax rate resulting from:			
U.S. state and local income taxes, net of federal income tax benefit	**2.0**	2.1	1.4
Tax-exempt income	**(2.4)**	(2.2)	(3.1)
Non-U.S. subsidiary earnings	**(1.1)**	(0.5)	(1.4)
Business tax credits	**(2.5)**	(2.5)	(3.7)
Other, net	**1.6**	(0.5)	2.1
Effective tax rate	**32.6%**	31.4%	30.3%

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

Year ended December 31, (in millions)	2007	2006	2005
U.S.	**$13,720**	$12,934	$ 8,683
Non-U.S.[(a)]	**9,085**	6,952	3,156
Income from continuing operations before income tax expense	**$22,805**	$19,886	$11,839

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

Note 27 – Restrictions on cash and intercompany funds transfers

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

The Board of Governors of the Federal Reserve System (the "Federal Reserve Board") requires depository institutions to maintain cash reserves with a Federal Reserve Bank. The average amount of reserve balances deposited by the Firm's bank subsidiaries with various Federal Reserve Banks was approximately $1.6 billion in 2007 and $2.2 billion in 2006.

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

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

At January 1, 2008 and 2007, JPMorgan Chase's banking subsidiaries could pay, in the aggregate, $16.3 billion and $14.3 billion, respectively, in dividends to their respective bank holding companies without the prior approval of their relevant banking regulators. The capacity to pay dividends in 2008 will be supplemented by the banking subsidiaries' earnings during the year.

In compliance with rules and regulations established by U.S. and non-U.S. regulators, as of December 31, 2007 and 2006, cash in the amount of $16.0 billion and $8.6 billion, respectively, and securities with a fair value of $3.4 billion and $2.1 billion, respectively, were segregated in special bank accounts for the benefit of securities and futures brokerage customers.

Note 28 – Capital

There are two categories of risk-based capital: Tier 1 capital and Tier 2 capital. Tier 1 capital includes common stockholders' equity, qualifying preferred stock and minority interest less goodwill and other adjustments. Tier 2 capital consists of preferred stock not qualifying as Tier 1, subordinated long-term debt and other instruments qualifying as Tier 2, and the aggregate allowance for credit losses up to a certain percentage of risk-weighted assets. Total regulatory capital is subject to deductions for investments in certain subsidiaries. Under the risk-based capital guidelines of the Federal Reserve Board, JPMorgan Chase is required to maintain minimum ratios of Tier 1 and Total (Tier 1 plus Tier 2) capital to risk weighted assets, as well as minimum leverage ratios (which are defined as Tier 1 capital to average adjusted on–balance sheet assets). Failure to meet these minimum requirements could cause the Federal Reserve Board to take action. Banking subsidiaries also are subject to these capital requirements by their respective primary regulators. As of December 31, 2007 and 2006, JPMorgan Chase and all of its banking subsidiaries were well-capitalized and met all capital requirements to which each was subject.

The following table presents the risk-based capital ratios for JPMorgan Chase and its significant banking subsidiaries at December 31, 2007 and 2006.

(in millions, except ratios)	Tier 1 capital	Total capital	Risk-weighted assets[c]	Adjusted average assets[d]	Tier 1 capital ratio	Total capital ratio	Tier 1 leverage ratio
December 31, 2007[a]							
JPMorgan Chase & Co.	**$ 88,746**	**$ 132,242**	**$ 1,051,879**	**$ 1,473,541**	**8.4%**	**12.6%**	**6.0%**
JPMorgan Chase Bank, N.A.	**78,453**	**112,253**	**950,001**	**1,268,304**	**8.3**	**11.8**	**6.2**
Chase Bank USA, N.A.	**9,407**	**10,720**	**73,169**	**60,905**	**12.9**	**14.7**	**15.5**
December 31, 2006[a]							
JPMorgan Chase & Co.	$ 81,055	$ 115,265	$ 935,909	$ 1,308,699	8.7%	12.3%	6.2%
JPMorgan Chase Bank, N.A.	68,726	96,103	840,057	1,157,449	8.2	11.4	5.9
Chase Bank USA, N.A.	9,242	11,506	77,638	66,202	11.9	14.8	14.0
Well-capitalized ratios[b]					6.0%	10.0%	5.0%[e]
Minimum capital ratios[b]					4.0	8.0	3.0[f]

(a) Asset and capital amounts for JPMorgan Chase's banking subsidiaries reflect intercompany transactions, whereas the respective amounts for JPMorgan Chase reflect the elimination of intercompany transactions.
(b) As defined by the regulations issued by the Federal Reserve Board, OCC and FDIC.
(c) Includes off–balance sheet risk-weighted assets in the amounts of $352.7 billion, $336.8 billion and $13.4 billion, respectively, at December 31, 2007, and $305.3 billion, $290.1 billion and $12.7 billion, respectively, at December 31, 2006, for JPMorgan Chase and its significant banking subsidiaries.
(d) Average adjusted assets for purposes of calculating the leverage ratio include total average assets adjusted for unrealized gains/losses on securities, less deductions for disallowed goodwill and other intangible assets, investments in certain subsidiaries and the total adjusted carrying value of nonfinancial equity investments that are subject to deductions from Tier 1 capital.
(e) Represents requirements for banking subsidiaries pursuant to regulations issued under the Federal Deposit Insurance Corporation Improvement Act. There is no Tier 1 leverage component in the definition of a well-capitalized bank holding company.
(f) The minimum Tier 1 leverage ratio for bank holding companies and banks is 3% or 4% depending on factors specified in regulations issued by the Federal Reserve Board and OCC.

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

December 31, (in millions)	2007	2006
Tier 1 capital		
Total stockholders' equity	**$123,221**	$115,790
Effect of certain items in Accumulated other comprehensive income (loss) excluded from Tier 1 capital	**925**	1,562
Adjusted stockholders' equity	**124,146**	117,352
Minority interest[(a)]	**15,005**	12,970
Less: Goodwill	**45,270**	45,186
SFAS 157 DVA	**882**	—
Investments in certain subsidiaries	**782**	420
Nonqualifying intangible assets	**3,471**	3,661
Tier 1 capital	**88,746**	81,055
Tier 2 capital		
Long-term debt and other instruments qualifying as Tier 2	**32,817**	26,613
Qualifying allowance for credit losses	**10,084**	7,803
Adjustment for investments in certain subsidiaries and other	**595**	(206)
Tier 2 capital	**43,496**	34,210
Total qualifying capital	**$132,242**	$115,265

(a) Primarily includes trust preferred capital debt securities of certain business trusts.

Note 29 – Commitments and contingencies

At December 31, 2007, JPMorgan Chase and its subsidiaries were obligated under a number of noncancelable operating leases for premises and equipment used primarily for banking purposes. Certain leases contain renewal options or escalation clauses providing for increased rental payments based upon maintenance, utility and tax increases or require the Firm to perform restoration work on leased premises. No lease agreement imposes restrictions on the Firm's ability to pay dividends, engage in debt or equity financing transactions or enter into further lease agreements.

The following table presents required future minimum rental payments under operating leases with noncancelable lease terms that expire after December 31, 2007.

Year ended December 31, (in millions)	
2008	$ 1,040
2009	1,009
2010	934
2011	850
2012	794
After 2012	6,281
Total minimum payments required[(a)]	10,908
Less: Sublease rentals under noncancelable subleases	(1,330)
Net minimum payment required	$ 9,578

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

Total rental expense was as follows.

Year ended December 31, (in millions)	2007	2006	2005
Gross rental expense	**$1,380**	$1,266	$1,239
Sublease rental income	**(175)**	(194)	(192)
Net rental expense	**$1,205**	$1,072	$1,047

At December 31, 2007, assets were pledged to secure public deposits and for other purposes. The significant components of the assets pledged were as follows.

December 31, (in billions)	2007	2006
Reverse repurchase/securities borrowing agreements	**$ 333.7**	$ 290.5
Securities	**4.5**	40.0
Loans	**160.4**	117.0
Trading assets and other	**102.2**	108.0
Total assets pledged	**$ 600.8**	$ 555.5

The Bank of New York Mellon Corporation ("BNYM"), formerly known as The Bank of New York, has informed the Firm of difficulties in locating certain documentation, including IRS Forms W-8 and W-9, related to certain accounts transferred to BNYM in connection with the Firm's sale of its corporate trust business. The Firm could have liability to the IRS if it is determined that there was noncompliance with IRS tax reporting and withholding requirements, and to BNYM if it is determined that there was noncompliance with the sales agreements. The Firm is working with BNYM to locate and verify documents, and to obtain replacement documentation where necessary. The Firm and BNYM have jointly notified the IRS of the matter and are working cooperatively to address the issues and resolve any outstanding reporting and withholding issues with the IRS. Although the Firm currently does not expect that any amounts payable would be material, it is too early to precisely determine the extent of any potential liability relating to this matter.

Litigation reserve

Insurance recoveries related to certain material legal proceedings were $36 million, $512 million and $208 million in 2007, 2006 and 2005, respectively. Charges related to certain material legal proceedings were $2.8 billion in 2005. There were no charges in 2007 and 2006 related to certain material legal proceedings.

The Firm maintains litigation reserves for certain of its outstanding litigation. In accordance with the provisions of SFAS 5, JPMorgan Chase accrues for a litigation-related liability when it is probable that such a liability has been incurred and the amount of the loss can be reasonably estimated. When the Firm is named a defendant in a litigation and may be subject to joint and several liability and a judgment sharing agreement is in place, the Firm recognizes expense and obligations net of amounts expected to be paid by other signatories to the judgment sharing agreement.

While the outcome of litigation is inherently uncertain, management believes, in light of all information known to it at December 31, 2007, the Firm's litigation reserves were adequate at such date. Management reviews litigation reserves periodically, and the reserves may be increased or decreased in the future to reflect further relevant developments. The Firm believes it has meritorious defenses to the claims asserted against it in its currently outstanding litigation and, with respect to such litigation, intends to continue to defend itself vigorously, litigating or settling cases according to management's judgment as to what is in the best interests of stockholders.

Note 30 – Accounting for derivative instruments and hedging activities

Derivative instruments enable end users to increase, reduce or alter exposure to credit or market risks. The value of a derivative is derived from its reference to an underlying variable or combination of variables such as equity, foreign exchange, credit, commodity or interest rate prices or indices. JPMorgan Chase makes markets in derivatives for customers and also is an end-user of derivatives in order to hedge market exposures, modify the interest rate characteristics of related balance sheet instruments or meet longer-term investment objectives. The majority of the Firm's derivatives are entered into for trading purposes. Both trading and end-user derivatives are recorded at fair value in Trading assets and Trading liabilities as set forth in Note 6 on page 122 of this Annual Report.

Interest rate contracts, which are generally interest rate swaps, forwards and futures are utilized in the Firm's risk management activities in order to minimize significant fluctuations in earnings that are caused by interest rate volatility. As a result of interest rate fluctuations, fixed-rate assets and liabilities appreciate or depreciate in market value. Gains or losses on the derivative instruments that are linked to the fixed-rate assets and liabilities being hedged are expected to substantially offset this unrealized appreciation or depreciation. Interest income and Interest expense on variable-rate assets and liabilities increase or decrease as a result of interest rate fluctuations. Gains and losses on the derivative instruments that are linked to the assets and liabilities being hedged are expected to substantially offset this variability in earnings. Interest rate swaps involve the exchange of fixed-rate and variable-rate interest payments based on the contractual underlying notional amount. Forward contracts used for the Firm's interest rate risk management activities are primarily arrangements to exchange cash in the future based on price movements in securities. Futures contracts used are primarily index futures providing for cash payments based upon the movements of an underlying rate index.

The Firm uses foreign currency contracts to manage the foreign exchange risk associated with certain foreign currency-denominated assets and liabilities, forecasted transactions denominated in a foreign currency, as well as the Firm's equity investments in foreign subsidiaries. As a result of foreign currency fluctuations, the U.S. dollar equivalent values of the foreign currency-denominated assets and liabilities or forecasted transactions change. Gains or losses on the derivative instruments that are linked to the foreign currency denominated assets or liabilities or forecasted transactions being hedged are expected to substantially offset this variability. Foreign exchange forward contracts represent agreements to exchange the currency of one country for the currency of another country at an agreed-upon price on an agreed-upon settlement date.

The Firm uses forward contracts to manage the overall price risk associated with its gold inventory. As a result of gold price fluctuations, the fair value of the gold inventory changes. Gains or losses on the derivative instruments that are linked to the gold inventory being hedged are expected to offset this unrealized appreciation or depreciation. Forward contracts used for the Firm's gold inventory risk management activities are arrangements to deliver gold in the future.

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

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

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

JPMorgan Chase's fair value hedges primarily include hedges of fixed-rate long-term debt, warehouse loans, AFS securities, MSRs and gold inventory. Interest rate swaps are the most common type of derivative contract used to modify exposure to interest rate risk, converting fixed-rate assets and liabilities to a floating-rate. Prior to the adoption of SFAS 156, interest rate options, swaptions and forwards were also used in combination with interest rate swaps to hedge the fair value of the Firm's MSRs in SFAS 133 hedge relationships. For a further discussion of MSR risk management activities, see Note 18 on pages 154–156 of this Annual Report. All amounts have been included in earnings consistent with the classification of the hedged item, primarily Net interest income for Long-term debt and AFS securities; Mortgage fees and related income for MSRs, Other income for warehouse loans; and Principal transactions for gold inventory. The Firm did not recognize any gains or losses during 2007, 2006 or 2005 on firm commitments that no longer qualify as fair value hedges.

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

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

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

Year ended December 31, (in millions)	**2007**	2006	2005
Fair value hedge ineffective net gains/(losses)[a]	**$111**	$51	$(58)
Cash flow hedge ineffective net gains/(losses)[a]	**29**	2	(2)
Cash flow hedging net gains/(losses) on forecasted transactions that failed to occur[b]	**15**	—	—

(a) Includes ineffectiveness and the components of hedging instruments that have been excluded from the assessment of hedge effectiveness.
(b) During the second half of 2007, the Firm did not issue short-term fixed rate Canadian dollar denominated notes due to the weak credit market for Canadian short-term debt.

Over the next 12 months, it is expected that $263 million (after-tax) of net losses recorded in Other comprehensive income at December 31, 2007, will be recognized in earnings. The maximum length of time over which forecasted transactions are hedged is 10 years, and such transactions primarily relate to core lending and borrowing activities.

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

Note 31 – Off–balance sheet lending-related financial instruments and guarantees

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

To provide for the risk of loss inherent in wholesale-related contracts, an allowance for credit losses on lending-related commitments is maintained. See Note 15 on pages 138–139 of this Annual Report for further discussion of the allowance for credit losses on lending-related commitments.

The following table summarizes the contractual amounts of off–balance sheet lending-related financial instruments and guarantees and the related allowance for credit losses on lending-related commitments at December 31, 2007 and 2006.

Off–balance sheet lending-related financial instruments and guarantees

	Contractual amount		Allowance for lending-related commitments	
December 31, (in millions)	**2007**	2006	**2007**	2006
Lending-related				
Consumer[(a)]	**$ 815,936**	$ 747,535	**$ 15**	$ 25
Wholesale:				
Other unfunded commitments to extend credit[(b)(c)(d)(e)]	**250,954**	229,204	**571**	305
Asset purchase agreements[(f)]	**90,105**	67,529	**9**	6
Standby letters of credit and financial guarantees[(c)(g)(h)]	**100,222**	89,132	**254**	187
Other letters of credit[(c)]	**5,371**	5,559	**1**	1
Total wholesale	**446,652**	391,424	**835**	499
Total lending-related	**$ 1,262,588**	$ 1,138,959	**$ 850**	$ 524
Other guarantees				
Securities lending guarantees[(i)]	**$ 385,758**	$ 318,095	**NA**	NA
Derivatives qualifying as guarantees[(j)]	**85,262**	71,531	**NA**	NA

(a) Includes credit card and home equity lending-related commitments of $714.8 billion and $74.2 billion, respectively, at December 31, 2007; and $657.1 billion and $69.6 billion, respectively, at December 31, 2006. These amounts for credit card and home equity lending–related commitments represent the total available credit for these products. The Firm has not experienced, and does not anticipate, that all available lines of credit for these products will be utilized at the same time. The Firm can reduce or cancel these lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law.
(b) Includes unused advised lines of credit totaling $38.4 billion and $39.0 billion at December 31, 2007 and 2006, respectively, which are not legally binding. In regulatory filings with the Federal Reserve Board, unused advised lines are not reportable.
(c) Represents contractual amount net of risk participations totaling $28.3 billion and $32.8 billion at December 31, 2007 and 2006, respectively.
(d) Excludes unfunded commitments for private third-party equity investments of $881 million and $589 million at December 31, 2007 and 2006, respectively. Also excludes unfunded commitments for other equity investments of $903 million and $943 million at December 31, 2007 and 2006, respectively.
(e) Included in Other unfunded commitments to extend credit are commitments to investment and noninvestment grade counterparties in connection with leveraged acquisitions of $8.2 billion.
(f) Largely represents asset purchase agreements to the Firm's administered multi-seller, asset-backed commercial paper conduits. It also includes $1.1 billion and $1.4 billion of asset purchase agreements to other third-party entities at December 31, 2007 and 2006, respectively.
(g) JPMorgan Chase held collateral relating to $15.8 billion and $13.5 billion of these arrangements at December 31, 2007 and 2006, respectively.
(h) Included unused commitments to issue standby letters of credit of $50.7 billion and $45.7 billion at December 31, 2007 and 2006, respectively.
(i) Collateral held by the Firm in support of securities lending indemnification agreements was $390.5 billion and $317.9 billion at December 31, 2007 and 2006, respectively.
(j) Represents notional amounts of derivatives qualifying as guarantees.

Other unfunded commitments to extend credit

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

Included in Other unfunded commitments to extend credit are commitments to investment and noninvestment grade borrowers in connection with leveraged acquisitions. These commitments are dependent on whether the acquisition by the borrower is successful, tend to be short-term in nature and, in most cases, are subject to certain conditions based on the borrower's financial condition or other factors. Additionally, the Firm often syndicates portions of the initial position to other investors, depending on market conditions. These commitments generally contain flexible pricing features to adjust for changing market conditions prior to closing. Alternatively, the borrower may turn to the capital markets for required funding instead of drawing on the commitment provided by the Firm, and the commitment may expire unused. As such, these commitments are not necessarily indicative of the Firm's actual risk and the total commitment amount may not reflect actual future cash flow requirements. The amount of these commitments at December 31, 2007, was $8.2 billion. For further information, see Note 4 and Note 5 on pages 111–118 and 119–121, respectively, of this Annual Report.

FIN 45 guarantees

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

The fair value at inception of the obligation undertaken when issuing the guarantees and commitments that qualify under FIN 45 is typically equal to the net present value of the future amount of premium receivable under the contract. The Firm has recorded this amount in Other Liabilities with an offsetting entry recorded in Other Assets. As cash is received under the contract, it is applied to the premium receivable recorded in Other Assets, and the fair value of the liability recorded at inception is amortized into income as Lending & deposit-related fees over the life of the guarantee contract. The amount of the liability related to FIN 45 guarantees recorded at December 31, 2007 and 2006, excluding the allowance for credit losses on lending-related commitments and derivative contracts discussed below, was approximately $335 million and $297 million, respectively.

Asset purchase agreements

The majority of the Firm's unfunded commitments are not guarantees as defined in FIN 45, except for certain asset purchase agreements that are principally used as a mechanism to provide liquidity to SPEs, primarily multi-seller conduits, as described in Note 17 on pages 146–154 of this Annual Report. The conduit's administrative agent can require the liquidity provider to perform under their asset purchase agreement with the conduit at any time. These agreements may cause the Firm to purchase an asset from the SPE at an amount above the asset's then fair value, in effect providing a guarantee of the initial value of the reference asset as of the date of the agreement. In most instances, third-party credit enhancements of the SPE mitigate the Firm's potential losses on these agreements.

Standby letters of credit and financial guarantees

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

Securities lending indemnification

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

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

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

Indemnification agreements – general

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

Securitization-related indemnifications

As part of the Firm's loan securitization activities, as described in Note 16 on pages 139–145 of this Annual Report, the Firm provides representations and warranties that certain securitized loans meet specific requirements. The Firm may be required to repurchase the loans and/or indemnify the purchaser of the loans against losses due to any breaches of such representations or warranties. Generally, the maximum amount of future payments the Firm would be required to make under such repurchase and/or indemnification provisions would be equal to the current amount of assets held by such securitization-related SPEs as of December 31, 2007, plus, in certain circumstances, accrued and unpaid interest on such loans and certain expense. The potential loss due to such repurchase and/or indemnity is mitigated by the due diligence the Firm performs before the sale to ensure that the assets comply with the requirements set forth in the representations and warranties. Historically, losses incurred on such repurchases and/or indemnifications have been insignificant, and therefore management expects the risk of material loss to be remote.

Credit card charge-backs

The Firm is a partner with one of the leading companies in electronic payment services in a joint venture operating under the name of Chase Paymentech Solutions, LLC (the "joint venture"). The joint venture was formed in October 2005, as a result of an agreement by the Firm and First Data Corporation, its joint venture partner, to integrate the companies' jointly owned Chase Merchant Services and Paymentech merchant businesses. The joint venture provides merchant processing services in the United States and Canada. Under the rules of Visa USA, Inc., and Mastercard International, JPMorgan Chase Bank, N.A., is liable primarily for the amount of each processed credit card sales transaction that is the subject of a dispute between a cardmember and a merchant. The joint venture is contractually liable to JPMorgan Chase Bank, N.A., for these disputed transactions. If a dispute is resolved in the cardmember's favor, the joint venture will (through the cardmember's issuing bank) credit or refund the amount to the cardmember and will charge back the transaction to the merchant. If the joint venture is unable to collect the amount from the merchant, the joint venture will bear the loss for the amount credited or refunded to the cardmember. The joint venture mitigates this risk by withholding future settlements, retaining cash reserve accounts or by obtaining other security. However, in the unlikely event that: (1) a merchant ceases operations and is unable to deliver products, services or a refund; (2) the joint venture does not have sufficient collateral from the merchant to provide customer refunds; and (3) the joint venture does not have sufficient financial resources to provide customer refunds, JPMorgan Chase Bank, N.A., would be liable for the amount of the transaction, although it would have a contractual right to recover from its joint venture partner an amount proportionate to such partner's equity interest in the joint venture. For the year ended December 31, 2007, the joint venture incurred aggregate credit losses of $10 million on $719.1 billion of aggregate volume processed. At December 31, 2007, the joint venture held $779 million of collateral. For the year ended December 31, 2006, the joint venture incurred aggregate credit losses of $9 million on $660.6 billion of aggregate volume processed. At December 31, 2006, the joint venture held $893 million of collateral. The Firm believes that, based upon historical experience and the collateral held by the joint venture, the fair value of the Firm's chargeback-related obligations would not be different materially from the credit loss allowance recorded by the joint venture; therefore, the Firm has not recorded any allowance for losses in excess of the allowance recorded by the joint venture.

Exchange, clearinghouse and credit card association guarantees

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

The Firm is an equity member of VISA Inc. During October 2007, certain VISA related entities completed a series of restructuring transactions to combine their operations, including VISA USA, under one holding company, VISA Inc. Upon the restructuring, the Firm's membership interest in VISA USA was converted into an equity interest in VISA Inc. VISA Inc. intends to issue and sell shares via an initial public offering and to use a portion of the proceeds from the offering to redeem a portion of the Firm's equity interest in Visa Inc.

Prior to the restructuring, VISA USA's by-laws obligated the Firm upon demand by VISA to indemnify VISA for, among other things, litigation obligations of Visa. The accounting for that guarantee was not subject to fair value accounting under FIN 45 because the guarantee was in effect prior to the effective date of FIN 45. Upon the restructuring event, the Firm's obligation to indemnify Visa was limited to certain identified litigations. Such a limitation is deemed a modification of the indemnity by-law and, accordingly, is now subject to the provisions of FIN 45. The value of the litigation guarantee has been recorded in the Firm's financial statements based on its fair value; the net amount recorded (within Other Liabilities) did not have a material adverse effect on the Firm's financial statements.

Derivative guarantees

In addition to the contracts described above, there are certain derivative contracts to which the Firm is a counterparty that meet the characteristics of a guarantee under FIN 45. These derivatives are recorded on the Consolidated balance sheets at fair value. These contracts include written put options that require the Firm to purchase assets from the option holder at a specified price by a specified date in the future, as well as derivatives that effectively guarantee the return on a counterparty's reference portfolio of assets. The total notional value of the derivatives that the Firm deems to be guarantees was $85.3 billion and $71.5 billion at December 31, 2007 and 2006, respectively. The Firm reduces exposures to these contracts by entering into offsetting transactions or by entering into contracts that hedge the market risk related to these contracts. The fair value related to these contracts was a derivative receivable of $213 million and $230 million, and a derivative payable of $2.5 billion and $987 million at December 31, 2007 and 2006, respectively.

Finally, certain written put options and credit derivatives permit cash settlement and do not require the option holder or the buyer of credit protection to own the reference asset. The Firm does not consider these contracts to be guarantees under FIN 45.

Note 32 – Credit risk concentrations

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

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

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

For further information regarding on–balance sheet credit concentrations by major product and geography, see Note 14 on page 137 of this Annual Report. For information regarding concentrations of off–balance sheet lending-related financial instruments by major product, see Note 31 on pages 170–173 of this Annual Report. More information about concentrations can be found in the following tables or discussion in the Management's Discussion and Analysis.

The table below presents both on–balance sheet and off–balance sheet wholesale- and consumer-related credit exposure as of December 31, 2007 and 2006.

December 31, (in billions)	**2007** Credit exposure[b]	On-balance sheet[b][c]	Off-balance sheet[d]	2006 Credit exposure[b]	On-balance sheet[b][c]	Off-balance sheet[d]
Wholesale-related:						
Banks and finance companies	**$ 65.5**	**$ 29.5**	**$ 36.0**	$ 63.6	$ 28.1	$ 35.5
Real estate	**38.8**	**21.7**	**17.1**	35.9	21.6	14.3
Asset managers	**38.7**	**16.4**	**22.3**	25.0	12.0	13.0
Healthcare	**31.9**	**7.7**	**24.2**	30.1	6.1	24.0
Consumer products	**31.5**	**11.6**	**19.9**	27.1	9.1	18.0
State & Municipal Govt	**31.4**	**8.9**	**22.5**	27.5	6.9	20.6
Utilities	**30.0**	**9.0**	**21.0**	25.1	5.6	19.5
Retail & Consumer Services	**27.8**	**11.0**	**16.8**	22.2	5.3	16.9
Oil & Gas	**26.5**	**12.3**	**14.2**	18.6	5.9	12.7
Securities Firms & Exchanges	**23.6**	**16.5**	**7.1**	23.1	15.1	8.0
All other wholesale	**391.2**	**145.6**	**245.6**	332.6	123.7	208.9
Total wholesale-related	**736.9**	**290.2**	**446.7**	630.8	239.4	391.4
Consumer-related:						
Home equity	**169.0**	**94.8**	**74.2**	155.2	85.7	69.5
Mortgage	**63.4**	**56.0**	**7.4**	66.3	59.7	6.6
Auto loans and leases	**50.5**	**42.4**	**8.1**	48.9	41.0	7.9
Credit card – reported[a]	**799.2**	**84.4**	**714.8**	743.0	85.9	657.1
All other loans	**40.1**	**28.7**	**11.4**	33.5	27.1	6.4
Total consumer–related	**1,122.2**	**306.3**	**815.9**	1,046.9	299.4	747.5
Total exposure	**$1,859.1**	**$ 596.5**	**$1,262.6**	$ 1,677.7	$ 538.8	$ 1,138.9

(a) Excludes $72.7 billion and $67.0 billion of securitized credit card receivables at December 31, 2007 and 2006, respectively.
(b) Includes loans held-for-sale and loans at fair value.
(c) Represents loans and derivative receivables.
(d) Represents lending-related financial instruments.

Note 33 – International operations

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

As the Firm's operations are highly integrated, estimates and subjective assumptions have been made to apportion revenue and expense between U.S. and international operations. These estimates and assumptions are consistent with the allocations used for the Firm's segment reporting as set forth in Note 34 on pages 175–177 of this Annual Report.

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

Year ended December 31, (in millions)	Revenue[(a)]	Expense[(b)]	Income from continuing operations before income taxes	Net income
2007				
Europe/Middle East and Africa	**$ 12,070**	**$ 8,445**	**$ 3,625**	**$ 2,585**
Asia and Pacific	**4,730**	**3,117**	**1,613**	**945**
Latin America and the Caribbean	**2,028**	**975**	**1,053**	**630**
Other	**407**	**289**	**118**	**79**
Total international	**19,235**	**12,826**	**6,409**	**4,239**
Total U.S.	**52,137**	**35,741**	**16,396**	**11,126**
Total	**$ 71,372**	**$ 48,567**	**$ 22,805**	**$ 15,365**
2006				
Europe/Middle East and Africa	$ 11,342	$ 7,471	$ 3,871	$ 2,774
Asia and Pacific	3,227	2,649	578	400
Latin America and the Caribbean	1,342	820	522	333
Other	381	240	141	90
Total international	16,292	11,180	5,112	3,597
Total U.S.	45,707	30,933	14,774	10,847
Total	$ 61,999	$ 42,113	$ 19,886	$ 14,444
2005				
Europe/Middle East and Africa	$ 7,795	$ 5,625	$ 2,170	$ 1,547
Asia and Pacific	2,857	2,075	782	509
Latin America and the Caribbean	973	506	467	285
Other	165	89	76	44
Total international	11,790	8,295	3,495	2,385
Total U.S.	42,458	34,114	8,344	6,098
Total	$ 54,248	$ 42,409	$ 11,839	$ 8,483

(a) Revenue is composed of Net interest income and Noninterest revenue.
(b) Expense is composed of Noninterest expense and Provision for credit losses.

Note 34 – Business segments

JPMorgan Chase is organized into six major reportable business segments — Investment Bank, Retail Financial Services, Card Services, Commercial Banking, Treasury & Securities Services and Asset Management, as well as a Corporate segment. The segments are based upon the products and services provided or the type of customer served, and they reflect the manner in which financial information is currently evaluated by management. Results of these lines of business are presented on a managed basis. For a definition of managed basis, see Explanation and Reconciliation of the Firm's use of non-GAAP financial measures, on pages 36–37 of this Annual Report. For a further discussion concerning JPMorgan Chase's business segments, see Business segment results on pages 38–39 of this Annual Report.

Business segment financial disclosures

Capital allocation changes

Effective January 1, 2006, the Firm refined its methodology for allocating capital (i.e., equity) to the business segments. As a result of this refinement, RFS, CS, CB, TSS and AM have higher amounts of capital allocated to them commencing in the first quarter of 2006. The revised methodology considers for each line of business, among other things, goodwill associated with such business segment's acquisitions since the Merger. In management's view, the revised methodology assigns responsibility to the lines of business to generate returns on the amount of capital supporting acquisition-related goodwill. As part of this refinement in the capital allocation methodology, the Firm assigned to the Corporate segment an amount of equity capital equal to the then-current book value of goodwill from and prior to the Merger. As prior periods have not been revised to reflect the new capital allocations, capital allocated to the respective lines of business for 2005 is not comparable to subsequent periods and certain business metrics, such as return on common equity, are not comparable to the current presentation. The Firm may revise its equity capital allocation methodology again in the future.

Discontinued operations

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

Segment results

The following table provides a summary of the Firm's segment results for 2007, 2006 and 2005 on a managed basis. The impact of credit card securitizations and tax-equivalent adjustments have been included in Reconciling items so that the total Firm results are on a reported basis.

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

Year ended December 31,	Investment Bank			Retail Financial Services			Card Services[(d)]			Commercial Banking		
(in millions, except ratios)	**2007**	2006	2005	**2007**	2006	2005	**2007**	2006	2005	**2007**	2006	2005
Noninterest revenue	**$ 14,094**	$ 18,334	$ 13,507	**$ 6,803**	$ 4,660	$ 4,625	**$ 3,046**	$ 2,944	$ 3,563	**$ 1,263**	$ 1,073	$ 986
Net interest income	**4,076**	499	1,603	**10,676**	10,165	10,205	**12,189**	11,801	11,803	**2,840**	2,727	2,502
Total net revenue	**18,170**	18,833	15,110	**17,479**	14,825	14,830	**15,235**	14,745	15,366	**4,103**	3,800	3,488
Provision for credit losses	**654**	191	(838)	**2,610**	561	724	**5,711**	4,598	7,346	**279**	160	73
Credit reimbursement (to)/from TSS[(b)]	**121**	121	154	**—**	—	—	**—**	—	—	**—**	—	—
Noninterest expense[(c)]	**13,074**	12,860	10,246	**9,900**	8,927	8,585	**4,914**	5,086	4,999	**1,958**	1,979	1,856
Income (loss) from continuing operations before income tax expense	**4,563**	5,903	5,856	**4,969**	5,337	5,521	**4,610**	5,061	3,021	**1,866**	1,661	1,559
Income tax expense (benefit)	**1,424**	2,229	2,183	**1,934**	2,124	2,094	**1,691**	1,855	1,114	**732**	651	608
Income (loss) from continuing operations	**3,139**	3,674	3,673	**3,035**	3,213	3,427	**2,919**	3,206	1,907	**1,134**	1,010	951
Income from discontinued operations	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—
Net income (loss)	**$ 3,139**	$ 3,674	$ 3,673	**$ 3,035**	$ 3,213	$ 3,427	**$ 2,919**	$ 3,206	$ 1,907	**$ 1,134**	$ 1,010	$ 951
Average equity	**$ 21,000**	$ 20,753	$ 20,000	**$ 16,000**	$ 14,629	$ 13,383	**$ 14,100**	$ 14,100	$ 11,800	**$ 6,502**	$ 5,702	$ 3,400
Average assets	**700,565**	647,569	599,761	**217,564**	231,566	226,368	**155,957**	148,153	141,933	**87,140**	57,754	52,358
Return on average equity	**15%**	18%	18%	**19%**	22%	26%	**21%**	23%	16%	**17%**	18%	28%
Overhead ratio	**72**	68	68	**57**	60	58	**32**	34	33	**48**	52	53

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

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

(c) Includes Merger costs which are reported in the Corporate segment. Merger costs attributed to the business segments for 2007, 2006 and 2005 were as follows.

Year ended December 31, (in millions)	**2007**	2006	2005
Investment Bank	**$ (2)**	$ 2	$ 32
Retail Financial Services	**14**	24	133
Card Services	**(1)**	29	222
Commercial Banking	**(1)**	1	3
Treasury & Securities Services	**121**	117	95
Asset Management	**20**	23	60
Corporate	**58**	109	177

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

Year ended December 31, (in millions)	**2007**	2006	2005
Noninterest revenue	**$ (3,255)**	$ (3,509)	$ (2,718)
Net interest income	**5,635**	5,719	6,494
Provision for credit losses	**2,380**	2,210	3,776
Average assets	**66,780**	65,266	67,180

(table continued from previous page)

Treasury & Securities Services			Asset Management			Corporate			Reconciling items[(d)(e)]			**Total**		
2007	2006	2005	**2007**	2006	2005	**2007**	2006	2005	**2007**	2006	2005	**2007**	2006	2005
$ 4,681	$ 4,039	$ 3,659	**$ 7,475**	$ 5,816	$ 4,583	**$ 5,032**	$ 1,058	$ 1,623	**$ 2,572**	$ 2,833	$ 2,147	**$ 44,966**	$ 40,757	$ 34,693
2,264	2,070	1,880	**1,160**	971	1,081	**(787)**	(1,044)	(2,756)	**(6,012)**	(5,947)	(6,763)	**26,406**	21,242	19,555
6,945	6,109	5,539	**8,635**	6,787	5,664	**4,245**	14	(1,133)	**(3,440)**	(3,114)	(4,616)	**71,372**	61,999	54,248
19	(1)	—	**(18)**	(28)	(56)	**(11)**	(1)	10	**(2,380)**	(2,210)	(3,776)	**6,864**	3,270	3,483
(121)	(121)	(154)	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—
4,580	4,266	4,050	**5,515**	4,578	3,860	**1,762**	1,147	5,330	**—**	—	—	**41,703**	38,843	38,926
2,225	1,723	1,335	**3,138**	2,237	1,860	**2,494**	(1,132)	(6,473)	**(1,060)**	(904)	(840)	**22,805**	19,886	11,839
828	633	472	**1,172**	828	644	**719**	(1,179)	(2,690)	**(1,060)**	(904)	(840)	**7,440**	6,237	3,585
1,397	1,090	863	**1,966**	1,409	1,216	**1,775**	47	(3,783)	**—**	—	—	**15,365**	13,649	8,254
—	—	—	**—**	—	—	**—**	795	229	**—**	—	—	**—**	795	229
$ 1,397	$ 1,090	$ 863	**$ 1,966**	$ 1,409	$ 1,216	**$ 1,775**	$ 842	$ (3,554)	**$ —**	$ —	$ —	**$ 15,365**	$ 14,444	$ 8,483
$ 3,000	$ 2,285	$ 1,525	**$ 3,876**	$ 3,500	$ 2,400	**$ 54,245**	$ 49,728	$ 52,999	**$ —**	$ —	$ —	**$ 118,723**	$ 110,697	$105,507
53,350	31,760	28,206	**51,882**	43,635	41,599	**255,366**	218,623	162,021	**(66,780)**	(65,266)	(67,180)	**1,455,044**	1,313,794	1,185,066
47%	48%	57%	**51%**	40%	51%	**NM**	NM	NM	**NM**	NM	NM	**13%**	13%	8%
66	70	73	**64**	67	68	**NM**	NM	NM	**NM**	NM	NM	**58**	63	72

(e) Segment managed results reflect revenue on a tax-equivalent basis with the corresponding income tax impact recorded within Income tax expense. These adjustments are eliminated in Reconciling items to arrive at the Firm's reported U.S. GAAP results. Tax-equivalent adjustments were as follows for the years ended December 31, 2007, 2006 and 2005.

Year ended December 31, (in millions)	**2007**	2006	2005
Noninterest income	**$ 683**	$ 676	$ 571
Net interest income	**377**	228	269
Income tax expense	**1,060**	904	840

Note 35 – Parent company

Parent company – statements of income

Year ended December 31, (in millions)	2007	2006	2005
Income			
Dividends from bank and bank holding company subsidiaries	**$ 5,834**	$ 2,935	$ 2,361
Dividends from nonbank subsidiaries[a]	**2,463**	1,999	791
Interest income from subsidiaries	**5,082**	3,612	2,369
Other interest income	**263**	273	209
Other income from subsidiaries, primarily fees:			
Bank and bank holding company	**182**	220	246
Nonbank	**960**	739	462
Other income (loss)	**(131)**	(206)	13
Total income	**14,653**	9,572	6,451
Expense			
Interest expense to subsidiaries[a]	**1,239**	1,025	846
Other interest expense	**6,427**	4,536	3,076
Compensation expense	**125**	519	369
Other noninterest expense	**998**	295	496
Total expense	**8,789**	6,375	4,787
Income before income tax benefit and undistributed net income of subsidiaries	**5,864**	3,197	1,664
Income tax benefit	**828**	982	852
Equity in undistributed net income of subsidiaries	**8,673**	10,265	5,967
Net income	**$15,365**	$ 14,444	$ 8,483

Parent company – balance sheets

December 31, (in millions)	2007	2006
Assets		
Cash and due from banks, primarily with bank subsidiaries	**$ 110**	$ 756
Deposits with banking subsidiaries	**52,972**	18,759
Trading assets	**9,563**	7,975
Available-for-sale securities	**43**	257
Loans	**1,423**	971
Advances to, and receivables from, subsidiaries:		
Bank and bank holding company	**28,705**	22,765
Nonbank	**52,895**	34,282
Investments (at equity) in subsidiaries:		
Bank and bank holding company	**128,711**	119,017
Nonbank[a]	**25,710**	22,552
Goodwill and other intangibles	**850**	853
Other assets	**13,241**	11,983
Total assets	**$ 314,223**	$ 240,170
Liabilities and stockholders' equity		
Borrowings from, and payables to, subsidiaries[a]	**$ 23,938**	$ 19,183
Other borrowed funds, primarily commercial paper	**52,440**	21,011
Other liabilities	**8,043**	7,605
Long-term debt[b]	**106,581**	76,581
Total liabilities	**191,002**	124,380
Stockholders' equity	**123,221**	115,790
Total liabilities and stockholders' equity	**$314,223**	$ 240,170

Parent company – statements of cash flows

Year ended December 31, (in millions)	2007	2006	2005
Operating activities			
Net income	**$15,365**	$ 14,444	$ 8,483
Less: Net income of subsidiaries	**16,970**	15,199	9,119
Parent company net loss	**(1,605)**	(755)	(636)
Add: Cash dividends from subsidiaries[a]	**8,061**	4,934	2,891
Other, net	**3,496**	(185)	(130)
Net cash provided by operating activities	**9,952**	3,994	2,125
Investing activities			
Net change in:			
Deposits with banking subsidiaries	**(34,213)**	(9,307)	1,251
Securities purchased under resale agreements, primarily with nonbank subsidiaries	**—**	24	(24)
Loans	**(452)**	(633)	(176)
Advances to subsidiaries	**(24,553)**	(3,032)	(483)
Investments (at equity) in subsidiaries	**(3,705)**	579	(2,949)
Other, net	**—**	(1)	34
Available-for-sale securities:			
Purchases	**(104)**	—	(215)
Proceeds from sales and maturities	**318**	29	124
Net cash used in investing activities	**(62,709)**	(12,341)	(2,438)
Financing activities			
Net change in borrowings from subsidiaries[a]	**4,755**	2,672	2,316
Net change in other borrowed funds	**31,429**	5,336	625
Proceeds from the issuance of long-term debt	**38,986**	18,153	15,992
Repayments of long-term debt	**(11,662)**	(10,557)	(10,864)
Net proceeds from the issuance of stock and stock-related awards	**1,467**	1,659	682
Excess tax benefits related to stock-based compensation	**365**	302	—
Redemption of preferred stock	**—**	(139)	(200)
Treasury stock purchased	**(8,178)**	(3,938)	(3,412)
Cash dividends paid	**(5,051)**	(4,846)	(4,878)
Net cash provided by financing activities	**52,111**	8,642	261
Net increase (decrease) in cash and due from banks	**(646)**	295	(52)
Cash and due from banks at the beginning of the year, primarily with bank subsidiaries	**756**	461	513
Cash and due from banks at the end of the year, primarily with bank subsidiaries	**$ 110**	$ 756	$ 461
Cash interest paid	**$ 7,470**	$5,485	$ 3,838
Cash income taxes paid	**$ 5,074**	$3,599	$ 3,426

(a) Subsidiaries include trusts that issued guaranteed capital debt securities ("issuer trusts"). As a result of FIN 46R, the Parent deconsolidated these trusts in 2003. The Parent received dividends of $18 million, $23 million and $21 million from the issuer trusts in 2007, 2006 and 2005, respectively. For further discussion on these issuer trusts, see Note 21 on page 160 of this Annual Report.
(b) At December 31, 2007, debt that contractually matures in 2008 through 2012 totaled $17.8 billion, $17.5 billion, $13.3 billion, $9.5 billion and $12.8 billion, respectively.