J P MORGAN CHASE & CO
Form 10-Q
August 09, 2007

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

For the Quarterly Period Ended June 30, 2007 **Commission file number 1-5805**

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

Delaware	**13-2624428**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
270 Park Avenue, New York, New York	**10017**
(Address of principal executive offices)	**(Zip Code)**

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

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

x **Yes o No**

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

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

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

o **Yes x No**

Number of shares of common stock outstanding as of July 31, 2007: 3,383,895,701

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JPMORGAN CHASE & CO.
CONSOLIDATED FINANCIAL HIGHLIGHTS

cept per share, headcount and ratio data) period ended,	2Q07	1Q07	4Q06	3Q06	2Q06	Six r J 2007
e statement data						
enue[a]	**$ 12,593**	$ 12,850	$ 10,501	$ 10,166	$ 9,908	**$ 25,443**
ome	**6,315**	6,118	5,692	5,379	5,178	**12,433**
ue	**18,908**	18,968	16,193	15,545	15,086	**37,876**
edit losses	**1,529**	1,008	1,134	812	493	**2,537**
ense	**11,028**	10,628	9,885	9,796	9,382	**21,656**
ense	**2,117**	2,545	1,268	1,705	1,727	**4,662**
ontinuing operations	**4,234**	4,787	3,906	3,232	3,484	**9,021**
scontinued operations[b]			620	65	56	
	$ 4,234	$ 4,787	$ 4,526	$ 3,297	$ 3,540	**$ 9,021**
nare						
per share:						
ntinuing operations	**$ 1.24**	$ 1.38	$ 1.13	$ 0.93	$ 1.00	**$ 2.63**
	1.24	1.38	1.31	0.95	1.02	**2.63**
s per share:						
ntinuing operations	**$ 1.20**	$ 1.34	$ 1.09	$ 0.90	$ 0.98	**$ 2.55**
	1.20	1.34	1.26	0.92	0.99	**2.55**
declared per share	**0.38**	0.34	0.34	0.34	0.34	**0.72**
share	**35.08**	34.45	33.45	32.75	31.89	**35.08**
es outstanding						
	3,415	3,456	3,465	3,469	3,474	**3,436**
	3,522	3,560	3,579	3,574	3,572	**3,541**
s at period end	**3,399**	3,416	3,462	3,468	3,471	
	$ 53.25	$ 51.95	$ 49.00	$ 47.49	$ 46.80	**$ 53.25**
	47.70	45.91	45.51	40.40	39.33	**45.91**
	48.45	48.38	48.30	46.96	42.00	
zation	**164,659**	165,280	167,199	162,835	145,764	
s						
non equity (ROE[d]):						
ntinuing operations	**14%**	17%	14%	11%	13%	**16**
	14	17	16	12	13	**16**
s (ROA[d]):						
ntinuing operations	**1.19**	1.41	1.14	0.98	1.05	**1.29**
	1.19	1.41	1.32	1.00	1.06	**1.29**
	58	56	61	63	62	**57**

tio	**8.4**	8.5	8.7	8.6	8.5	
io	**12.0**	11.8	12.3	12.1	12.0	
ce sheet data (period-end)						
	$ 1,458,042	$ 1,408,918	$ 1,351,520	$ 1,338,029	$ 1,328,001	
	465,037	449,765	483,127	463,544	455,104	
	651,370	626,428	638,788	582,115	593,716	
	159,493	143,274	133,421	126,619	125,280	
ers equity	**119,211**	117,704	115,790	113,561	110,684	
	179,664	176,314	174,360	171,589	172,423	
metrics						
credit losses	**$ 8,399**	$ 7,853	$ 7,803	$ 7,524	$ 7,500	
assets[(e)]	**2,586**	2,421	2,341	2,300	2,384	
oan losses to total loans[(f)]	**1.71%**	1.74%	1.70%	1.65%	1.69%	
	$ 985	$ 903	$ 930	$ 790	$ 654	**$ 1,888**
rate[(d)(f)]	**0.90%**	0.85%	0.84%	0.74%	0.64%	**0.88**
harge-off (recovery) rate[(d)(f)]	**(0.07)**	(0.02)	0.07	(0.03)	(0.05)	**(0.04**
et charge-off rate[(d)]	**3.62**	3.57	3.45	3.58	3.28	**3.59**

(a) The Firm adopted SFAS 157 in the first quarter of 2007. See Note 3 on page 73 of this Form 10-Q for additional information.

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

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

(d) Ratios are based upon annualized amounts.

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

(f) Excluded from the allowance coverage ratios were end-of-period Loans held-for-sale and loans accounted for at fair value; and excluded from the net charge-off rates were average Loans held-for-sale and loans accounted for at fair value.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section of the Form 10-Q provides management s discussion and analysis (MD&A) of the financial condition and results of operations for JPMorgan Chase. See the Glossary of terms on pages 113-115 for definitions of terms used throughout this Form 10-Q. The MD&A included in this Form 10-Q contains statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based upon the current beliefs and expectations of JPMorgan Chase s management and are subject to significant risks and uncertainties. These risks and uncertainties could cause JPMorgan Chase s results to differ materially from those set forth in such forward-looking statements. Certain of such risks and uncertainties are described herein (see Forward-looking Statements on page 118 of this Form 10-Q) and in the JPMorgan Chase Annual Report on Form 10-K for the year ended December 31, 2006, as amended (2006 Annual Report or 2006 Form 10-K), (see Part I, Item 1A: Risk factors and see Forward-looking Statements in the MD&A) to which reference is hereby made.

INTRODUCTION

JPMorgan Chase & Co. (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 $1.5 trillion in assets, $119.2 billion in stockholders equity and operations worldwide. The Firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing, asset management and private equity. Under the JPMorgan and Chase brands, the Firm serves millions of customers in the U.S. and many of the world s most prominent corporate, institutional and government clients.

JPMorgan Chase s principal bank subsidiaries are JPMorgan Chase Bank, National Association (JPMorgan Chase Bank, N.A.), a national banking association with branches in 17 states; and Chase Bank USA, National Association (Chase Bank USA, N.A.), a national bank that is the Firm s credit card issuing bank. JPMorgan Chase s principal nonbank subsidiary is J.P. Morgan Securities Inc., the Firm s U.S. investment banking firm.

JPMorgan Chase s activities are organized, for management reporting purposes, into six business segments, as well as Corporate. The Firm s wholesale businesses comprise the Investment Bank, Commercial Banking, Treasury & Securities Services and Asset Management segments. The Firm s consumer businesses comprise the Retail Financial Services and Card Services segments. A description of the Firm s business segments, and the products and services they provide to their respective client bases, follows.

Investment Bank

JPMorgan is one of the world s leading investment banks, with deep client relationships and broad product capabilities. The Investment Bank s clients are corporations, financial institutions, governments and institutional investors. The Firm offers a full range of investment banking products and services in all major capital markets, including advising on corporate strategy and structure, capital raising in equity and debt markets, sophisticated risk management, market-making in cash securities and derivative instruments, and research. The Investment Bank (IB) also commits the Firm s own capital to proprietary investing and trading activities.

Retail Financial Services

Retail Financial Services (RFS), which includes the Regional Banking, Mortgage Banking and Auto Finance reporting segments, helps meet the financial needs of consumers and businesses. RFS provides convenient consumer banking through the nation s fourth-largest branch network and third-largest ATM network. RFS is a top-five mortgage originator and servicer, the second-largest home equity originator, the largest noncaptive originator of automobile loans and one of the largest student loan originators.

RFS serves customers through more than 3,000 bank branches, 8,600 ATMs and 270 mortgage offices, and through relationships with more than 15,000 auto dealerships and 4,300 schools and universities. Nearly 13,000 branch salespeople assist customers, across a 17-state footprint from New York to Arizona, with checking and savings accounts, mortgage, home equity and business loans, investments and insurance. More than 1,200 additional mortgage officers provide home loans throughout the country.

Card Services

With more than 150 million cards in circulation and $148.0 billion in managed loans, Chase Card Services (CS) is one of the nation s largest credit card issuers. Customers used Chase cards for more than $169.3 billion worth of transactions in the six months ended June 30, 2007.

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

Chase Paymentech Solutions, LLC, a joint venture with JPMorgan Chase and First Data Corporation, is the largest processor of MasterCard and Visa payments in the world, having handled 9.3 billion transactions in the six months ended June 30, 2007.

Commercial Banking

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

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

Treasury & Securities Services

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

Asset Management

With assets under supervision of $1.5 trillion, Asset Management (AM) is a global leader in investment and wealth management. AM clients include institutions, retail investors and high-net-worth individuals in every major market throughout the world. AM offers global investment management in equities, fixed income, real estate, hedge funds, private equity and liquidity, including both money market instruments and bank deposits. AM also provides trust and estate and banking services to high-net-worth clients, and retirement services for corporations and individuals. The majority of AM s client assets are in actively managed portfolios.

OTHER BUSINESS EVENTS

Investment in SLM Corporation

On April 16, 2007, an investor group, which comprised of JPMorgan Chase and three other firms, announced it had signed a definitive agreement to purchase SLM Corporation (Sallie Mae) for approximately $25 billion. JPMorgan Chase will invest $2.2 billion and will own 24.9% of the company. The transaction requires the approval of Sallie Mae s stockholders and is subject to regulatory approvals and other closing conditions. If all such approvals are obtained and closing conditions are met, the transaction is expected to close in late 2007.

Headquarters for the Investment Bank in London and New York

On May 3, 2007, JPMorgan Chase announced plans to build a new investment banking headquarters in London. The building will have more than one million square feet, with up to five trading floors comprising 72,800 square feet each. The Firm expects the building to open by late 2012. On June 14, 2007, JPMorgan Chase announced it will build a new 1.3 million square-foot global investment banking headquarters in the World Trade Center complex in New York City. The Firm expects the building to open by early 2012.

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EXECUTIVE OVERVIEW

This overview of management s discussion and analysis highlights selected information and may not contain all of the information that is important to readers of this Form 10-Q. For a more complete understanding of events, trends and uncertainties, as well as the liquidity, capital, credit and market risks, and the critical accounting estimates, affecting the Firm and its various lines of business, this Form 10-Q should be read in its entirety.

Financial performance of JPMorgan Chase

	Three months ended June 30,			Six months ended June 30,		
(in millions, except per share and ratio data)	**2007**	2006	Change	**2007**	2006	Change
Selected income statement data						
Total net revenue	**$ 18,908**	$ 15,086	25%	**$ 37,876**	$ 30,261	25%
Provision for credit losses	**1,529**	493	210	**2,537**	1,324	92
Total noninterest expense	**11,028**	9,382	18	**21,656**	19,162	13
Income from continuing operations	**4,234**	3,484	22	**9,021**	6,511	39
Income from discontinued operations		56	NM		110	NM
Net income	**4,234**	3,540	20	**9,021**	6,621	36
Diluted earnings per share						
Income from continuing operations	**$ 1.20**	$ 0.98	22%	**$ 2.55**	$ 1.82	40%
Net income	**1.20**	0.99	21	**2.55**	1.85	38
Return on common equity						
Income from continuing operations	**14%**	13%		**16%**	12%	
Net income	**14**	13		**16**	12	

Business overview

The Firm reported 2007 second-quarter Net income of $4.2 billion, or $1.20 per share, compared with Net income of $3.5 billion, or $0.99 per share, for the second quarter of 2006. Return on common equity for the quarter was 14% compared with 13% in the prior year.

Net income for the first six months of 2007 was $9.0 billion, or $2.55 per share, compared with $6.6 billion, or $1.85 per share, in the comparable period last year. Return on common equity was 16% for the first six months of 2007 compared with 12% for the prior-year period.

In the first quarter of 2007 the Firm adopted SFAS 157 (Fair Value Measurements) and SFAS 159 (Fair Value Option). For a discussion of SFAS 157 and SFAS 159, see Note 3 on pages 73-80 and Note 4 on pages 80-83 of this Form 10-Q.

In the second quarter of 2007, the global economy continued to grow, as solid growth in the industrial economies supported continued progress in the emerging markets economies. Global capital markets activity was strong during the second quarter of 2007, with debt and equity underwriting and merger and acquisition activity surpassing levels from the second quarter of 2006. Both domestic and international equity markets rose, benefiting from favorable economic trends and benign inflation, with the S&P 500 and international indices increasing approximately 5.00% on average during the second quarter of 2007. The Federal Reserve Board held the federal funds rate steady at 5.25%. While long-term interest rates rose in response to indications of improving economic activity, the Treasury yield curve remained moderately inverted. During the second quarter, the U.S. economy rebounded to an approximate 3.40% annualized growth rate, even though high energy prices dampened consumer spending and the ongoing housing contraction continued to weigh on the overall economy. While demand for wholesale loans in the U.S. continued to grow in the second quarter at close to a double-digit pace, U.S. consumer loan growth slowed, and mortgage lending contracted.

The second quarter of 2007 economic environment was a contributing factor to the performance of the Firm and each of its businesses. The overall economic expansion, strong level of capital markets activity and positive performance in equity markets helped to drive new business volume and organic growth within each of the Firm s wholesale businesses. Weakness in the housing markets, however, led to increased losses in Retail Financial Services resulting in an increase in provision related to the home equity portfolio.

The discussion that follows highlights the current-quarter performance of each business segment compared with the prior-year quarter, and discusses results on a managed basis unless otherwise noted. For more information about managed basis, see Explanation and reconciliation of the Firm s use of non-GAAP financial measures on pages 13-16 of this Form 10-Q .

Investment Bank net income increased from the prior year driven by strong Total net revenue growth, primarily offset by an increase in Total noninterest expense, as well as an increase in the Provision for credit losses. Investment banking fees were at a record level, driven by record advisory fees, strong debt underwriting fees and record equity underwriting fees. Fixed Income Markets revenue benefited from strong results across most products, partially offset by weaker commodities performance versus a strong prior-year quarter. Equity Markets revenue more than doubled from the prior year, benefiting from strong global derivatives and cash equities trading performance. The increase in the Provision for credit losses was largely related to lending-related commitments, reflecting portfolio activity. The increase in Total noninterest expense was due primarily to higher performance-based compensation expense.

Retail Financial Services net income decreased as declines in Regional Banking and Auto Finance were offset partially by improved results in Mortgage Banking. Total net revenue increased from the prior year due to The Bank of New York transaction, higher mortgage loan originations and increased deposit-related fees. Total net revenue also benefited from the classification of certain mortgage loan origination costs as expense due to the adoption of SFAS 159. These benefits were offset partially by the sale of the insurance business in 2006. The Provision for credit losses increased reflecting weak housing prices in select geographic areas and the resulting increase in estimated losses for high loan-to-value home equity loans, especially those originated through the wholesale channel. Total noninterest expense was up from the prior year due to The Bank of New York transaction, the classification of certain loan origination costs as expense due to the adoption of SFAS 159, an increase in loan originations in Mortgage Banking, and investments in retail distribution. These increases were offset partially by the sale of the insurance business.

Card Services net income decreased when compared with the prior year, primarily due to prior-year results benefiting from significantly lower net charge-offs following the change in bankruptcy legislation in the fourth quarter of 2005. Total net revenue was up compared with the prior year. The increase was driven by increased average loans, higher fees and increased interchange income from higher charge volume. These benefits were largely offset by higher volume-driven payments to partners and increased rewards expense; increased cost of funds on higher introductory, transactor and promotional balances; higher charge-offs, which resulted in increased revenue reversals; and the discontinuation of certain billing practices in the quarter (including the elimination of certain over-limit fees and the two-cycle billing method for calculating finance charges). The managed provision for credit losses increased, primarily due to the prior year benefiting from a lower level of net charge-offs, following the change in bankruptcy legislation in the fourth quarter of 2005. Total noninterest expense was down due mainly to lower Marketing expense and lower fraud-related expense, partially offset by higher volume-related expense.

Commercial Banking net income was flat compared with the prior year, as an increase in Total net revenue was offset by a higher Provision for credit losses. Total net revenue increased due to double-digit growth in liability balances and loans, which reflected organic growth and The Bank of New York transaction. In addition, Total net revenue benefited from higher investment banking revenue and deposit-related fees. These increases in Total net revenue were largely offset by the continued shift to narrower-spread liability products and spread compression in the liability and loan portfolios. The Provision for credit losses increased reflecting portfolio activity. Total noninterest expense was flat to the prior year.

Treasury & Securities Services achieved record net income driven by record Total net revenue partially offset by higher Compensation expense. Total net revenue growth was driven by increased product usage by new and existing clients, market appreciation, and seasonally strong activity in securities lending and depositary receipts. These benefits were offset partially by lower foreign exchange revenue, as a result of narrower-market spreads, and by a continued shift to narrower-spread liability products. Total noninterest expense increased due largely to higher Compensation expense related to business and volume growth, as well as investment in new product platforms.

Asset Management net income was a record benefiting from increased Total net revenue, partially offset by higher Compensation expense. Record Total net revenue, principally fees and commissions, benefited largely from increased assets under management and higher performance and placement fees. The Provision for credit losses was a slight benefit in both time periods. Total noninterest expense increased due largely to higher compensation, primarily performance-based, and investments in all business segments.

Corporate segment net income increased primarily from higher private equity gains, lower securities losses and improved Net interest income, partially offset by higher Total noninterest expense. Prior-year results also included

Income from discontinued operations. Total net revenue benefited from a higher level of private equity gains, the classification of certain private equity carried interest as Compensation expense, a lower amount of securities losses and improved net interest spread. Total noninterest expense increased due to higher net legal costs, reflecting a lower level of recoveries and higher expense, including settlement costs relating to certain copper antitrust litigation. In addition, Total noninterest expense increased due to the classification of certain private equity carried interest as Compensation expense. These increases were offset partially by lower Compensation expense and business efficiencies.

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Income from discontinued operations was $56 million in the prior year. Discontinued operations (included in the Corporate segment results) includes the income statement activity of selected corporate trust businesses that were sold to The Bank of New York.

During the quarter ended June 30, 2007, approximately $730 million (pretax) of merger savings were realized, which is an annualized rate of approximately $2.9 billion. Merger costs of $64 million were expensed during the second quarter of 2007, bringing the total amount expensed since the merger announcement to $3.6 billion (including capitalized costs).

The managed provision for credit losses was $2.1 billion, up by $1.1 billion, or 101%, from the prior year. The wholesale provision for credit losses was $198 million for the quarter compared with a benefit of $77 million in the prior year. The change was largely related to lending-related commitments, reflecting portfolio activity. Wholesale net recoveries were $29 million in the current quarter, compared with net recoveries of $19 million in the prior year, resulting in net recovery rates of 0.07% and 0.05%, respectively. The total consumer managed provision for credit losses was $1.9 billion, compared with $1.1 billion in the prior year. The prior year benefited from significantly lower credit card net charge-offs, following the change in bankruptcy legislation in the fourth quarter of 2005. The increase from the prior year also reflected additions to the allowance for credit losses and higher charge-offs related to the home equity loan portfolio. The Firm had total nonperforming assets of $2.6 billion at June 30, 2007, up by $202 million, or 8%, from the prior-year level of $2.4 billion.

The Firm had, at June 30, 2007, Total stockholders equity of $119.2 billion and a Tier 1 capital ratio of 8.4%. The Firm purchased $1.9 billion, or 36.7 million shares, of common stock during the quarter.

Business outlook

The following forward-looking statements are based upon the current beliefs and expectations of JPMorgan Chase s management and are subject to significant risks and uncertainties. These risks and uncertainties could cause JPMorgan Chase s results to differ materially from those set forth in such forward-looking statements.

JPMorgan Chase s outlook for the third quarter of 2007 should be viewed against the backdrop of the global economy, financial markets activity and the geopolitical environment, all of which are integrally linked.

The Investment Bank entered the third quarter with a strong Investment banking fee pipeline. However, recent market conditions include problems in the mortgage markets, the inability to successfully complete the syndication of certain leverage buyout financings, general widening of credit spreads, reduced liquidity and increased volatility across all markets. The effect of these market conditions has led and could continue to lead to lower trading revenues, reduced levels of client activity, lower realization of the Investment banking fee pipeline and an increase in retained loans resulting from leveraged finance activities. The increase in retained loans is likely to result in an increase in the allowance for loan losses and/or markdowns of loans related to leveraged buyout financing activities. Management continues to believe that the net loss in Treasury and Other Corporate on a combined basis will be approximately $50 million to $100 million per quarter; and that private equity results, which are dependent upon the capital markets, could continue to be volatile over time. The performance of each of the Firm s lines of business will be affected by overall global economic growth, financial market movements (including interest rate movements), the competitive environment and client activity levels in any given time period.

Future economic conditions may also cause the provision for credit losses to increase over time. The wholesale provision for credit losses may be increased over time as a result of portfolio activity and by a trend toward a more normal level of provisioning. The consumer provision for credit losses could be increased as a result of a higher level of net charge-offs in Card Services as losses return to a more normal level following the 2005 fourth quarter change in the bankruptcy law, and as a result of a higher level of losses in Retail Financial Services if housing prices continue to weaken. Given the continued downward pressure on housing prices and the elevated level of unsold houses nationally, management remains cautious with respect to the home equity portfolio. In addition, credit spread widening in the prime and subprime mortgage markets is causing downward valuation pressure on the mortgage loans in the Firm s mortgage warehouse.

Firmwide, Total noninterest expense is anticipated to reflect investments in each business, recent acquisitions and divestitures, continued merger savings and other operating efficiencies. Management continues to believe that annual merger savings will reach approximately $3.0 billion by the end of 2007 following completion of the last significant conversion activity, which is the wholesale deposit conversion scheduled for the 2007 third quarter. Merger costs of approximately $400 million are expected to be incurred during 2007 (including a modest amount related to The Bank of New York transaction). These additions are expected to bring total cumulative merger costs to $3.8 billion by the end of 2007.

CONSOLIDATED RESULTS OF OPERATIONS

The following section provides a comparative discussion of JPMorgan Chase s consolidated results of operations on a reported basis. Factors that relate primarily to a single business segment are discussed in more detail within that business segment than they are in this consolidated section. Total net revenue, Noninterest expense and Income tax expense for prior periods have been revised to reflect the impact of discontinued operations. For a discussion of the Critical accounting estimates used by the Firm that affect the Consolidated results of operations, see page 66 of this Form 10-Q and pages 83-85 of the JPMorgan Chase 2006 Form 10-K.

Total net revenue

The following table presents the components of Total net revenue.

	Three months ended June 30,			Six months ended June 30,		
(in millions)	**2007**	2006	Change	**2007**	2006	Change
Investment banking fees	**$ 1,898**	$ 1,370	39%	**$ 3,637**	$ 2,539	43%
Principal transactions	**3,566**	2,741	30	**8,037**	5,450	47
Lending & deposit related fees	**951**	865	10	**1,846**	1,706	8
Asset management, administration and commissions	**3,611**	2,966	22	**6,797**	5,840	16
Securities gains (losses)	**(223)**	(502)	56	**(221)**	(618)	64
Mortgage fees and related income	**523**	213	146	**999**	454	120
Credit card income	**1,714**	1,791	(4)	**3,277**	3,701	(11)
Other income	**553**	464	19	**1,071**	1,018	5
Noninterest revenue	**12,593**	9,908	27	**25,443**	20,090	27
Net interest income	**6,315**	5,178	22	**12,433**	10,171	22
Total net revenue	**$ 18,908**	$ 15,086	25	**$ 37,876**	$ 30,261	25

Total net revenue for the second quarter of 2007 was $18.9 billion, up by $3.8 billion, or 25%, from the prior year. This increase was a result of higher Net interest income, very strong private equity gains, higher Asset management, administration and commissions revenue, record Investment banking fees, a lower level of securities losses, and higher Mortgage fees and related income. For the first six months of 2007, Total net revenue was $37.9 billion, up by $7.6 billion, or 25%, from the prior year. The increase was driven primarily by the aforementioned items including the impact of the adoption of SFAS 157 and 159, and was partially offset by lower Credit card income.

Investment banking fees of $1.9 billion in the second quarter and $3.6 billion for the first six months of 2007 were at record levels for the Firm. These results were driven by record advisory and equity underwriting fees as well as strong debt underwriting fees. For a further discussion of Investment banking fees, which are primarily recorded in the IB, see the IB segment results on pages 17-20 of this Form 10-Q.

Principal transactions revenue consists of trading revenue, which includes changes in fair value associated with financial instruments held by the IB for which the SFAS 159 fair value option was elected, and private equity gains. Trading revenue of $2.1 billion in the second quarter of 2007 was flat compared with the same period last year. In the first six months of 2007, trading revenue of $5.3 billion was higher than in the first six months of 2006, reflecting strong performance in most fixed income and equities products. Credit Portfolio increased in the first six months of 2007 compared with the first six months of 2006 as a result of an adjustment to the valuation of the Firm s derivative liabilities measured at fair value to reflect the credit quality of the Firm, as a part of the adoption of SFAS 157. Private equity gains in the second quarter and first six months of 2007 benefited from a higher level of gains and the classification of certain private equity carried interest as Compensation expense. Also favorably affecting the first six months of 2007 was a fair value adjustment in the first quarter of 2007 on nonpublic investments resulting from the adoption of SFAS 157. For a further discussion of Principal transactions revenue, see the IB and Corporate segment results on pages 17-20 and 40-42, respectively, and Note 5 on pages 83-85 of this Form 10-Q.

Lending & deposit related fees rose from the second quarter and first six months of 2006 as a result of higher deposit-related fees and The Bank of New York transaction. For a further discussion of Lending & deposit related fees, which are partly recorded in RFS, see the RFS segment results on pages 21-28 of this Form 10-Q.

Asset management, administration and commissions revenue was higher in the second quarter and first six months of 2007 compared with the prior-year periods, primarily due to an increase in assets under management and higher performance and placement fees in AM. The growth in assets under management, which reached $1.1 trillion at the end of the second quarter of 2007, up 23% from the prior year, was the result of net asset inflows into the Institutional, Retail and Private Bank segments, and market appreciation. Also contributing to the increase was higher assets under custody in TSS, driven by market value appreciation and new business, as well as growth in other fees due to a combination of increased product usage by existing clients and new business growth. In addition, commissions revenue increased due to higher brokerage transaction volume (primarily included within the Markets revenue of the IB), partly offset by the sale of the insurance business in the third quarter of 2006, and a charge in the first quarter of 2007 resulting from accelerated surrenders of customer annuities. For additional information on these fees and commissions, see the segment discussions for IB on pages 17-20, RFS on pages 21-28, TSS on pages 35-36, and AM on pages 37-39 of this Form 10-Q.

The favorable variances in Securities gains (losses) for the second quarter and first half of 2007, when compared with the second quarter and first half of 2006, were due primarily to a lower level of securities losses in Treasury s portfolio repositioning results. For a further discussion of Securities gains (losses), which are mostly recorded in the Firm s Treasury business, see the Corporate segment discussion on pages 40-42 of this Form 10-Q.

Mortgage fees and related income increased in the second quarter and first six months of 2007 compared with the prior-year periods. Growth in production revenue reflected higher gain on sale income primarily attributable to increased mortgage loan originations, and the classification of certain loan origination costs as expense (loan origination costs previously netted against revenue are currently recorded as expense) due to the adoption of SFAS 159. Net mortgage servicing revenue improved due to an increase in third-party loans serviced. Mortgage fees and related income exclude the impact of NII and AFS securities gains and losses related to mortgage activities. For a discussion of Mortgage fees and related income, which is recorded primarily in RFS s Mortgage Banking business, see the Mortgage Banking discussion on pages 26-27 of this Form 10-Q.

Credit card income decreased from the second quarter and first six months of 2006, primarily due to lower servicing fees earned in connection with securitization activities, which were affected unfavorably by lower interest income earned and higher credit losses incurred. Also contributing to the decrease were increases in volume-driven payments to partners and expenses related to reward programs. These were offset partially by a higher level of fee-based revenue and increased customer charge volume that favorably impacted interchange income. For a further discussion of Credit card income, see CS s segment results on pages 29-32 of this Form 10-Q.

The increases in Other income from the second quarter and first six months of 2006 reflected higher gains on the sale of loans and leveraged leases, partly as a result of a loss in the first quarter of 2006 related to auto loans transferred to held-for-sale, and increased income from automobile operating leases. These benefits were offset partially by the absence of a $103 million gain in the second quarter of 2006 related to the sale of MasterCard shares in its initial public offering and lower revenues from loan workouts.

Net interest income rose from the second quarter and first six months of 2006, primarily from the following: higher trading-related Net interest income due to a shift of Interest expense to Principal transactions revenue related to certain IB structured notes to which fair value accounting was elected in connection with the adoption of SFAS 159; an improvement in Treasury s net interest spread; an increase in consumer loans; the impact of The Bank of New York transaction; and higher consumer deposits, wholesale liability balances, and loan fees. These increases were offset slightly by narrower spreads on consumer loans as well as deposits, which partly resulted from the continued shift to narrower-spread deposit products; the impact of higher credit card charge-offs which resulted in increased revenue reversals; and the sale of the insurance business. The Firm s total average interest-earning assets for the second quarter of 2007 were $1.1 trillion, up 9% from the second quarter of 2006. The increase was primarily a result of higher Trading assets - debt instruments, Loans, and Available-for-sale securities partially offset by a decline in Interests in purchased receivables as a result of the restructuring and deconsolidation during the second quarter of 2006 of certain multi-seller conduits that the Firm administered. The net interest yield on these assets, on a fully taxable equivalent basis, was 2.35%, an increase of 28 basis points from the prior year, partly reflecting the adoption of SFAS 159. The Firm s total average interest earning assets for the first six months of 2007 were $1.1 trillion, up 10% from the first six months of 2006, and were also driven by the aforementioned items. The net interest yield on these assets, on a fully taxable-equivalent basis, was 2.37%, an increase of 24 basis points from the prior year.

Provision for credit losses	Three months ended June 30,			Six months ended June 30,		
(in millions)	**2007**	2006	Change	**2007**	2006	Change

Provision for credit losses	**$ 1,529**	$ 493	210%	**$ 2,537**	$ 1,324	92%

The Provision for credit losses in the second quarter and first half of 2007 rose from the comparable prior-year periods. The increase in the consumer provision for credit losses in the second quarter of 2007 was due to a $329 million addition to the home equity allowance for loan losses driven by weak housing prices in select geographic areas and the resulting increase in estimated losses for high loan-to-value home equity loans, in particular those originated through the wholesale channel; the absence of prior-year benefits from significantly lower credit card net charge-offs following the change in bankruptcy legislation in the fourth quarter of 2005; and the release in the second quarter of 2006 of $90 million of provision related to Hurricane Katrina in CS. For the first half of 2007 the increase in the consumer Provision for credit losses also reflected higher losses in the subprime mortgage portfolio, partially offset by a reversal in the first quarter of 2007 of a portion of the reserves in RFS related to Hurricane Katrina. The increase in the wholesale provision for credit losses was due primarily to lending-related commitments, reflecting portfolio activity. For a more detailed discussion of the loan portfolio and the Allowance for loan losses, refer to Credit risk management on pages 51-62 of this Form 10-Q.

Noninterest expense

The following table presents the components of Noninterest expense.

	Three months ended June 30,			Six months ended June 30,		
(in millions)	**2007**	2006	Change	**2007**	2006	Change
Compensation expense	**$ 6,309**	$ 5,268	20%	**$ 12,543**	$ 10,816	16%
Occupancy expense	**652**	553	18	**1,292**	1,147	13
Technology, communications and equipment expense	**921**	876	5	**1,843**	1,745	6
Professional & outside services	**1,259**	1,085	16	**2,459**	2,093	17
Marketing	**457**	526	(13)	**939**	1,045	(10)
Other expense	**1,013**	631	61	**1,748**	1,447	21
Amortization of intangibles	**353**	357	(1)	**706**	712	(1)
Merger costs	**64**	86	(26)	**126**	157	(20)
Total noninterest expense	**$ 11,028**	$ 9,382	18	**$ 21,656**	$ 19,162	13

Total noninterest expense for the second quarter of 2007 was $11.0 billion, up by $1.6 billion, or 18%, from the prior year. Expense increased due to higher Compensation expense, primarily incentive-based, and increased net legal costs reflecting a lower level of recoveries and higher expense. Expense growth also was driven by The Bank of New York transaction, acquisitions and investments in all of the businesses. The increase in expense was offset partially by business divestitures and expense efficiencies. For the first six months of 2007, Total noninterest expense was $21.7 billion, up by $2.5 billion, or 13%, from the prior year, driven primarily by the aforementioned items.

The increase in Compensation expense from the second quarter and first half of 2006 was primarily the result of higher performance-based incentives; additional headcount in connection with The Bank of New York transaction, acquisitions and investments in businesses; the classification of certain private equity carried interest from Principal transactions revenue, and the classification of certain loan origination costs (previously netted against revenue) due to the adoption of SFAS 159. These increases were offset partially by merger-related savings. Also affecting the six month variance is the absence of a prior-year expense of $459 million from the adoption of SFAS 123R. For a detailed discussion of the adoption of SFAS 123R see Note 9 on page 88 of this Form 10-Q.

The increases in Occupancy expense from the second quarter and first half of 2006 were driven by ongoing investments in the retail distribution network, which included incremental expense from The Bank of New York branches, partially offset by operating expense efficiencies.

The increases in Technology, communications and equipment expense when compared with the second quarter and first six months of 2006 were due primarily to higher depreciation expense on owned automobiles subject to operating leases and technology investments to support business growth. These increases were offset partially by operating expense efficiencies.

Professional & outside services rose from the second quarter and first six months of 2006 reflecting higher brokerage expense and credit card processing costs as a result of growth in transaction volume. Also contributing to the increases were acquisitions and investments in businesses.

Marketing expense was lower when compared with the second quarter and first half of 2006 due to a reduction in credit card marketing.

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Other expense was higher from the second quarter and first six months of 2006 due to increased net legal costs reflecting a lower level of recoveries and higher expense. Also contributing to the increase were the growth in business volume, acquisitions and investments in businesses. These increases were offset partially by the sale of the insurance business in the third quarter of 2006 and lower credit card fraud-related losses.

For a discussion of Amortization of intangibles and Merger costs, refer to Note 17 and Note 10 on pages 100-102 and 89, respectively, of this Form 10-Q.

Income tax expense

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

	Three months ended June 30,		Six months ended June 30,	
(in millions, except rate)	**2007**	2006	**2007**	2006
Income from continuing operations before income tax expense	**$ 6,351**	$ 5,211	**$ 13,683**	$ 9,775
Income tax expense	**2,117**	1,727	**4,662**	3,264
Effective tax rate	**33.3%**	33.1%	**34.1%**	33.4%

The effective tax rate increased for the second quarter and first half of 2007 compared with the second quarter and first half of 2006 primarily due to higher reported pretax income, combined with changes in the proportion of income subject to federal, state and local taxes.

Income from discontinued operations

Income from discontinued operations was zero in all periods of 2007 compared with $56 million and $110 million in the second quarter and first six months of 2006, respectively. Discontinued operations (included in the Corporate segment results) includes the income statement activity of selected corporate trust businesses that were sold to the Bank of New York on October 1, 2006.

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EXPLANATION AND RECONCILIATION OF THE FIRM S USE OF NON-GAAP FINANCIAL MEASURES

The Firm prepares its Consolidated financial statements using accounting principles generally accepted in the United States of America (U.S. GAAP); these financial statements appear on pages 68-71 of this Form 10-Q. That presentation, which is referred to as reported basis, provides the reader with an understanding of the Firm s results that can be tracked consistently from year to year and enables a comparison of the Firm s performance with other companies U.S. GAAP financial statements.

In addition to analyzing the Firm s results on a reported basis, management reviews the Firm s and the lines of business results on a managed basis, which is a non-GAAP financial measure. The Firm s definition of managed basis starts with the reported U.S. GAAP results and includes certain reclassifications that assumes credit card loans securitized by CS remain on the balance sheet and presents revenue on a fully taxable-equivalent (FTE) basis. These adjustments do not have any impact on Net income as reported by the lines of business or by the Firm as a whole.

The presentation of CS results on a managed basis assumes that credit card loans that have been securitized and sold in accordance with SFAS 140 still remain on the balance sheet and that the earnings on the securitized loans are classified in the same manner as the earnings on retained loans recorded on the balance sheet. JPMorgan Chase uses the concept of managed basis to evaluate the credit performance and overall financial performance of the entire managed credit card portfolio. Operations are funded and decisions are made about allocating resources, such as employees and capital, based upon managed financial information. In addition, the same underwriting standards and ongoing risk monitoring are used for both loans on the balance sheet and securitized loans. Although securitizations result in the sale of credit card receivables to a trust, JPMorgan Chase retains the ongoing customer relationships, as the customers may continue to use their credit cards; accordingly, the customer s credit performance will affect both the securitized loans and the loans retained on the balance sheet. JPMorgan Chase believes managed basis information is useful to investors, enabling them to understand both the credit risks associated with the loans reported on the balance sheet and the Firm s retained interests in securitized loans. For a reconciliation of reported to managed basis of CS results, see Card Services segment results on pages 29-32 of this Form 10-Q. For information regarding the securitization process, and loans and residual interests sold and securitized, see Note 15 on pages 94-98 of this Form 10-Q.

Total net revenue for each of the business segments and the Firm is presented on an FTE basis. Accordingly, revenue from tax-exempt securities and investments that receive tax credits is presented in the managed results on a basis comparable to taxable securities and investments. This non-GAAP financial measure allows management to assess the comparability of revenues arising from both taxable and tax-exempt sources. The corresponding income tax impact related to these items is recorded within Income tax expense.

Management also uses certain non-GAAP financial measures at the segment level because it believes these non-GAAP financial measures provide information to investors about the underlying operational performance and trends of the particular business segment and therefore facilitate a comparison of the business segment with the performance of its competitors.

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

Three months ended June 30,		**2007**		
(in millions, except per share and ratio data)	Reported results	Credit card[(b)]	Tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	**$ 1,898**	**$**	**$**	**$ 1,898**
Principal transactions	**3,566**			**3,566**
Lending & deposit related fees	**951**			**951**
Asset management, administration and commissions	**3,611**			**3,611**
Securities (losses)	**(223)**			**(223)**
Mortgage fees and related income	**523**			**523**
Credit card income	**1,714**	**(788)**		**926**
Other income	**553**		**199**	**752**
Noninterest revenue	**12,593**	**(788)**	**199**	**12,004**
Net interest income	**6,315**	**1,378**	**122**	**7,815**
Total net revenue	**18,908**	**590**	**321**	**19,819**
Provision for credit losses	**1,529**	**590**		**2,119**
Noninterest expense	**11,028**			**11,028**
Income from continuing operations before income tax expense	**6,351**		**321**	**6,672**
Income tax expense	**2,117**		**321**	**2,438**
Income from continuing operations	**4,234**			**4,234**
Income from discontinued operations				
Net income	**$ 4,234**	**$**	**$**	**$ 4,234**
Net income diluted earnings per share	**$ 1.20**	**$**	**$**	**$ 1.20**
Return on common equity[(a)]	**14%**	**%**	**%**	**14%**
Return on equity less goodwill[(a)]	**23**			**23**
Return on assets[(a)]	**1.19**	**NM**	**NM**	**1.13**
Overhead ratio	**58**	**NM**	**NM**	**56**

Three months ended June 30,		2006		
(in millions, except per share and ratio data)	Reported results	Credit card[(b)]	Tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	$ 1,370	$	$	$ 1,370
Principal transactions	2,741			2,741
Lending & deposit related fees	865			865
Asset management, administration and commissions	2,966			2,966

Securities (losses)	(502)			(502)
Mortgage fees and related income	213			213
Credit card income	1,791	(937)		854
Other income	464		170	634
Noninterest revenue	9,908	(937)	170	9,141
Net interest income	5,178	1,498	47	6,723
Total net revenue	15,086	561	217	15,864
Provision for credit losses	493	561		1,054
Noninterest expense	9,382			9,382
Income from continuing operations before income tax expense	5,211		217	5,428
Income tax expense	1,727		217	1,944
Income from continuing operations	3,484			3,484
Income from discontinued operations	56			56
Net income	$ 3,540	$	$	$ 3,540
Net income diluted earnings per share	$ 0.99	$	$	$ 0.99
Return on common equity[a]	13%	%	%	13%
Return on equity less goodwill[a]	21			21
Return on assets[a]	1.05	NM	NM	1.01
Overhead ratio	62	NM	NM	59

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Six months ended June 30,	**2007**			
(in millions, except per share and ratio data)	Reported results	Credit card[(b)]	Tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	**$ 3,637**	**$**	**$**	**$ 3,637**
Principal transactions	**8,037**			**8,037**
Lending & deposit related fees	**1,846**			**1,846**
Asset management, administration and commissions	**6,797**			**6,797**
Securities (losses)	**(221)**			**(221)**
Mortgage fees and related income	**999**			**999**
Credit card income	**3,277**	**(1,534)**		**1,743**
Other income	**1,071**		**309**	**1,380**
Noninterest revenue	**25,443**	**(1,534)**	**309**	**24,218**
Net interest income	**12,433**	**2,717**	**192**	**15,342**
Total net revenue	**37,876**	**1,183**	**501**	**39,560**
Provision for credit losses	**2,537**	**1,183**		**3,720**
Noninterest expense	**21,656**			**21,656**
Income from continuing operations before income tax expense	**13,683**		**501**	**14,184**
Income tax expense	**4,662**		**501**	**5,163**
Income from continuing operations	**9,021**			**9,021**
Income from discontinued operations				
Net income	**$ 9,021**	**$**	**$**	**$ 9,021**
Net income diluted earnings per share	**$ 2.55**	**$**	**$**	**$ 2.55**
Return on common equity[(a)]	**16%**	**%**	**%**	**16%**
Return on equity less goodwill[(a)]	**25**			**25**
Return on assets[(a)]	**1.29**	**NM**	**NM**	**1.24**
Overhead ratio	**57**	**NM**	**NM**	**55**

Six months ended June 30,	2006			
(in millions, except per share and ratio data)	Reported results	Credit card[(b)]	Tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	$ 2,539	$	$	$ 2,539
Principal transactions	5,450			5,450
Lending & deposit related fees	1,706			1,706
Asset management, administration and commissions	5,840			5,840
Securities (losses)	(618)			(618)

Mortgage fees and related income	454			454
Credit card income	3,701	(2,062)		1,639
Other income	1,018		316	1,334
Noninterest revenue	20,090	(2,062)	316	18,344
Net interest income	10,171	3,072	118	13,361
Total net revenue	30,261	1,010	434	31,705
Provision for credit losses	1,324	1,010		2,334
Noninterest expense	19,162			19,162
Income from continuing operations before income tax expense	9,775		434	10,209
Income tax expense	3,264		434	3,698
Income from continuing operations	6,511			6,511
Income from discontinued operations	110			110
Net income	$ 6,621	$	$	$ 6,621
Net income diluted earnings per share	$ 1.85	$	$	$ 1.85
Return on common equity[(a)]	12%	%	%	12%
Return on equity less goodwill[(a)]	20			20
Return on assets[(a)]	1.03	NM	NM	0.98
Overhead ratio	63	NM	NM	60

(a) Based upon Income from continuing operations.
(b) Credit card securitizations affect CS. See pages 29-32 of this Form 10-Q for further information.

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Three months ended June 30,	**2007**			2006		
(in millions)	Reported	Securitized	Managed	Reported	Securitized	Managed
Loans Period-end	**$ 465,037**	**$ 67,506**	**$ 532,543**	$ 455,104	$ 66,349	$ 521,453
Total assets average	**1,431,986**	**65,920**	**1,497,906**	1,333,869	66,913	1,400,782

Six months ended June 30,	**2007**			2006		
(in millions)	Reported	Securitized	Managed	Reported	Securitized	Managed
Loans Period-end	**$ 465,037**	**$ 67,506**	**$ 532,543**	$ 455,104	$ 66,349	$ 521,453
Total assets average	**1,405,597**	**65,519**	**1,471,116**	1,291,349	67,233	1,358,582

BUSINESS SEGMENT RESULTS

The Firm is managed on a line-of-business basis. The business segment financial results presented reflect the current organization of JPMorgan Chase. There are six major reportable business segments: the Investment Bank, Retail Financial Services, Card Services, Commercial Banking, Treasury & Securities Services and Asset Management, as well as a Corporate segment. The 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 further discussion of Business segment results, see pages 34-35 of JPMorgan Chase s 2006 Annual Report.

Description of business segment reporting methodology

Results of the business segments are intended to reflect each segment as if it were essentially a stand-alone business. The management reporting process that derives business segment results allocates income and expense using market-based methodologies. For a further discussion of those methodologies, see Business Segment Results Description of business segment reporting methodology on page 34 of JPMorgan Chase s 2006 Annual Report. The Firm continues to assess the assumptions, methodologies and reporting classifications used for segment reporting, and further refinements may be implemented in future periods.

Segment Results Managed Basis[(a)]

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

Three months ended June 30, (in millions, except ratios)	Total net revenue 2007	2006	Change	Noninterest expense 2007	2006	Change	Net income (loss) 2007	2006	Change	Return on equity 2007	2006
Investment Bank	**$ 5,798**	$ 4,329	34%	**$ 3,854**	$ 3,091	25%	**$ 1,179**	$ 839	41%	**23%**	16%
Retail Financial Services	**4,357**	3,779	15	**2,484**	2,259	10	**785**	868	(10)	**20**	24
Card Services	**3,717**	3,664	1	**1,188**	1,249	(5)	**759**	875	(13)	**22**	25
Commercial Banking	**1,007**	949	6	**496**	496		**284**	283		**18**	21
Treasury & Securities Services	**1,741**	1,588	10	**1,149**	1,050	9	**352**	316	11	**47**	58
Asset Management	**2,137**	1,620	32	**1,355**	1,081	25	**493**	343	44	**53**	39
Corporate[(b)]	**1,062**	(65)	NM	**502**	156	222	**382**	16	NM	NM	NM
Total	**$ 19,819**	$ 15,864	25%	**$ 11,028**	$ 9,382	18%	**$ 4,234**	$ 3,540	20%	**14%**	13%

Six months ended June 30, (in millions, except ratios)	Total net revenue 2007	2006	Change	Noninterest expense 2007	2006	Change	Net income (loss) 2007	2006	Change	Return on equity 2007	2006
Investment Bank	**$ 12,052**	$ 9,157	32%	**$ 7,685**	$ 6,411	20%	**$ 2,719**	$ 1,689	61%	**26%**	17%
Retail Financial Services	**8,463**	7,542	12	**4,891**	4,497	9	**1,644**	1,749	(6)	**21**	25
Card Services	**7,397**	7,349	1	**2,429**	2,492	(3)	**1,524**	1,776	(14)	**22**	25
Commercial Banking	**2,010**	1,849	9	**981**	994	(1)	**588**	523	12	**19**	19
Treasury & Securities Services	**3,267**	3,073	6	**2,224**	2,098	6	**615**	578	6	**41**	49
Asset Management	**4,041**	3,204	26	**2,590**	2,179	19	**918**	656	40	**49**	38
Corporate*(b)*	**2,330**	(469)	NM	**856**	491	74	**1,013**	(350)	NM	**NM**	NM
Total	**$ 39,560**	$ 31,705	25%	**$ 21,656**	$ 19,162	13%	**$ 9,021**	$ 6,621	36%	**16%**	12%

(a) Represents reported results on a tax-equivalent basis and excludes the impact of credit card securitizations.

(b) Net income (loss) includes Income from discontinued operations (after-tax) of $56 million and $110 million for the three and six months ended June 30, 2006, respectively. There was no income from discontinued operations during the first six months of 2007.

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INVESTMENT BANK

For a discussion of the business profile of the IB, see pages 36-37 of JPMorgan Chase s 2006 Annual Report and page 4 of this Form 10-Q.

Selected income statement data	Three months ended June 30,			Six months ended June 30,		
(in millions, except ratios)	**2007**	2006	Change	**2007**	2006	Change
Revenue						
Investment banking fees	**$ 1,900**	$ 1,368	39%	**$ 3,629**	$ 2,538	43%
Principal transactions[(a)]	**2,178**	2,157	1	**5,304**	4,637	14
Lending & deposit related fees	**93**	134	(31)	**186**	271	(31)
Asset management, administration and commissions	**643**	583	10	**1,284**	1,159	11
All other income	**122**	3	NM	**164**	278	(41)
Noninterest revenue	**4,936**	4,245	16	**10,567**	8,883	19
Net interest income	**862**[(e)]	84	NM	**1,485**[(e)]	274	442
Total net revenue[(b)]	**5,798**	4,329	34	**12,052**	9,157	32
Provision for credit losses	**164**	(62)	NM	**227**	121	88
Credit reimbursement from TSS[(c)]	**30**	30		**60**	60	
Noninterest expense						
Compensation expense	**2,589**	1,961	32	**5,226**	4,217	24
Noncompensation expense	**1,265**	1,130	12	**2,459**	2,194	12
Total noninterest expense	**3,854**	3,091	25	**7,685**	6,411	20
Income before income tax expense	**1,810**	1,330	36	**4,200**	2,685	56
Income tax expense	**631**	491	29	**1,481**	996	49
Net income	**$ 1,179**	$ 839	41	**$ 2,719**	$ 1,689	61
Financial ratios						
ROE	**23%**	16%		**26%**	17%	
ROA	**0.68**	0.50		**0.81**	0.52	
Overhead ratio	**66**	71		**64**	70	
Compensation expense as a % of total net revenue[(d)]	**45**	44		**43**	43	
Revenue by business						
Investment banking fees:						
Advisory	**$ 560**	$ 352	59	**$ 1,032**	$ 741	39

Equity underwriting	**509**	364	40	**902**	576	57
Debt underwriting	**831**	652	27	**1,695**	1,221	39
Total investment banking fees	**1,900**	1,368	39	**3,629**	2,538	43
Fixed income markets[(a)]	**2,445**	2,131	15	**5,037**	4,207	20
Equity markets[(a)]	**1,249**	580	115	**2,788**	1,842	51
Credit portfolio[(a)]	**204**	250	(18)	**598**	570	5
Total net revenue	**$ 5,798**	$ 4,329	34	**$ 12,052**	$ 9,157	32
Revenue by region						
Americas	**$ 2,655**	$ 2,110	26	**$ 6,021**	$ 4,263	41
Europe/Middle East/Africa	**2,327**	1,796	30	**4,578**	3,821	20
Asia/Pacific	**816**	423	93	**1,453**	1,073	35
Total net revenue	**$ 5,798**	$ 4,329	34	**$ 12,052**	$ 9,157	32

(a) As a result of the adoption on January 1, 2007, of SFAS 157, the IB recognized a benefit, in the first quarter of 2007, of $166 million in Total net revenue (primarily in Credit Portfolio, but with smaller impacts to Equity Markets and Fixed Income Markets) relating to the incorporation of an adjustment to the valuation of the Firm s derivative liabilities and other liabilities measured at fair value that reflects the credit quality of the Firm.

(b) Total net revenue included tax-equivalent adjustments, primarily due to tax-exempt income from municipal bond investments and income tax credits related to affordable housing investments, of $290 million and $193 million for the quarters ended June 30, 2007 and 2006, respectively, and $442 million and $387 million for year-to-date 2007 and 2006, respectively.

(c) Treasury & Securities Services is charged a credit reimbursement related to certain exposures managed within the Investment Bank credit portfolio on behalf of clients shared with TSS.

(d) For 2006, the Compensation expense to Total net revenue ratio was adjusted to present this ratio as if SFAS 123R had always been in effect. IB management believes that adjusting the Compensation expense to Total net revenue ratio for the incremental impact of adopting SFAS 123R provides a more meaningful measure of IB s Compensation expense to Total net revenue ratio for 2006.

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(e) Net Interest Income for 2007 increased from the prior year due primarily to the adoption of SFAS 159. For certain IB structured notes, all components of earnings are reported in Principal transaction, causing a shift between Principal transactions revenue and Net interest income in 2007.

Quarterly results

Net income was $1.2 billion, up by $340 million, or 41%, compared with the prior year. The increase reflected strong revenue growth, primarily offset by an increase in Noninterest expense, primarily driven by performance-based compensation, as well as an increase in the provision for credit losses.

Net revenue was $5.8 billion, up by $1.5 billion, or 34%, from the prior year, driven by record investment banking fees and strong markets results. Investment banking fees of $1.9 billion were up 39% from the prior year, driven by record advisory fees, strong debt underwriting fees and record equity underwriting fees. Debt underwriting fees of $831 million were up 27%, driven by record loan syndication fees. Advisory fees of $560 million were up 59%, benefiting from strong performance across all regions. Equity underwriting fees of $509 million were up 40%, reflecting strong performance in Asia and Europe. Fixed Income Markets revenue increased 15% from the prior year, to $2.4 billion, driven by strong results across most products, partially offset by weaker commodities performance versus a strong prior-year quarter. Equity Markets revenue of $1.2 billion more than doubled from the prior year, benefiting from strong global derivatives and cash equities trading performance. Credit Portfolio revenue of $204 million was down 18% due largely to lower gains from loan sales and workouts.

Provision for credit losses was $164 million compared with a benefit of $62 million in the prior year. The increase in the provision for credit losses was primarily due to lending-related commitments, reflecting portfolio activity. Allowance for loan losses to average loans was 1.76% for the current quarter, which was flat compared with the prior year; nonperforming assets were $119 million, down 77% from the prior year.

Noninterest expense was $3.9 billion, up by $763 million, or 25%, from the prior year. This increase was due primarily to higher performance-based compensation expense.

Year-to-date results

Net income was $2.7 billion, up by $1.0 billion, or 61%, compared with the prior year. The increase reflected strong revenue growth, partially offset by an increase in Noninterest expense, primarily driven by performance-based compensation, as well as an increase in the provision for credit losses.

Net revenue was $12.1 billion, up by $2.9 billion, or 32%, from the prior year, driven by record investment banking fees and record markets results. Investment banking fees of $3.6 billion were up 43% from the prior year, driven by record advisory fees, debt underwriting fees, and equity underwriting fees. Debt underwriting fees of $1.7 billion were up 39%, driven by record loan syndication fees and record bond underwriting fees. Advisory fees of $1.0 billion were up 39%, benefiting from strong performance across all regions. Equity underwriting fees of $902 million were up 57% reflecting strong performance across all regions. Fixed Income Markets revenue increased 20% from the prior year, to $5.0 billion, driven by strong results across most products. Equity Markets revenue of $2.8 billion was up 51%, benefiting from strong global derivatives and cash equities trading performance. Credit Portfolio revenue of $598 million was up 5% due largely to the incorporation of an adjustment to the valuation of the Firm s derivative liabilities measured at fair value that reflects the credit quality of the Firm, in conjunction with SFAS 157, and higher trading revenue from credit portfolio management activities, partially offset by lower gains from loan sales and workouts.

Provision for credit losses was $227 million, up 88% from the prior year. The increase in the provision for credit losses was due primarily to lending-related commitments, reflecting portfolio activity. Allowance for loan losses to average loans was 1.76% for the first half of 2007, which was slightly down compared with the prior year.

Noninterest expense was $7.7 billion, up by $1.3 billion, or 20%, from the prior year. This increase was due primarily to higher performance-based compensation expense.

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Selected metrics	Three months ended June 30,			Six months ended June 30,		
(in millions, except headcount and ratio data)	**2007**	2006	Change	**2007**	2006	Change
Selected average balances						
Total assets	**$ 696,230**	$ 672,056	4%	**$ 677,581**	$ 659,209	3%
Trading assets-debt and equity instruments [(a)]	**359,387**	268,091	34	**347,320**	260,296	33
Trading assets-derivatives receivables	**58,520**	55,692	5	**57,465**	52,557	9
Loans:						
Loans retained[(b)]	**60,330**	59,026	2	**60,102**	56,367	7
Loans held-for-sale[(a)]	**13,529**	19,920	(32)	**13,159**	19,568	(33)
Total loans	**73,859**	78,946	(6)	**73,261**	75,935	(4)
Adjusted assets[(c)]	**603,839**	530,057	14	**588,016**	511,285	15
Equity	**21,000**	21,000		**21,000**	20,503	2
Headcount	**25,356**	22,914	11	**25,356**	22,914	11
Credit data and quality statistics						
Net charge-offs (recoveries)	**$ (16)**	$ (12)	(33)	**$ (22)**	$ (33)	33
Nonperforming assets:[(d)]						
Nonperforming loans	**72**	488	(85)	**72**	488	(85)
Other nonperforming assets	**47**	37	27	**47**	37	27
Allowance for credit losses:						
Allowance for loan losses	**1,037**	1,038		**1,037**	1,038	
Allowance for lending-related commitments	**487**	249	96	**487**	249	96
Total Allowance for credit losses	**1,524**	1,287	18	**1,524**	1,287	18
Net charge-off (recovery) rate[(a)(b)]	**(0.11)%**	(0.08)%		**(0.08)%**	(0.12)%	
Allowance for loan losses to average loans[(a)(b)]	**1.76**	1.76		**1.76**	1.84	
Allowance for loan losses to nonperforming loans[(d)]	**2,206**	248		**2,206**	248	
Nonperforming loans to average loans	**0.10**	0.62		**0.10**	0.64	
Market risk-average trading and credit portfolio VAR[(e)]						
By risk type:						
Fixed income	**$ 74**	$ 52	42	**$ 60**	$ 56	7
Foreign exchange	**20**	25	(20)	**19**	22	(14)
Equities	**51**	24	113	**46**	28	64
Commodities and other	**40**	52	(23)	**37**	50	(26)
Less: portfolio diversification[(f)]	**(73)**	(74)	1	**(65)**	(71)	8
Total trading VAR	**112**	79	42	**97**	85	14
Credit portfolio VAR[(g)]	**12**	14	(14)	**12**	14	(14)
Less: portfolio diversification[(f)]	**(14)**	(9)	(56)	**(12)**	(10)	(20)
Total trading and credit portfolio VAR	**$ 110**	$ 84	31	**$ 97**	$ 89	9

(a)

Loans held-for-sale were excluded from the allowance coverage ratio and Net charge-off rate. As a result of the adoption of SFAS 159 in the first quarter of 2007 Loans held-for-sale of $11.7 billion were reclassified to Trading assets.

(b) *Loans retained included credit portfolio loans, leveraged leases, bridge loans for underwriting, other accrual loans and certain loans carried at fair value. Average loans carried at fair value were $1.3 billion for the quarter ended June 30, 2007 and $1.1 billion for year-to-date June 30, 2007. Loans carried at fair value were excluded when calculating the allowance coverage ratio and Net charge-off rate.*

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

(d) *Nonperforming loans included Loans held-for-sale of $25 million and $70 million at June 30, 2007 and 2006, respectively, which were excluded from the allowance coverage ratios. Nonperforming loans excluded distressed HFS loans purchased as part of IB s proprietary activities and assets classified as trading assets. Loans elected under the fair value option and classified within trading assets are also excluded from Nonperforming loans.*

(e) *For a more complete description of VAR, see pages 62-65 of this Form 10-Q.*

(f) *Average VARs were less than the sum of the VARs of their market risk components, which was due to risk offsets resulting from portfolio diversification. The diversification effect reflected the fact that the risks were not perfectly correlated. The risk of a portfolio of positions is usually less than the sum of the risks of the positions themselves.*

(g) *Included VAR on derivative credit and debit valuation adjustments, hedges of the credit valuation adjustment and mark-to-market hedges of the retained loan portfolio, which were all reported in Principal Transactions revenue. The VAR did not include the retained loan portfolio.*

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According to Thomson Financial, for the first six months of 2007, the Firm was ranked #1 in Global Equity and Equity-Related; #1 in Global Syndicated Loans; #4 in Global Announced M&A; #2 in Global Debt, Equity and Equity-Related; and #2 in Global Long-term Debt based upon volume.

	Six months ended June 30, 2007		Full Year 2006	
Market shares and rankings[(a)]	Market Share	Rankings	Market Share	Rankings
Global debt, equity and equity-related	**8%**	**#2**	7%	#2
Global syndicated loans	**15**	**#1**	14	#1
Global long-term debt	**7**	**#2**	6	#3
Global equity and equity-related	**9**	**#1**	7	#6
Global announced M&A	**27**	**#4**	22	#4
U.S. debt, equity and equity-related	**10**	**#2**	9	#2
U.S. syndicated loans	**28**	**#1**	26	#1
U.S. long-term debt	**12**	**#2**	12	#2
U.S. equity and equity-related [(b)]	**11**	**#3**	8	#6
U.S. announced M&A	**30**	**#4**	27	#4

(a) Source: Thomson Financial Securities data. Global announced M&A was based upon rank value; all other rankings were based upon proceeds, with full credit to each book manager/equal if joint. Because of joint assignments, market share of all participants will add up to more than 100%.

(b) References U.S. domiciled equity and equity-related transactions, per Thomson Financial.

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RETAIL FINANCIAL SERVICES

For a discussion of the business profile of RFS, see pages 38 42 of JPMorgan Chase s 2006 Annual Report and page 4 of this Form 10-Q.

During the first quarter of 2006, RFS completed the purchase of Collegiate Funding Services, which contributed an education loan servicing capability and provided an entry into the Federal Family Education Loan Program consolidation market. On July 1, 2006, RFS sold its life insurance and annuity underwriting businesses to Protective Life Corporation. On October 1, 2006, JPMorgan Chase completed The Bank of New York transaction, significantly strengthening RFS s distribution network in the New York Tri-state area.

Selected income statement data	Three months ended June 30,			Six months ended June 30,		
(in millions, except ratios)	**2007**	2006	Change	**2007**	2006	Change
Revenue						
Lending & deposit related fees	**$ 470**	$ 390	21%	**$ 893**	$ 761	17%
Asset management, administration and commissions	**344**	366	(6)	**607**	803	(24)
Securities (losses)		(39)	NM		(45)	NM
Mortgage fees and related income[(a)]	**495**	204	143	**977**	440	122
Credit card income	**163**	129	26	**305**	244	25
Other income	**212**	163	30	**391**	211	85
Noninterest revenue	**1,684**	1,213	39	**3,173**	2,414	31
Net interest income	**2,673**	2,566	4	**5,290**	5,128	3
Total net revenue	**4,357**	3,779	15	**8,463**	7,542	12
Provision for credit losses	**587**	100	487	**879**	185	375
Noninterest expense						
Compensation expense[(a)]	**1,104**	901	23	**2,169**	1,821	19
Noncompensation expense[(a)]	**1,264**	1,246	1	**2,488**	2,453	1
Amortization of intangibles	**116**	112	4	**234**	223	5
Total noninterest expense	**2,484**	2,259	10	**4,891**	4,497	9
Income before income tax expense	**1,286**	1,420	(9)	**2,693**	2,860	(6)
Income tax expense	**501**	552	(9)	**1,049**	1,111	(6)
Net income	**$ 785**	$ 868	(10)	**$ 1,644**	$ 1,749	(6)
Financial ratios						
ROE	**20%**	24%		**21%**	25%	
Overhead ratio[(a)]	**57**	60		**58**	60	
Overhead ratio excluding core deposit intangibles[(a)(b)]	**54**	57		**55**	57	

(a) *The Firm adopted SFAS 159 in the first quarter of 2007. As a result, certain loan origination costs have been classified as expense (previously netted against revenue) for the three and six months ended June 30, 2007.*

(b) *Retail Financial Services uses the overhead ratio excluding the amortization of core deposit intangibles (CDI), a non-GAAP financial measure, to evaluate the underlying expense trends of the business. Including CDI amortization expense in the overhead ratio calculation results in a higher overhead ratio in the earlier years and a lower overhead ratio in later years; this method would result in an improving overhead ratio over time, all things remaining equal. This non-GAAP ratio excluded Regional Banking s core deposit intangible amortization expense related to The Bank of New York transaction and the Bank One merger of $115 million and $110 million for the three months ended June 30, 2007 and 2006, respectively, and $231 million and $219 million for the six months ended June 30, 2007 and 2006, respectively.*

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Quarterly results

Net income of $785 million was down by $83 million, or 10%, from the prior year, as declines in Regional Banking and Auto Finance were offset partially by improved results in Mortgage Banking.

Net revenue of $4.4 billion was up by $578 million, or 15%, from the prior year. Net interest income of $2.7 billion was up by $107 million, or 4%, due to The Bank of New York transaction and higher deposit balances. These benefits were offset partially by the sale of the insurance business and a continued shift to narrower spread deposit products. Noninterest revenue of $1.7 billion was up by $471 million, or 39%, benefiting from increased mortgage loan originations; increases in deposit-related fees; increased mortgage loan servicing revenue; and The Bank of New York transaction. Noninterest revenue also benefited from the classification of certain mortgage loan origination costs as expense (loan origination costs previously netted against revenue are currently recorded as expense) due to the adoption of SFAS 159 in the first quarter of 2007. These benefits were offset partially by the sale of the insurance business.

The provision for credit losses was $587 million compared with $100 million in the prior year. The increase in provision reflects weak housing prices in select geographic areas and the resulting increase in estimated losses for high loan-to-value home equity loans, especially those originated through the wholesale channel. Home equity underwriting standards were further tightened during the quarter, and pricing actions were implemented to reflect elevated risks in this segment. The current-quarter provision includes an increase in the allowance for loan losses related to home equity loans of $329 million. Home equity net charge-offs were $98 million (0.44% net charge-off rate) in the current quarter compared with net charge-offs of $30 million (0.16% net charge-off rate) in the prior year.

Noninterest expense of $2.5 billion was up by $225 million, or 10%, due to The Bank of New York transaction, the classification of certain loan origination costs as expense due to the adoption of SFAS 159, an increase in loan originations in Mortgage Banking, and investments in retail distribution. These increases were offset partially by the sale of the insurance business.

Year-to-date results

Net income of $1.6 billion was down by $105 million, or 6%, from the prior year, as declines in Regional Banking and Auto Finance were offset partially by improved results in Mortgage Banking.

Net revenue of $8.5 billion was up by $921 million, or 12%, from the prior year. Net interest income of $5.3 billion was up by $162 million, or 3%, due to The Bank of New York transaction and higher deposit balances. These benefits were offset partially by the sale of the insurance business and a continued shift to narrower spread deposit products. Noninterest revenue of $3.2 billion was up by $759 million, or 31%, reflecting higher gain on sale income primarily attributable to increased mortgage loan originations, and the classification of certain loan origination costs as expense (loan origination costs previously netted against revenue are currently recorded as expense) due to the adoption of SFAS 159. Noninterest revenue also benefited from increases in deposit-related fees, increased mortgage loan servicing revenue and The Bank of New York transaction. These benefits were offset partially by the sale of the insurance business and a charge resulting from accelerated surrenders of customer annuity contracts.

The provision for credit losses was $879 million compared with $185 million in the prior year. The increase in provision reflects weak housing prices in select geographic areas and the resulting increases in estimated losses for home equity and subprime mortgage loans. The year-to-date provision includes a net increase in the allowance for loan losses of $405 million related to home equity loans and the subprime mortgage portfolio, offset partially by the reversal of a portion of the reserves for Hurricane Katrina. Home equity and subprime mortgage underwriting standards were tightened during the year-to-date period and pricing actions were implemented to reflect elevated risks in these segments.

Noninterest expense of $4.9 billion was up by $394 million, or 9%, due to The Bank of New York transaction, the classification of certain loan origination costs as expense due to the adoption of SFAS 159, investments in retail distribution and an increase in loan originations in Mortgage Banking. These increases were offset partially by the sale of the insurance business.

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Selected metrics	Three months ended June 30,			Six months ended June 30,		
(in millions, except headcount and ratio data)	**2007**	2006	Change	**2007**	2006	Change
Selected ending balances						
Assets	**$ 217,421**	$ 233,748	(7)%	**$ 217,421**	$ 233,748	(7)%
Loans [(a)(b)]	**190,493**	203,928	(7)	**190,493**	203,928	(7)
Deposits	**217,689**	198,273	10	**217,689**	198,273	10
Selected average balances						
Assets	**$ 216,692**	$ 234,097	(7)	**$ 216,912**	$ 232,849	(7)
Loans [(a)(b)]	**190,302**	201,635	(6)	**190,638**	200,224	(5)
Deposits	**219,171**	199,075	10	**218,058**	196,741	11
Equity	**16,000**	14,300	12	**16,000**	14,099	13
Headcount	**68,254**	62,450	9	**68,254**	62,450	9
Credit data and quality statistics						
Net charge-offs	**$ 270**	$ 113	139	**$ 455**	$ 234	94
Nonperforming loans[(c)]	**1,760**	1,339	31	**1,760**	1,339	31
Nonperforming assets	**2,099**	1,520	38	**2,099**	1,520	38
Allowance for loan losses	**1,772**	1,321	34	**1,772**	1,321	34
Net charge-off rate[(d)]	**0.66%**	0.24%		**0.56%**	0.25%	
Allowance for loan losses to ending loans[(d)]	**1.06**	0.69		**1.06**	0.69	
Allowance for loan losses to nonperforming loans[(d)]	**115**	99		**115**	99	
Nonperforming loans to total loans	**0.92**	0.66		**0.92**	0.66	

(a) Loans included prime mortgage loans originated with the intent to sell, which, for new originations on or after January 1, 2007, were accounted for at fair value under SFAS 159. These loans, classified as Trading assets on the Consolidated balance sheets, totaled $15.2 billion at June 30, 2007. Average Loans included $13.5 billion and $10.0 billion for the three and six months ended June 30, 2007.

(b) End-of-period Loans included Loans held-for-sale of $8.3 billion and $11.8 billion at June 30, 2007 and 2006, respectively. Average loans include Loans held-for-sale of $11.7 billion and $12.9 billion for the three months ended June 30, 2007 and 2006, and $16.7 billion and $14.6 billion for the six months ended June 30, 2007 and 2006, respectively.

(c) Nonperforming loans included Loans held-for-sale and loans accounted for at fair value under SFAS 159 of $217 million (of which $2 million were classified as Trading assets on the Consolidated balance sheet) and $9 million at June 30, 2007 and 2006, respectively.

(d) Loans held-for-sale and Loans accounted for at fair value under SFAS 159 were excluded when calculating the allowance coverage ratio and the Net charge-off rate.

REGIONAL BANKING

Selected income statement data	Three months ended June 30,			Six months ended June 30,		
(in millions, except ratios)	**2007**	2006	Change	**2007**	2006	Change

Noninterest revenue	**$ 977**	$ 851	15%	**$ 1,770**	$ 1,671	6%
Net interest income	**2,296**	2,212	4	**4,595**	4,432	4
Total Net revenue	**3,273**	3,063	7	**6,365**	6,103	4
Provision for credit losses	**494**	70	NM	**727**	136	435
Noninterest expense	**1,749**	1,746		**3,478**	3,484	
Income before income tax expense	**1,030**	1,247	(17)	**2,160**	2,483	(13)
Net income	**$ 629**	$ 764	(18)	**$ 1,319**	$ 1,521	(13)
ROE	**21%**	30%		**23%**	31%	
Overhead ratio	**53**	57		**55**	57	
Overhead ratio excluding core deposit intangibles [(a)]	**50**	53		**51**	53	

(a) Regional Banking uses the overhead ratio excluding the amortization of CDI, a non-GAAP financial measure, to evaluate the underlying expense trends of the business. Including CDI amortization expense in the overhead ratio calculation results in a higher overhead ratio in the earlier years and a lower overhead ratio in later years; this method would result in an improving overhead ratio over time, all things remaining equal. This non-GAAP ratio excluded Regional Banking s core deposit intangible amortization expense related to The Bank of New York transaction and the Bank One merger of $115 million and $110 million for the three months ended June 30, 2007 and 2006, respectively, and $231 million and $219 million for the six months ended June 30, 2007 and 2006, respectively.

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Quarterly results

Regional Banking net income of $629 million was down by $135 million, or 18%, from the prior year. Net revenue of $3.3 billion was up by $210 million, or 7%, benefiting from The Bank of New York transaction, increases in deposit-related fees and growth in deposits. These benefits were offset partially by the sale of the insurance business and a continued shift to narrower spread deposit products. The provision for credit losses was $494 million compared with $70 million in the prior year. The increase was largely related to the home equity portfolio, as the allowance for loan losses related to this portfolio was increased by $329 million. Home equity net charge-offs increased to $98 million in the current quarter from $30 million in the prior year (see Retail Financial Services discussion of provision for credit losses for further detail). Noninterest expense of $1.7 billion was flat, as increases due to The Bank of New York transaction and investments in retail distribution were offset by the sale of the insurance business.

Year-to-date results

Regional Banking net income of $1.3 billion was down by $202 million, or 13%, from the prior year. Net revenue of $6.4 billion was up by $262 million, or 4%, benefiting from The Bank of New York transaction, increases in deposit-related fees and growth in deposits. These benefits were offset partially by the sale of the insurance business, a continued shift to narrower spread deposit products and a charge resulting from accelerated surrenders of customer annuity contracts. The provision for credit losses was $727 million compared with $136 million in the prior year. The increase in provision reflects higher losses on home equity and subprime mortgage loans, offset partially by the reversal of a portion of the reserves for Hurricane Katrina. Noninterest expense of $3.5 billion was flat, as increases due to The Bank of New York transaction and investments in retail distribution were largely offset by the sale of the insurance business.

Business metrics (in billions, except ratios)	Three months ended June 30, **2007**	2006	Change	Six months ended June 30, **2007**	2006	Change
Home equity origination volume	**$ 14.6**	$ 14.0	4%	**$ 27.3**	$ 25.7	6%
End-of-period loans owned						
Home equity	**$ 91.0**	$ 77.8	17	**$ 91.0**	$ 77.8	17
Mortgage[(a)]	**8.8**	48.6	(82)	**8.8**	48.6	(82)
Business banking	**14.6**	13.0	12	**14.6**	13.0	12
Education	**10.2**	8.3	23	**10.2**	8.3	23
Other loans[(b)]	**2.5**	2.6	(4)	**2.5**	2.6	(4)
Total end-of-period loans	**127.1**	150.3	(15)	**127.1**	150.3	(15)
End-of-period deposits						
Checking	**$ 67.3**	$ 62.3	8	**$ 67.3**	$ 62.3	8
Savings	**97.7**	89.1	10	**97.7**	89.1	10
Time and other	**41.9**	36.5	15	**41.9**	36.5	15
Total end-of-period deposits	**206.9**	187.9	10	**206.9**	187.9	10
Average loans owned						
Home equity	**$ 89.2**	$ 76.2	17	**$ 87.8**	$ 75.2	17
Mortgage[(a)]	**8.8**	47.1	(81)	**8.8**	45.9	(81)
Business banking	**14.5**	13.0	12	**14.4**	12.8	13
Education	**10.5**	8.7	21	**10.8**	7.1	52
Other loans[(b)]	**2.4**	2.6	(8)	**2.7**	2.8	(4)
Total average loans[(c)]	**125.4**	147.6	(15)	**124.5**	143.8	(13)
Average deposits						
Checking	**$ 67.2**	$ 62.6	7	**$ 67.3**	$ 62.8	7
Savings	**98.4**	89.8	10	**97.6**	89.6	9
Time and other	**41.7**	35.4	18	**42.1**	33.9	24
Total average deposits	**207.3**	187.8	10	**207.0**	186.3	11
Average assets	**137.7**	164.6	(16)	**136.8**	160.9	(15)
Average equity	**11.8**	10.2	16	**11.8**	10.0	18
Credit data and quality statistics (in millions, except ratios)						
30+ day delinquency rate[(d)(e)]	**1.88%**	1.48%		**1.88%**	1.48%	
Net charge-offs						
Home equity	**$ 98**	$ 30	227	**$ 166**	$ 63	163
Mortgage	**26**	9	189	**46**	21	119

Business banking	**30**	16	88	**55**	34	62
Other loans	**52**	13	300	**65**	20	225
Total net charge-offs	**206**	68	203	**332**	138	141
Net charge-off rate						
Home equity	**0.44%**	0.16%		**0.38%**	0.17%	
Mortgage	**1.19**	0.08		**1.05**	0.09	
Business banking	**0.83**	0.49		**0.77**	0.54	
Other loans	**2.32**	0.55		**1.39**	0.55	
Total net charge-off rate(c)	**0.68**	0.19		**0.56**	0.20	
Nonperforming assets(f)(g)(h)	**$ 1,968**	$ 1,349	46	**$ 1,968**	$ 1,349	46

(a) *As of January 1, 2007, $19.4 billion of held-for-investment prime mortgage loans were transferred from RFS to Treasury within the Corporate segment for risk management and reporting purposes. Although the loans, together with the responsibility for the investment management of the portfolio, were transferred to Treasury, the transfer has no impact on the financial results of Regional Banking. The balance reported at and for the three and six months ended June 30, 2007, primarily reflected subprime mortgage loans owned.*

(b) *Included commercial loans derived from community development activities and, prior to July 1, 2006, insurance policy loans.*

(c) *Average loans included Loans held-for-sale of $3.9 billion and $1.9 billion for the three months ended June 30, 2007 and 2006, respectively and $4.1 billion and $2.6 billion for the six months ended June 30, 2007 and 2006, respectively. These amounts were excluded when calculating the Net charge-off rate.*

(d) *Excluded delinquencies related to loans eligible for repurchase as well as loans repurchased from Governmental National Mortgage Association (GNMA) pools that are insured by government agencies and government-sponsored enterprises of $879 million and $828 million at June 30, 2007 and 2006, respectively. These amounts are excluded as reimbursement is proceeding normally.*

(e) *Excluded loans that are 30 days past due and still accruing, which are insured by government agencies under the Federal Family Education Loan Program of $523 million and $416 million at June 30, 2007 and 2006, respectively. These amounts are excluded as reimbursement is proceeding normally.*

(f) *Excluded loans that are 90 days past due and still accruing, which are insured by government agencies under the Federal Family Education Loan Program of $200 million and $163 million at June 30, 2007 and 2006, respectively. These amounts are excluded as reimbursement is proceeding normally.*

(g) *Excluded Nonperforming assets related to loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by government agencies and government-sponsored enterprises of $1.2 billion and $1.1 billion at June 30, 2007 and 2006, respectively. These amounts are excluded as reimbursement is proceeding normally.*

(h) *Nonperforming loans included Loans held-for-sale and loans accounted for at fair value under SFAS 159 of $217 million (of which $2 million were classified as Trading assets on the Consolidated balance sheet) and $9 million at June 30, 2007 and 2006, respectively.*

Retail branch business metrics	Three months ended June 30,			Six months ended June 30,		
	2007	2006	Change	**2007**	2006	Change
Investment sales volume (in millions)	**$ 5,117**	$ 3,692	39%	**$ 9,900**	$ 7,245	37%
Number of:						
Branches	**3,089**	2,660	429#	**3,089**	2,660	429#
ATMs	**8,649**	7,753	896	**8,649**	7,753	896
Personal bankers[(a)]	**9,025**	7,260	1,765	**9,025**	7,260	1,765
Sales specialists[(a)]	**3,915**	3,376	539	**3,915**	3,376	539
Active online customers (in thousands)[(b)]	**5,448**	4,469	979	**5,448**	4,469	979
Checking accounts (in thousands)	**10,356**	9,072	1,284	**10,356**	9,072	1,284

(a) *Employees acquired as part of The Bank of New York transaction are included beginning June 30, 2007. This transaction was completed on October 1, 2006.*

(b) *During the three months ended June 30, 2007, RFS changed the methodology for determining active online customers to include all individual RFS customers with one or more online accounts that have been active within 90 days of period end, including customers who also have online accounts with Card Services. Prior periods have been restated to conform to this new methodology.*

MORTGAGE BANKING

Selected income statement data (in millions, except ratios and where otherwise noted)	Three months ended June 30,			Six months ended June 30,		
	2007	2006	Change	**2007**	2006	Change
Production revenue[(a)]	**$ 463**	$ 202	129%	**$ 863**	$ 421	105%
Net mortgage servicing revenue:						
Loan servicing revenue	**615**	563	9	**1,216**	1,123	8
Changes in MSR asset fair value:						
Due to inputs or assumptions in model[(b)]	**952**	491	94	**1,060**	1,202	(12)
Other changes in fair value[(c)]	**(383)**	(392)	2	**(761)**	(741)	(3)

Total changes in MSR asset fair value	**569**	99	475	**299**	461	(35)
Derivative valuation adjustments and other	**(1,014)**	(546)	(86)	**(1,141)**	(1,299)	12
Total net mortgage servicing revenue	**170**	116	47	**374**	285	31
Total net revenue	**633**	318	99	**1,237**	706	75
Noninterest expense[(a)]	**516**	329	57	**984**	653	51
Income before income tax expense	**117**	(11)	NM	**253**	53	377
Net income	**$ 71**	$ (7)	NM	**$ 155**	$ 32	384
ROE	**14%**	NM		**16%**	4%	
Business metrics (in billions)						
Third-party mortgage loans serviced (ending)	**$ 572.4**	$ 497.4	15	**$ 572.4**	$ 497.4	15
MSR net carrying value (ending)	**9.5**	8.2	16	**9.5**	8.2	16
Average mortgage loans held-for-sale[(d)]	**21.3**	9.8	117	**22.6**	11.4	98
Average assets	**35.6**	23.9	49	**36.8**	25.5	44
Average equity	**2.0**	1.7	18	**2.0**	1.7	18
Mortgage origination volume by channel (in billions)						
Retail	**$ 13.6**	$ 10.8	26	**$ 24.5**	$ 19.9	23
Wholesale	**12.8**	8.7	47	**22.7**	16.1	41
Correspondent	**6.4**	3.4	88	**11.2**	7.1	58
CNT (Negotiated transactions)	**11.3**	8.3	36	**21.8**	17.3	26
Total[(e)]	**$ 44.1**	$ 31.2	41	**$ 80.2**	$ 60.4	33

(a) *The Firm adopted SFAS 159 in the first quarter of 2007. As a result, certain loan origination costs have been classified as expense (previously netted against revenue) in the three and six months ended June 30, 2007.*

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

(c) *Includes changes in the MSR value due to modeled servicing portfolio runoff (or time decay).*

(d) *Included $13.5 billion and $10.0 billion of prime mortgage loans accounted for at fair value option for the three and six months ended June 30, 2007, respectively. These loans are classified as Trading assets on the Consolidated balance sheets for 2007.*

(e) *During the second quarter of 2007, RFS changed its definition of mortgage originations to include all newly originated mortgage loans sourced through RFS channels, and to exclude all mortgage loan originations sourced through the IB s channels. Prior periods have been restated to conform to this new definition.*

Quarterly results

Mortgage Banking net income was $71 million compared with a net loss of $7 million in the prior year. Net revenue of $633 million was up by $315 million from the prior year. Revenue comprises production revenue and net mortgage servicing revenue. Production revenue was $463 million, up by $261 million, reflecting an increase in mortgage loan originations and the classification of certain loan origination costs as expense (loan origination costs previously netted against revenue are currently recorded as expense) due to the adoption of SFAS 159. Net mortgage servicing revenue, which includes loan servicing revenue, mortgage servicing rights (MSR) risk management results and other changes in fair value, was $170 million compared with $116 million in the prior year. Loan servicing revenue of $615 million increased by $52 million on a 15% increase in third-party loans serviced. MSR risk management revenue of negative $62 million declined by $7 million from the prior year. Other changes in fair value of the MSR asset, representing run-off of the asset against the realization of servicing cash flows, were negative $383 million. Noninterest expense was $516 million, up by $187 million, or 57%, reflecting the classification of certain loan origination costs due to the adoption of SFAS 159, and higher compensation expense, reflecting higher loan originations and a greater number of loan officers.

Year-to-date results

Mortgage Banking net income was $155 million compared with $32 million in the prior year. Net revenue of $1.2 billion was up by $531 million from the prior year. Revenue comprises production revenue and net mortgage servicing revenue. Production revenue was $863 million, up by $442 million, reflecting higher gain on sale income primarily attributable to increased mortgage loan originations, and the classification of certain loan origination costs as expense (loan origination costs previously netted against revenue are currently recorded as expense) due to the adoption of SFAS 159. Net mortgage servicing revenue, which includes loan servicing revenue, MSR risk management results and other changes in fair value, was $374 million compared with $285 million in the prior year. Loan servicing revenue of $1.2 billion increased by $93 million on a 15% increase in third-party loans serviced. MSR risk management revenue of negative $81 million improved by $16 million from the prior year. Other changes in fair value of the MSR asset, representing run-off of the asset against the realization of servicing cash flows, were negative $761 million. Noninterest expense was $984 million, up by $331 million, or 51%, reflecting the classification of certain loan origination costs due to the adoption of SFAS 159, and higher compensation expense, reflecting higher loan originations and a greater number of loan officers.

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AUTO FINANCE

Selected income statement data (in millions, except ratios and where otherwise noted)	Three months ended June 30, 2007	2006	Change	Six months ended June 30, 2007	2006	Change
Noninterest revenue	**$ 138**	$ 90	53%	**$ 269**	$ 134	101%
Net interest income	**312**	308	1	**591**	599	(1)
Total net revenue	**450**	398	13	**860**	733	17
Provision for credit losses	**92**	30	207	**151**	49	208
Noninterest expense	**219**	184	19	**429**	360	19
Income before income tax expense	**139**	184	(24)	**280**	324	(14)
Net income	**$ 85**	$ 111	(23)	**$ 170**	$ 196	(13)
ROE	**15%**	19%		**16%**	16%	
ROA	**0.79**	0.98		**0.79**	0.85	
Business metrics (in billions)						
Auto origination volume	**$ 5.3**	$ 4.5	18	**$ 10.5**	$ 8.8	19
End-of-period loans and lease related assets						
Loans outstanding	**$ 40.4**	$ 39.4	3	**$ 40.4**	$ 39.4	3
Lease financing receivables	**0.8**	2.8	(71)	**0.8**	2.8	(71)
Operating lease assets	**1.8**	1.3	38	**1.8**	1.3	38
Total end-of-period loans and lease related assets	**43.0**	43.5	(1)	**43.0**	43.5	(1)
Average loans and lease related assets						
Loans outstanding[(a)]	**$ 40.1**	$ 40.3		**$ 39.8**	$ 40.7	(2)
Lease financing receivables	**1.0**	3.2	(69)	**1.2**	3.6	(67)
Operating lease assets	**1.7**	1.2	42	**1.7**	1.1	55
Total average loans and lease related assets	**42.8**	44.7	(4)	**42.7**	45.4	(6)
Average assets	**43.4**	45.6	(5)	**43.3**	46.4	(7)
Average equity	**2.2**	2.4	(8)	**2.2**	2.4	(8)
Credit quality statistics						
30+ day delinquency rate	**1.43%**	1.37%		**1.43%**	1.37%	
Net charge-offs						
Loans	**$ 62**	$ 44	41	**$ 120**	$ 92	30
Lease receivables	**1**	1		**2**	4	(50)
Total net charge-offs	**63**	45	40	**122**	96	27
Net charge-off rate						
Loans[(a)]	**0.62%**	0.45%		**0.61%**	0.46%	
Lease receivables	**0.40**	0.13		**0.34**	0.22	

Total net charge-off rate[(a)]	**0.61**	0.43		**0.60**	0.44	
Nonperforming assets	**$ 131**	$ 171	(23)	**$ 131**	$ 171	(23)

(a) For the three and six month periods ended June 30, 2006, Average loans included Loans held-for-sale of $1.2 billion and $589 million, respectively. These amounts are excluded when calculating the Net charge-off rate. For the three and six month periods ended June 30, 2007, no Auto loans were classified as held-for-sale.

Quarterly results

Auto Finance net income of $85 million was down by $26 million, or 23%, compared with the prior year. Net revenue of $450 million was up by $52 million, or 13%, reflecting higher automobile operating lease revenue and wider loan spreads. The provision for credit losses was $92 million, an increase of $62 million, reflecting an increase in estimated losses from low prior-year levels. Noninterest expense of $219 million increased by $35 million, or 19%, driven by increased depreciation expense on owned automobiles subject to operating leases.

Year-to-date results

Auto Finance net income of $170 million was down by $26 million, or 13%, compared with the prior year. Net revenue of $860 million was up by $127 million, or 17%, reflecting higher automobile operating lease revenue, wider loan spreads and the absence of a prior-year $50 million pretax loss related to auto loans transferred to held-for-sale. These increases were offset partially by a decrease in Auto loans and lease balances. The provision for credit losses was $151 million, an increase of $102 million, reflecting an increase in estimated losses from low prior-year levels. Noninterest expense of $429 million increased by $69 million, or 19%, driven by increased depreciation expense on owned automobiles subject to operating leases.

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CARD SERVICES

For a discussion of the business profile of CS, see pages 43 45 of JPMorgan Chase s 2006 Annual Report and pages 4 5 of this Form 10-Q.

JPMorgan Chase uses the concept of managed receivables to evaluate the credit performance of its credit card loans, both loans on the balance sheet and loans that have been securitized. Managed results exclude the impact of credit card securitizations on Total net revenue, the Provision for credit losses, net charge-offs and loan receivables. Securitization does not change reported Net income; however, it does affect the classification of items on the Consolidated statements of income and Consolidated balance sheets. For further information, see Explanation and reconciliation of the Firm s use of non-GAAP financial measures on pages 13 16 of this Form 10-Q.

Selected income statement data managed basis (in millions, except ratios)	Three months ended June 30, **2007**	2006	Change	Six months ended June 30, **2007**	2006	Change
Revenue						
Credit card income	**$ 682**	$ 653	4%	**$ 1,281**	$ 1,254	2%
All other income	**80**	49	63	**172**	120	43
Noninterest revenue	**762**	702	9	**1,453**	1,374	6
Net interest income	**2,955**	2,962		**5,944**	5,975	(1)
Total net revenue	**3,717**	3,664	1	**7,397**	7,349	1
Provision for credit losses[(a)]	**1,331**	1,031	29	**2,560**	2,047	25
Noninterest expense						
Compensation expense	**251**	251		**505**	510	(1)
Noncompensation expense	**753**	810	(7)	**1,556**	1,606	(3)
Amortization of intangibles	**184**	188	(2)	**368**	376	(2)
Total noninterest expense	**1,188**	1,249	(5)	**2,429**	2,492	(3)
Income before income tax expense	**1,198**	1,384	(13)	**2,408**	2,810	(14)
Income tax expense	**439**	509	(14)	**884**	1,034	(15)
Net Income	**$ 759**	$ 875	(13)	**$ 1,524**	$ 1,776	(14)
Memo: Net securitization gains (amortization)	**$ 16**	$ (6)	NM	**$ 39**	$ 2	NM
Financial metrics						
ROE	**22%**	25%		**22%**	25%	
Overhead ratio	**32**	34		**33**	34	

(a)

Second quarter of 2006 included a $90 million release of a $100 million special provision, originally recorded in the third quarter of 2005, related to Hurricane Katrina.

Quarterly results

Net income of $759 million was down by $116 million, or 13%, from the prior year. Prior-year results benefited from significantly lower net charge-offs following the change in bankruptcy legislation in the fourth quarter of 2005.

End-of-period managed loans of $148.0 billion increased by $8.7 billion, or 6%, from the prior year. Average managed loans of $147.4 billion increased by $10.2 billion, or 7%, from the prior year.

Net managed revenue of $3.7 billion was up by $53 million, or 1%, from the prior year. Net interest income of $3.0 billion was flat compared with the prior year. Net interest income was negatively affected by the discontinuation of certain billing practices (including the elimination of certain over-limit fees and the two-cycle billing method for calculating finance charges); higher charge-offs, which resulted in increased revenue reversals; and increased cost of funds on growth in introductory and transactor balances. These decreases in net interest income were offset by increased average loans and higher fees. Noninterest revenue of $762 million was up by $60 million, or 9%, from the prior year. The increase reflects a higher level of fee-based revenue and increased interchange income, benefiting from 4% higher charge volume, primarily offset by higher volume-driven payments to partners and increased rewards expense (both of which are netted against interchange income). Charge volume reflects an approximate 10% growth rate in sales volume offset partially by a lower level of balance transfers, reflecting a more targeted marketing effort.

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The managed provision for credit losses was $1.3 billion, up by $300 million, or 29%, from the prior year. The prior year benefited from lower net charge-offs, following the change in bankruptcy legislation in the fourth quarter of 2005, and the release of $90 million of provision related to Hurricane Katrina. Credit quality remained stable with a managed net charge-off rate for the quarter of 3.62%, up from 3.28% in the prior year. The 30-day managed delinquency rate was 3.00%, down from 3.14% in the prior year.

Noninterest expense of $1.2 billion was down by $61 million, or 5%, compared with the prior year, primarily due to lower marketing expense and lower fraud-related expense, partially offset by higher volume-related expense.

Year-to-date results

Net income of $1.5 billion was down by $252 million, or 14%, from the prior year. Prior-year results benefited from significantly lower net charge-offs following the change in bankruptcy legislation in the fourth quarter of 2005.

End-of-period managed loans of $148.0 billion increased by $8.7 billion, or 6%, from the prior year, benefiting from organic growth. Average managed loans of $148.4 billion increased by $10.8 billion, or 8%, from the prior year, benefiting from organic growth and loan portfolio acquisitions.

Net managed revenue of $7.4 billion was up by $48 million, or 1%, from the prior year. Net interest income of $5.9 billion was down by $31 million, or 1%, compared with the prior year. Net interest income was negatively impacted by increased cost of funds on growth in introductory, transactor and promotional balances; higher charge-offs, which resulted in increased revenue reversals; and the discontinuation of certain billing practices (including the elimination of certain over-limit fees and the two-cycle method for calculating finance charges). These decreases in net interest income were partially offset by increased average loans and higher fees. Noninterest revenue of $1.5 billion was up by $79 million, or 6%, from the prior year. The increase reflects a higher level of fee-based revenue and increased interchange income, benefiting from 7% higher charge volume, primarily offset by higher volume-driven payments to partners and increased rewards expense (both of which are netted against interchange income). Charge volume reflects an approximate 10% growth rate in sales volume offset partially by a lower level of balance transfers, reflecting a more targeted marketing effort.

The managed provision for credit losses was $2.6 billion, up by $513 million, or 25%, from the prior year. The prior year benefited from lower net charge-offs, following the change in bankruptcy legislation in the fourth quarter of 2005. The managed net charge-off rate increased to 3.59%, up from 3.13% in the prior year. The 30-day managed delinquency rate was 3.00%, down from 3.14% in the prior year.

Noninterest expense of $2.4 billion was down by $63 million, or 3%, compared with the prior year, primarily due to lower marketing expense and lower fraud-related expense, partially offset by higher volume-related expense.

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Selected metrics (in millions, except headcount, ratios and where otherwise noted)	Three months ended June 30, **2007**	2006	Change	Six months ended June 30, **2007**	2006	Change
% of average managed outstandings:						
Net interest income	**8.04%**	8.66%		**8.08%**	8.76%	
Provision for credit losses	**3.62**	3.01		**3.48**	3.00	
Noninterest revenue	**2.07**	2.05		**1.97**	2.01	
Risk adjusted margin[(a)]	**6.49**	7.70		**6.57**	7.77	
Noninterest expense	**3.23**	3.65		**3.30**	3.65	
Pretax income (ROO)	**3.26**	4.05		**3.27**	4.12	
Net income	**2.06**	2.56		**2.07**	2.60	
Business metrics						
Charge volume (in billions)	**$ 88.0**	$ 84.4	4%	**$ 169.3**	$ 158.7	7%
Net accounts opened (in thousands)[(b)]	**3,706**	24,573	(85)	**7,145**	27,291	(74)
Credit cards issued (in thousands)	**150,883**	136,685	10	**150,883**	136,685	10
Number of registered Internet customers (in millions)	**24.6**	19.1	29	**24.6**	19.1	29
Merchant acquiring business[(c)]						
Bank card volume (in billions)	**$ 179.7**	$ 166.3	8	**$ 343.3**	$ 314.0	9
Total transactions (in millions)	**4,811**	4,476	7	**9,276**	8,606	8
Selected ending balances						
Loans:						
Loans on balance sheets	**$ 80,495**	$ 72,961	10	**$ 80,495**	$ 72,961	10
Securitized loans	**67,506**	66,349	2	**67,506**	66,349	2
Managed loans	**$ 148,001**	$ 139,310	6	**$ 148,001**	$ 139,310	6
Selected average balances						
Managed assets	**$ 154,406**	$ 144,284	7	**$ 155,333**	$ 145,134	7
Loans:						
Loans on balance sheets	**$ 79,000**	$ 68,185	16	**$ 80,458**	$ 68,319	18
Securitized loans	**68,428**	69,005	(1)	**67,959**	69,287	(2)
Managed loans	**$ 147,428**	$ 137,190	7	**$ 148,417**	$ 137,606	8
Equity	**$ 14,100**	$ 14,100		**$ 14,100**	$ 14,100	
Headcount	**18,913**	18,753	1	**18,913**	18,753	1
Managed credit quality statistics						
Net charge-offs	**$ 1,331**	$ 1,121	19	**$ 2,645**	$ 2,137	24
Net charge-off rate	**3.62%**	3.28%		**3.59%**	3.13%	
Managed delinquency ratios						
30+ days	**3.00%**	3.14%		**3.00%**	3.14%	

90+ days		**1.42**		1.52			**1.42**		1.52	
Allowance for loan losses	**$**	**3,096**	$	3,186	(3)	**$**	**3,096**	$	3,186	(3)
Allowance for loan losses to period-end loans		**3.85%**		4.37%			**3.85%**		4.37%	

(a) Represents Total net revenue less Provision for credit losses.

(b) Second quarter of 2006 included approximately 21 million accounts from the acquisition of the Kohl s private label portfolio.

(c) Represents 100% of the merchant acquiring business.

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Reconciliation from reported basis to managed basis

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

(in millions)	Three months ended June 30, 2007	2006	Change	Six months ended June 30, 2007	2006	Change
Income statement data[(a)]						
Credit card income						
Reported basis for the period	**$ 1,470**	$ 1,590	(8)%	**$ 2,815**	$ 3,316	(15)%
Securitization adjustments	**(788)**	(937)	16	**(1,534)**	(2,062)	26
Managed credit card income	**$ 682**	$ 653	4	**$ 1,281**	$ 1,254	2
Net interest income						
Reported basis for the period	**$ 1,577**	$ 1,464	8	**$ 3,227**	$ 2,903	11
Securitization adjustments	**1,378**	1,498	(8)	**2,717**	3,072	(12)
Managed net interest income	**$ 2,955**	$ 2,962		**$ 5,944**	$ 5,975	(1)
Total net revenue						
Reported basis for the period	**$ 3,127**	$ 3,103	1	**$ 6,214**	$ 6,339	(2)
Securitization adjustments	**590**	561	5	**1,183**	1,010	17
Managed total net revenue	**$ 3,717**	$ 3,664	1	**$ 7,397**	$ 7,349	1
Provision for credit losses						
Reported basis for the period[(b)]	**$ 741**	$ 470	58	**$ 1,377**	$ 1,037	33
Securitization adjustments	**590**	561	5	**1,183**	1,010	17
Managed provision for credit losses[(b)]	**$ 1,331**	$ 1,031	29	**$ 2,560**	$ 2,047	25
Balance sheet average balances[(a)]						
Total average assets	**$ 88,486**	$ 77,371	14	**$ 89,814**	$ 77,901	15

Reported basis for the period						
Securitization adjustments	**65,920**	66,913	(1)	**65,519**	67,233	(3)
Managed average assets	**$ 154,406**	$ 144,284	7	**$ 155,333**	$ 145,134	7
Credit quality statistics[(a)]						
Net charge-offs						
Reported net charge-offs data for the period	**$ 741**	$ 560	32	**$ 1,462**	$ 1,127	30
Securitization adjustments	**590**	561	5	**1,183**	1,010	17
Managed net charge-offs	**$ 1,331**	$ 1,121	19	**$ 2,645**	$ 2,137	24

(a) *JPMorgan Chase uses the concept of managed receivables to evaluate the credit performance and overall performance of the underlying credit card loans, both sold and not sold; as the same borrower is continuing to use the credit card for ongoing charges, a borrower s credit performance will affect both the receivables sold under SFAS 140 and those not sold. Thus, in its disclosures regarding managed receivables, JPMorgan Chase treated the sold receivables as if they were still on the balance sheet in order to disclose the credit performance (such as Net charge-off rates) of the entire managed credit card portfolio. Managed results excluded the impact of credit card securitizations on Total net revenue, the Provision for credit losses, net charge-offs and loan receivables. Securitization did not change reported net income versus managed earnings; however, it did affect the classification of items on the Consolidated statements of income and Consolidated balance sheets. For further information, see Explanation and reconciliation of the Firm s use of non-GAAP measures on pages 13 16 of this Form 10-Q.*

(b) *Second quarter of 2006 included a $90 million release of a $100 million special provision, originally recorded in the third quarter of 2005, related to Hurricane Katrina.*

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COMMERCIAL BANKING

For a discussion of the business profile of CB, see pages 46 47 of JPMorgan Chase s 2006 Annual Report and page 5 of this Form 10-Q.
On October 1, 2006, JPMorgan Chase completed the acquisition of The Bank of New York s consumer, business banking and middle-market banking businesses adding approximately $2.3 billion in loans and $1.2 billion in deposits.

Selected income statement data	Three months ended June 30,			Six months ended June 30,		
(in millions, except ratios)	**2007**	2006	Change	**2007**	2006	Change
Revenue						
Lending & deposit related fees	**$ 158**	$ 147	7%	**$ 316**	$ 289	9%
Asset management, administration and commissions	**21**	16	31	**44**	31	42
All other income[(a)]	**133**	111	20	**287**	187	53
Noninterest revenue	**312**	274	14	**647**	507	28
Net interest income	**695**	675	3	**1,363**	1,342	2
Total net revenue	**1,007**	949	6	**2,010**	1,849	9
Provision for credit losses	**45**	(12)	NM	**62**	(5)	NM
Noninterest expense						
Compensation expense	**182**	179	2	**362**	376	(4)
Noncompensation expense	**300**	302	(1)	**590**	587	1
Amortization of intangibles	**14**	15	(7)	**29**	31	(6)
Total noninterest expense	**496**	496		**981**	994	(1)
Income before income tax expense	**466**	465		**967**	860	12
Income tax expense	**182**	182		**379**	337	12
Net income	**$ 284**	$ 283		**$ 588**	$ 523	12
Financial ratios						
ROE	**18%**	21%		**19%**	19%	
Overhead ratio	**49**	52		**49**	54	

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

Quarterly results

Net income of $284 million was flat compared with the prior year, as an increase in net revenue was offset by higher provision for credit losses.

Net revenue was $1.0 billion, up by $58 million, or 6%, from the prior year. Net interest income of $695 million was up by $20 million, or 3%, from the prior year. The increase was driven by double-digit growth in liability balances and loans, which reflected organic growth and The Bank of New York transaction, largely offset by the continued shift to narrower spread liability products and spread compression in the liability and loan portfolios. Noninterest revenue of $312 million was up by $38 million, or 14%, from the prior year, primarily due to higher investment banking revenue and increased deposit-related fees.

On a segment basis, Middle Market Banking revenue of $653 million increased by $19 million, or 3%, from the prior year, due to The Bank of New York transaction and growth in investment banking revenue. Mid-Corporate Banking revenue of $197 million increased by $36 million, or 22%, reflecting higher lending, investment banking and treasury services revenue. Real Estate Banking revenue of $109 million decreased by $5 million, or 4%.

Provision for credit losses was $45 million compared with a benefit of $12 million in the prior year. The increase in the allowance for credit losses reflects portfolio activity. The allowance for loan losses to average loans was 2.63% in the current quarter compared with 2.68% in the prior year; nonperforming loans of $135 million decreased by $90 million, or 40%, from the prior year.

Noninterest expense of $496 million was flat compared with the prior year.

Year-to-date results

Net income of $588 million increased by $65 million, or 12%, from the prior year due to higher revenues, partially offset by higher provision for credit losses.

Net revenue of $2.0 billion increased by $161 million, or 9%. Net interest income of $1.4 billion increased by $21 million, or 2%, driven by double-digit growth in liability balances and loans, which reflected organic growth and The Bank of New York transaction, largely offset by the continued shift to narrower spread liability products and spread compression in the liability and loan portfolios. Noninterest revenue was $647 million, up by $140 million, or 28%, due to higher IB-related revenue, increased deposit-related fees and gains related to the sale of securities acquired in the satisfaction of debt.

On a segment basis, Middle Market Banking revenue of $1.3 billion increased by $57 million, or 5%, primarily due to growth in investment banking revenue and the Bank of New York transaction. Mid-Corporate Banking revenue of $409 million increased by $111 million, or 37%, reflecting higher investment banking, lending revenue and gains on sales of securities acquired in the satisfaction debt. Real Estate Banking revenue of $211 million decreased by $8 million, or 4%.

Provision for credit losses was $62 million compared to a net recovery of $5 million in the prior year. The increase in the allowance for credit losses reflects portfolio activity. The allowance for loan losses to average loans was 2.67% compared with 2.72% in the prior year.

Noninterest expenses of $981 million decreased by $13 million, or 1%, due to the absence of prior-year expense from the adoption of SFAS 123R primarily offset by expense related to The Bank of New York transaction.

Selected metrics	Three months ended June 30,			Six months ended June 30,		
(in millions, except ratio and headcount data)	**2007**	2006	Change	**2007**	2006	Change
Revenue by product:						
Lending	**$ 348**	$ 331	5%	**$ 696**	$ 650	7%
Treasury services	**569**	566	1	**1,125**	1,116	1
Investment banking	**82**	66	24	**158**	106	49
Other	**8**	(14)	NM	**31**	(23)	NM
Total Commercial Banking revenue	**$ 1,007**	$ 949	6	**$ 2,010**	$ 1,849	9
IB revenues, gross[(a)]	**$ 236**	$ 186	27	**$ 467**	$ 300	56
Revenue by business:						
Middle Market Banking	**$ 653**	$ 634	3	**$ 1,314**	$ 1,257	5
Mid-Corporate Banking	**197**	161	22	**409**	298	37
Real Estate Banking	**109**	114	(4)	**211**	219	(4)
Other	**48**	40	20	**76**	75	1
Total Commercial Banking revenue	**$ 1,007**	$ 949	6	**$ 2,010**	$ 1,849	9
Selected average balances						
Total assets	**$ 84,687**	$ 56,561	50	**$ 83,622**	$ 55,671	50
Loans and leases[(b)]	**59,812**	52,413	14	**58,742**	51,629	14
Liability balances[(c)]	**84,187**	72,556	16	**82,976**	71,664	16
Equity	**6,300**	5,500	15	**6,300**	5,500	15
Average loans by business:						
Middle Market Banking	**$ 37,099**	$ 32,492	14	**$ 36,710**	$ 32,178	14
Mid-Corporate Banking	**11,692**	8,269	41	**11,183**	7,925	41
Real Estate Banking	**6,894**	7,515	(8)	**6,984**	7,476	(7)
Other	**4,127**	4,137		**3,865**	4,050	(5)

Total Commercial Banking loans	**$ 59,812**	$ 52,413	14	**$ 58,742**	$ 51,629	14
Headcount	**4,295**	4,320	(1)	**4,295**	4,320	(1)
Credit data and quality statistics:						
Net charge-offs (recoveries)	**$ (8)**	$ (3)	(167)	**$ (9)**	$ (10)	10
Nonperforming loans	**135**	225	(40)	**135**	225	(40)
Allowance for credit losses:						
Allowance for loan losses	**1,551**	1,394	11	**1,551**	1,394	11
Allowance for lending-related commitments	**222**	157	41	**222**	157	41
Total allowance for credit losses	**1,773**	1,551	14	**1,773**	1,551	14
Net charge-off (recovery) rate*(b)*	**(0.05)%**	(0.02)%		**(0.03)%**	(0.04)%	
Allowance for loan losses to average loans*(b)*	**2.63**	2.68		**2.67**	2.72	
Allowance for loan losses to nonperforming loans	**1,149**	620		**1,149**	620	
Nonperforming loans to average loans	**0.23**	0.43		**0.23**	0.44	

(a) Represents the total revenue related to investment banking products sold to CB clients.

(b) Average loans include Loans held-for-sale of $741 million and $334 million for the quarters ended June 30, 2007 and 2006, respectively, and $609 million and $301 million for year-to-date 2007 and 2006, respectively. These amounts are excluded when calculating the Net charge-off (recovery) rate and the allowance coverage ratio.

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

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TREASURY & SECURITIES SERVICES

For a discussion of the business profile of TSS, see pages 48 49 of JPMorgan Chase s 2006 Annual Report and page 5 of this Form 10-Q.

Selected income statement data	Three months ended June 30,			Six months ended June 30,		
(in millions, except ratios)	**2007**	2006	Change	**2007**	2006	Change
Revenue						
Lending & deposit related fees	**$ 219**	$ 184	19%	**$ 432**	$ 366	18%
Asset management, administration and commissions	**828**	683	21	**1,514**	1,333	14
All other income	**184**	178	3	**309**	324	(5)
Noninterest revenue	**1,231**	1,045	18	**2,255**	2,023	11
Net interest income	**510**	543	(6)	**1,012**	1,050	(4)
Total net revenue	**1,741**	1,588	10	**3,267**	3,073	6
Provision for credit losses		4	NM	**6**		NM
Credit reimbursement to IB[(a)]	**(30)**	(30)		**(60)**	(60)	
Noninterest expense						
Compensation expense	**609**	537	13	**1,167**	1,086	7
Noncompensation expense	**523**	493	6	**1,025**	973	5
Amortization of intangibles	**17**	20	(15)	**32**	39	(18)
Total noninterest expense	**1,149**	1,050	9	**2,224**	2,098	6
Income before income tax expense	**562**	504	12	**977**	915	7
Income tax expense	**210**	188	12	**362**	337	7
Net income	**$ 352**	$ 316	11	**$ 615**	$ 578	6
Financial ratios						
ROE	**47%**	58%		**41%**	49%	
Overhead ratio	**66**	66		**68**	68	
Pretax margin ratio[(b)]	**32**	32		**30**	30	

(a) TSS was charged a credit reimbursement related to certain exposures managed within the IB credit portfolio on behalf of clients shared with TSS. For a further discussion, see Credit reimbursement on page 35 of JPMorgan Chase s 2006 Annual Report.

(b) Pretax margin represents Income before income tax expense divided by Total net revenue, which is a measure of pretax performance and another basis by which management evaluates its performance and that of its

competitors.

Quarterly results

Net income was a record $352 million, up by $36 million, or 11%, from the prior year. The increase was driven by record revenue partially offset by higher compensation expense.

Net revenue was a record $1.7 billion, up by $153 million, or 10%, from the prior year. Worldwide Securities Services net revenue of $1.0 billion was up by $135 million, or 15%, driven by increased product usage by new and existing clients, market appreciation, and seasonally strong activity in securities lending and depositary receipts. These benefits were offset partially by lower foreign exchange revenue, as a result of narrower-market spreads. Treasury Services net revenue of $720 million was up by $18 million, or 3%, driven by volume increases in clearing, ACH and commercial cards, partially offset by a continued shift to narrower spread liability products. TSS firmwide net revenue, which includes Treasury Services net revenue recorded in other lines of business, grew to $2.4 billion, up by $171 million, or 8%. Treasury Services firmwide net revenue grew to $1.4 billion, up by $36 million, or 3%.

Noninterest expense was $1.1 billion, up by $99 million, or 9%, from the prior year. The increase was due largely to higher compensation expense related to business and volume growth, as well as investment in new product platforms.

Year-to-date results

Net income was $615 million, up by $37 million, or 6% from the prior year. The increase was driven by record revenue from seasonally strong activity in securities lending and depositary receipts, offset by higher compensation expense driven by increased business volumes.

Net revenue was $3.3 billion, up by $194 million, or 6%, from the prior year. Worldwide Securities Services net revenue of $1.9 billion was up by $180 million, or 11%, driven by increased product usage by new and existing clients, market appreciation, and seasonally strong activity in securities lending and depositary receipts. These benefits were offset partially by lower foreign exchange revenue as a result of narrower market spreads. Treasury Services net revenue of $1.4 billion was up by $14 million, or 1%, driven by volume increases in clearing, ACH and cards, partially offset by a continued shift to narrower spread liability products. TSS firmwide net revenue, which includes Treasury Services net revenue recorded in other lines of business, grew to $4.5 billion, up by $230 million, or 5%. Treasury Services firmwide net revenue grew to $2.7 billion, up by $50 million, or 2%.

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Noninterest expense was $2.2 billion, up by $126 million, or 6%. The increase was largely due to higher compensation expense related to business and volume growth as well as investment in new product platforms.

Selected metrics	Three months ended June 30,			Six months ended June 30,		
(in millions, except headcount, ratio data and where otherwise noted)	**2007**	2006	Change	**2007**	2006	Change
Revenue by business						
Treasury Services	**$ 720**	$ 702	3%	**$ 1,409**	$ 1,395	1%
Worldwide Securities Services	**1,021**	886	15	**1,858**	1,678	11
Total net revenue	**$ 1,741**	$ 1,588	10	**$ 3,267**	$ 3,073	6
Business metrics						
Assets under custody (in billions)	**$ 15,203**	$ 11,536	32	**$ 15,203**	$ 11,536	32
Number of:						
US$ ACH transactions originated (in millions)	**972**	848	15	**1,943**	1,686	15
Total US$ clearing volume (in thousands)	**27,779**	26,506	5	**54,619**	51,688	6
International electronic funds transfer volume (in thousands)(a)	**42,068**	35,255	19	**84,467**	68,996	22
Wholesale check volume (in millions)	**767**	904	(15)	**1,538**	1,756	(12)
Wholesale cards issued (in thousands)(b)	**17,535**	16,271	8	**17,535**	16,271	8
Selected balance sheets (average)						
Total assets	**$ 50,687**	$ 31,774	60	**$ 48,359**	$ 30,509	59
Loans	**20,195**	14,993	35	**19,575**	13,972	40
Liability balances(c)	**217,514**	194,181	12	**214,095**	186,201	15
Equity	**3,000**	2,200	36	**3,000**	2,372	26
Headcount	**25,206**	24,100	5	**25,206**	24,100	5
TSS firmwide metrics						
Treasury Services firmwide revenue(d)	**$ 1,354**	$ 1,318	3	**$ 2,659**	$ 2,609	2
Treasury & Securities Services firmwide revenue(d)	**2,375**	2,204	8	**4,517**	4,287	5
Treasury Services firmwide overhead ratio(e)	**59%**	56%		**59%**	56%	
Treasury & Securities Services firmwide overhead ratio(e)	**60**	59		**61**	61	
Treasury Services firmwide liability balances (average)(f)	**$ 189,214**	$ 161,866	17	**$ 187,930**	$ 158,662	18
Treasury & Securities Services firmwide liability balances (average)(f)	**301,701**	265,398	14	**297,072**	256,910	16

(a) International electronic funds transfer includes non-US$ ACH and clearing volume.

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

(c) Liability balances included deposits and deposits swept to on balance sheet liabilities.

TSS firmwide metrics

TSS firmwide metrics include certain TSS product revenues and liability balances reported in other lines of business for customers who are also customers of those lines of business. In order to capture the firmwide impact of TS and TSS products and revenues, management reviews firmwide metrics such as liability balances, revenues and overhead ratios in assessing financial performance for TSS. Firmwide metrics are necessary in order to understand the aggregate TSS business.

(d) Firmwide revenue included TS revenue recorded in the CB, Regional Banking and AM lines of business (see below) and excluded FX revenues recorded in the IB for TSS-related FX activity.

	Three months ended June 30,			Six months ended June 30,		
(in millions)	**2007**	2006	Change	**2007**	2006	Change
Treasury Services revenue reported in CB	**$ 569**	$ 566	1%	**$ 1,125**	$ 1,116	1%
Treasury Services revenue reported in other lines of business	**65**	50	30	**125**	98	28

TSS firmwide FX revenue, which include FX revenue recorded in TSS and FX revenue associated with TSS customers who are FX customers of the IB, was $139 million and $146 million for the quarters ended June 30, 2007 and 2006, respectively, and $251 million and $264 million year-to-date 2007 and 2006, respectively.

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

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

ASSET MANAGEMENT

For a discussion of the business profile of AM, see pages 50 52 of JPMorgan Chase s 2006 Annual Report and page 5 of this Form 10-Q.

Selected income statement data	Three months ended June 30,			Six months ended June 30,		
(in millions, except ratios)	**2007**	2006	Change	**2007**	2006	Change
Revenue						
Asset management, administration and commissions	**$ 1,671**	$ 1,279	31%	**$ 3,160**	$ 2,501	26%
All other income	**173**	93	86	**343**	209	64
Noninterest revenue	**1,844**	1,372	34	**3,503**	2,710	29
Net interest income	**293**	248	18	**538**	494	9
Total net revenue	**2,137**	1,620	32	**4,041**	3,204	26
Provision for credit losses	**(11)**	(7)	(57)	**(20)**	(14)	(43)
Noninterest expense						
Compensation expense	**879**	669	31	**1,643**	1,351	22
Noncompensation expense	**456**	390	17	**907**	784	16
Amortization of intangibles	**20**	22	(9)	**40**	44	(9)
Total noninterest expense	**1,355**	1,081	25	**2,590**	2,179	19
Income before income tax expense	**793**	546	45	**1,471**	1,039	42
Income tax expense	**300**	203	48	**553**	383	44
Net income	**$ 493**	$ 343	44	**$ 918**	$ 656	40
Financial ratios						
ROE	**53%**	39%		**49%**	38%	
Overhead ratio	**63**	67		**64**	68	
Pretax margin ratio[(a)]	**37**	34		**36**	32	
Selected metrics						
Revenue by client segment						
Private bank	**$ 646**	$ 469	38%	**$ 1,206**	$ 910	33%
Institutional	**617**	449	37	**1,168**	884	32
Retail	**602**	446	35	**1,129**	888	27
Private client services	**272**	256	6	**538**	522	3
Total net revenue	**$ 2,137**	$ 1,620	32	**$ 4,041**	$ 3,204	26

(a) Pretax margin represents Income before income tax expense divided by Total net revenue, which is a measure of pretax performance and another basis by which management evaluates its performance and that of its competitors.

Quarterly results

Net income was a record $493 million, up by $150 million, or 44%, from the prior year. Results benefited from increased revenue, partially offset by higher compensation expense.

Net revenue was a record $2.1 billion, up by $517 million, or 32%, from the prior year. Noninterest revenue, principally fees and commissions, of $1.8 billion was up by $472 million, or 34%. This increase was due largely to increased assets under management and higher performance and placement fees. Net interest income of $293 million was up by $45 million, or 18%, from the prior year, largely due to higher loan and deposit balances.

Private Bank revenue grew 38%, to $646 million, due to higher asset management and placement fees, and higher loan and deposit balances. Institutional revenue grew 37%, to $617 million, due to net asset inflows and performance fees. Retail revenue grew 35%, to $602 million, primarily due to net asset inflows and market appreciation. Private Client Services revenue grew 6%, to $272 million, due to increased revenue from higher assets under management and higher deposit balances.

Provision for credit losses was a benefit of $11 million compared with a benefit of $7 million in the prior year.

Noninterest expense of $1.4 billion was up by $274 million, or 25%, from the prior year. The increase was due largely to higher compensation, primarily performance-based, and investments in all business segments.

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Year-to-date results

Net income was a record $918 million, up by $262 million, or 40%, from the prior year. Results benefited from increased revenue and absence of prior-year expense from adoption of SFAS 123R, partially offset by higher compensation expense.

Net revenue was a record $4.0 billion, up by $837 million, or 26%, from the prior year. Noninterest revenue, principally fees and commissions, of $3.5 billion was up by $793 million, or 29%. This increase was due largely to increased assets under management and higher performance and placement fees. Net interest income of $538 million was up by $44 million, or 9%, from the prior year, primarily due to higher loan and deposit balances, partially offset by a shift to narrower spread deposit products.

Private Bank revenue grew 33%, to $1.2 billion, due to higher asset management and placement fees, and higher loan and deposit balances. Institutional revenue grew 32%, to $1.2 billion, due to net asset inflows and performance fees. Retail revenue grew 27%, to $1.1 billion, primarily due to net asset inflows and market appreciation. Private Client Services revenue grew 3%, to $538 million, due to increased revenue from higher assets under management and higher deposit balances, partially offset by a shift to narrower-spread deposit products.

Provision for credit losses was a benefit of $20 million compared with a benefit of $14 million in the prior year.

Noninterest expense of $2.6 billion was up by $411 million, or 19%, from the prior year. The increase was due largely to higher compensation, primarily performance-based; investments in all business segments; and increased minority interest expense related to Highbridge Capital Management. These factors were partially offset by the absence of prior-year expense from the adoption of SFAS 123R.

Business metrics

(in millions, except headcount, ratios and ranking data, and where otherwise noted)	Three months ended June 30, **2007**	2006	Change	Six months ended June 30, **2007**	2006	Change
Number of:						
Client advisors	**1,582**	1,486	6%	**1,582**	1,486	6%
Retirement planning services participants	**1,477,000**	1,361,000	9	**1,477,000**	1,361,000	9
% of customer assets in 4 & 5 Star Funds[(a)]	**65%**	56%	16	**65%**	56%	16
% of AUM in 1st and 2nd quartiles:[(b)]						
1 year	**65%**	71%	(8)	**65%**	71%	(8)
3 years	**77%**	75%	3	**77%**	75%	3
5 years	**76%**	81%	(6)	**76%**	81%	(6)
Selected balance sheets data (average)						
Total assets	**$ 51,710**	$ 43,228	20	**$ 48,779**	$ 42,126	16
Loans[(c)]	**28,695**	25,807	11	**27,176**	25,148	8
Deposits	**55,981**	51,583	9	**55,402**	49,834	11
Equity	**3,750**	3,500	7	**3,750**	3,500	7
Headcount	**14,108**	12,786	10	**14,108**	12,786	10
Credit data and quality statistics						
Net charge-offs (recoveries)	**$ (5)**	$ (4)	(25)	**$ (5)**	$ 3	NM
Nonperforming loans	**21**	76	(72)	**21**	76	(72)
Allowance for loan losses	**105**	117	(10)	**105**	117	(10)
Allowance for lending-related commitments	**7**	3	133	**7**	3	133

Net charge-off (recovery) rate	**(0.07)%**	(0.06)%	**(0.04)%**	0.02%
Allowance for loan losses to average loans	**0.37**	0.45	**0.39**	0.47
Allowance for loan losses to nonperforming loans	**500**	154	**500**	154
Nonperforming loans to average loans	**0.07**	0.29	**0.08**	0.30

(a) *Derived from Morningstar for the United States; Micropal for the United Kingdom, Luxembourg, Hong Kong and Taiwan; and Nomura for Japan.*

(b) *Quartile rankings sourced from Lipper for the United States and Taiwan; Micropal for the United Kingdom, Luxembourg and Hong Kong; and Nomura for Japan.*

(c) *As of January 1, 2007, $5.3 billion of held-for-investment prime mortgage loans were transferred from AM to Treasury within the Corporate segment. Although the loans, together with the responsibility for the investment management of the portfolio, were transferred to Treasury, the transfer has no impact on the financial results of AM.*

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Assets under supervision

Assets under supervision were $1.5 trillion, up 21%, or $259 billion, from the prior year. Assets under management were $1.1 trillion, up 23%, or $211 billion, from the prior year. The increase was the result of net asset inflows into the Institutional segment (primarily in liquidity and alternative products), the Retail segment (primarily fixed income and alternative products) and the Private Bank segment (primarily in liquidity and alternative products); and from market appreciation. Custody, brokerage, administration and deposit balances were $363 billion, up by $48 billion.

ASSETS UNDER SUPERVISION[(a)] (in billions)

As of June 30,	**2007**	2006
Assets by asset class		
Liquidity[(b)]	**$ 333**	$ 247
Fixed income	**190**	172
Equities & balanced	**467**	393
Alternatives	**119**	86
Total Assets under management	**1,109**	898
Custody/brokerage/administration/deposits	**363**	315
Total Assets under supervision	**$ 1,472**	$ 1,213
Assets by client segment		
Institutional	**$ 565**	$ 484
Private Bank	**185**	143
Retail	**300**	219
Private Client Services	**59**	52
Total Assets under management	**$ 1,109**	$ 898
Institutional	**$ 566**	$ 486
Private Bank	**402**	331
Retail	**393**	295
Private Client Services	**111**	101
Total Assets under supervision	**$ 1,472**	$ 1,213
Assets by geographic region		
U.S./Canada	**$ 700**	$ 577
International	**409**	321
Total Assets under management	**$ 1,109**	$ 898
U.S./Canada	**$ 971**	$ 828
International	**501**	385
Total Assets under supervision	**$ 1,472**	$ 1,213

Mutual fund assets by asset class		
Liquidity	**$ 268**	$ 178
Fixed income	**49**	47
Equity	**235**	194
Total mutual fund assets	**$ 552**	$ 419

(a) Excludes Assets under management of American Century Companies, Inc, in which the Firm has 44% ownership.
(b) In the third quarter of 2006, $19 billion of assets under management were reclassified into liquidity from other asset classes. Prior-period data was not reclassified.

Assets under management rollforward	Three months ended June 30,		Six months ended June 30,	
(in billions)	**2007**	2006	**2007**	2006
Beginning balance	**$ 1,053**	$ 873	**$ 1,013**	$ 847
Flows:				
Liquidity	**12**	10	**19**	5
Fixed income	**6**	6	**8**	6
Equities, balanced and alternatives	**12**	13	**22**	26
Market/performance/other impacts	**26**	(4)	**47**	14
Ending balance	**$ 1,109**	$ 898	**$ 1,109**	$ 898
Assets under supervision rollforward				
Beginning balance	**$ 1,395**	$ 1,197	**$ 1,347**	$ 1,149
Net asset flows	**38**	33	**65**	45
Market/performance/other impacts	**39**	(17)	**60**	19
Ending balance	**$ 1,472**	$ 1,213	**$ 1,472**	$ 1,213

CORPORATE

For a discussion of the business profile of Corporate, see pages 53 54 of JPMorgan Chase s 2006 Annual Report. The transaction with The Bank of New York closed on October 1, 2006. As a result of this transaction, select corporate trust businesses were transferred from TSS to the Corporate segment and are reported in discontinued operations for 2006.

Selected income statement data	Three months ended June 30,			Six months ended June 30,		
(in millions, except headcount)	**2007**	2006	Change	**2007**	2006	Change
Revenue						
Principal transactions[a][b]	**$ 1,372**	$ 551	149%	**$ 2,697**	$ 750	260%
Securities gains (losses)	**(227)**	(492)	54	**(235)**	(650)	64
All other income[c]	**90**	231	(61)	**158**	333	(53)
Noninterest revenue	**1,235**	290	326	**2,620**	433	NM
Net interest income	**(173)**	(355)	51	**(290)**	(902)	68
Total net revenue	**1,062**	(65)	NM	**2,330**	(469)	NM
Provision for credit losses	**3**		NM	**6**		NM
Noninterest expense						
Compensation expense[b]	**695**	770	(10)	**1,471**	1,455	1
Noncompensation expense[d]	**818**	336	143	**1,374**	948	45
Merger costs	**64**	86	(26)	**126**	157	(20)
Subtotal	**1,577**	1,192	32	**2,971**	2,560	16
Net expenses allocated to other businesses	**(1,075)**	(1,036)	(4)	**(2,115)**	(2,069)	(2)
Total noninterest expense	**502**	156	222	**856**	491	74
Income (loss) from continuing operations before income tax expense	**557**	(221)	NM	**1,468**	(960)	NM
Income tax expense (benefit)	**175**	(181)	NM	**455**	(500)	NM
Income (loss) from continuing operations	**382**	(40)	NM	**1,013**	(460)	NM
Income from discontinued operations[e]		56	NM		110	NM
Net income (loss)	**$ 382**	$ 16	NM	**$ 1,013**	$ (350)	NM
Total net revenue						
Private equity [a] [b]	**$ 1,293**	$ 500	159	**$ 2,546**	$ 704	262

Treasury and Corporate other	**(231)**	(565)	59	**(216)**	(1,173)	82
Total net revenue	**$ 1,062**	$ (65)	NM	**$ 2,330**	$ (469)	NM
Net income (loss)						
Private equity [(a)]	**$ 702**	$ 293	140	**$ 1,400**	$ 396	254
Treasury and Corporate other	**(280)**	(280)		**(309)**	(759)	59
Merger costs	**(40)**	(53)	25	**(78)**	(97)	20
Income (loss) from continuing operations	**382**	(40)	NM	**1,013**	(460)	NM
Income from discontinued operations[(e)]		56	NM		110	NM
Total net income (loss)	**$ 382**	$ 16	NM	**$ 1,013**	$ (350)	NM
Headcount	**23,532**	27,100	(13)	**23,532**	27,100	(13)

(a) The Firm adopted SFAS 157 in the first quarter of 2007. See Note 3 on pages 73 80 of this Form 10-Q for additional information.

(b) 2007 included the classification of certain private equity carried interest from Net revenue to Compensation expense.

(c) Included a gain of $103 million in the second quarter of 2006 related to the sale of Mastercard shares in its initial public offering.

(d) Included insurance recoveries related to settlement of the Enron and WorldCom class action litigations and for certain other material proceedings of $260 million and $358 million for the quarter and six months ended June 30, 2006, respectively.

(e) On October 1, 2006, the Firm completed the exchange of selected corporate trust businesses, including trustee, paying agent, loan agency and document management services, for the consumer, business banking and middle-market banking businesses of The Bank of New York. The results of operations of these corporate trust businesses were reported as discontinued operations for 2006.

Quarterly results

Net income was $382 million compared with $16 million in the prior year. Results benefited from higher private equity gains, lower securities losses and improved net interest income, partially offset by higher expense. Prior-year results also included Income from discontinued operations of $56 million.

Net revenue was $1.1 billion compared with negative $65 million in the prior year. Private Equity gains were $1.3 billion compared with $549 million in the prior year, benefiting from a higher level of gains and the classification of certain private equity carried interest as compensation expense. Revenue also benefited from a lower amount of securities losses and improved net interest income. Prior-year results also included a gain of $103 million related to the sale of MasterCard shares in its initial public offering.

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Noninterest expense was $502 million, up by $346 million from the prior year. The increase was driven by higher net legal costs, reflecting a lower level of recoveries and higher expense, including settlement costs relating to certain copper antitrust litigation. In addition, expense increased due to the classification of certain private equity carried interest as compensation expense. The increase in Noninterest expense was offset partially by lower compensation expense and business efficiencies.

Year-to-date results

Net income was $1.0 billion compared with a net loss of $350 million. Results benefited from higher private equity gains, improved net interest income and lower securities losses, partially offset by higher expense. Prior-year results also included Income from discontinued operations of $110 million.

Net revenue was $2.3 billion compared with a negative $469 million in the prior year. Private Equity gains were $2.6 billion compared with $786 million in the prior year, benefiting from a higher level of gains, the classification of certain private equity carried interest as compensation expense and a fair value adjustment on nonpublic investments resulting from the adoption of SFAS 157. Revenue also benefited from improved net interest income and a lower amount of securities losses. Prior-year results also included a gain of $103 million related to the sale of Mastercard shares in its initial public offering.

Noninterest expense was $856 million compared with $491 million in the prior year. The increase was driven by higher net legal costs, reflecting a lower level of recoveries and higher expense. In addition, expense increased due to the classification of certain private equity carried interest as compensation expense. The increase in Noninterest expense was offset partially by business efficiencies.

Selected income statement and balance sheet data	Three months ended June 30,			Six months ended June 30,		
(in millions)	**2007**	2006	Change	**2007**	2006	Change
Treasury						
Securities gains (losses)[(a)]	**$ (227)**	$ (492)	54%	**$ (235)**	$ (650)	64%
Investment securities portfolio (average)	**87,760**	63,714	38	**87,102**	51,917	68
Investment securities portfolio (ending)	**86,821**	61,990	40	**86,821**	61,990	40
Mortgage loans (average)[(b)]	**26,830**		NM	**26,041**		NM
Mortgage loans (ending)[(b)]	**27,299**		NM	**27,299**		NM
Private equity						
Realized gains	**$ 985**	$ 568	73	**$ 1,708**	$ 775	120
Unrealized gains (losses)	**290**	(25)	NM	**811**	(11)	NM
Total direct investments[(c)]	**1,275**	543	135	**2,519**	764	230
Third-party fund investments	**53**	6	NM	**87**	22	295
Total private equity gains[(d)]	**$ 1,328**	$ 549	142	**$ 2,606**	$ 786	232

Private equity portfolio information[(e)]

Direct investments	**June 30, 2007**	December 31, 2006	Change
Publicly-held securities			
Carrying value	**$ 465**	$ 587	(21)%
Cost	**367**	451	(19)
Quoted public value	**600**	831	(28)

Privately-held direct securities				
Carrying value		**5,247**	4,692	12
Cost		**5,228**	5,795	(10)
Third-party fund investments[(f)]				
Carrying value		**812**	802	1
Cost		**1,067**	1,080	(1)
Total private equity portfolio	**Carrying value**	**$ 6,524**	$ 6,081	7
Total private equity portfolio	**Cost**	**$ 6,662**	$ 7,326	(9)

(a) *Losses reflected repositioning of the Treasury investment securities portfolio.*

(b) *As of January 1, 2007, $19.4 billion and $5.3 billion of held-for-investment residential mortgage loans were transferred from RFS and AM, respectively, to the Corporate segment for risk management and reporting purposes. Although the loans, together with the responsibility for the investment management of the portfolio, were transferred to Treasury, the transfer has no impact on the financial results of Corporate.*

(c) *Private equity gains include a fair value adjustment related to the adoption of SFAS 157 in the first quarter of 2007. In addition, 2007 includes the classification of certain private* *equity carried interest from Net revenue to Compensation expense.*

(d) *Included in Principal transactions revenue.*

(e) *For more information on the Firm s policies regarding the valuation of the private equity portfolio, see Note 5 on pages 83 85 of this Form 10-Q.*

(f) *Unfunded commitments to third-party equity funds were $742 million and $589 million at June 30, 2007 and December 31, 2006, respectively.*

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The carrying value of the private equity portfolio at June 30, 2007, was $6.5 billion, up $443 million from December 31, 2006. The portfolio increase was due primarily to favorable valuation adjustments on nonpublic investments and new investments, partially offset by sales activity. The portfolio represented 8.8% of the Firm s stockholders equity less goodwill at June 30, 2007, up from 8.6% at December 31, 2006.

BALANCE SHEET ANALYSIS

Selected balance sheet data (in millions)	**June 30, 2007**	December 31, 2006
Assets		
Cash and due from banks	**$ 35,449**	$ 40,412
Deposits with banks	**41,736**	13,547
Federal funds sold and securities purchased under resale agreements	**125,930**	140,524
Securities borrowed	**88,360**	73,688
Trading assets:		
Debt and equity instruments	**391,508**	310,137
Derivative receivables	**59,038**	55,601
Securities:		
Available-for-sale	**95,934**	91,917
Held-to-maturity	**50**	58
Loans, net of Allowance for loan losses	**457,404**	475,848
Other receivables	**31,947**	27,585
Goodwill	**45,254**	45,186
Other intangible assets	**16,193**	14,852
All other assets	**69,239**	62,165
Total assets	**$ 1,458,042**	$ 1,351,520
Liabilities		
Deposits	**$ 651,370**	$ 638,788
Federal funds purchased and securities sold under repurchase agreements	**205,961**	162,173
Commercial paper and other borrowed funds	**54,379**	36,902
Trading liabilities:		
Debt and equity instruments	**93,969**	90,488
Derivative payables	**61,396**	57,469
Long-term debt and trust preferred capital debt securities	**172,163**	145,630
Beneficial interests issued by consolidated variable interest entities	**14,808**	16,184
All other liabilities	**84,785**	88,096
Total liabilities	**1,338,831**	1,235,730
Stockholders equity	**119,211**	115,790
Total liabilities and stockholders equity	**$ 1,458,042**	$ 1,351,520

Consolidated Balance sheets overview

At June 30, 2007, the Firm s total assets were $1.5 trillion, an increase of $106.5 billion, or 8%, from December 31,

2006. Total liabilities were $1.3 trillion, an increase of $103.1 billion, or 8%, from December 31, 2006. Stockholders equity was $119.2 billion, an increase of $3.4 billion, or 3% from December 31, 2006. The following is a discussion of the significant changes in balance sheet items from December 31, 2006.

Deposits with banks; Federal funds sold and securities purchased under resale agreements; Securities borrowed; Federal funds purchased and securities sold under repurchase agreements; and Commercial paper and other borrowed funds

The Firm utilizes Deposits with banks, Federal funds sold and securities purchased under resale agreements, Securities borrowed, Federal funds purchased and securities sold under repurchase agreements and Commercial paper and other borrowed funds as part of its liquidity management activities to manage the Firm s cash positions and risk-based capital requirements, to maximize liquidity access and minimize funding costs. The net increase from December 31, 2006, in Deposits with banks, Federal funds sold, and Securities borrowed reflected higher levels of funds that were available for short-term investment opportunities. Securities sold under repurchase agreements and Commercial paper and other borrowed funds increased primarily due to higher short-term requirements to fund trading positions and AFS securities inventory levels, as well as growth in demand for Commercial paper. For additional information on the Firm s Liquidity risk management, see pages 49 51 of this Form 10-Q.

Trading assets and liabilities debt and equity instruments

The Firm uses debt and equity trading instruments for both market-making and proprietary risk-taking activities. These instruments consist primarily of fixed income securities (including government and corporate debt), equity securities and convertible cash instruments, loans and physical commodities. The increase in trading assets from December 31, 2006, was due primarily to the generally more favorable capital markets environment, with growth in client-driven market-making activities, particularly for debt securities. In addition, a total of $35.2 billion of loans are now accounted for at fair value under SFAS 159 and classified as trading assets in the Consolidated balance sheets. These are primarily loans warehoused by the IB and certain prime mortgage loans warehoused by RFS for sale or securitization purposes. For additional information, refer to Note 4 and Note 5 on pages 80 83 and 83 85, respectively, of this Form 10-Q.

Trading assets and liabilities derivative receivables and payables

The Firm utilizes various interest rate, foreign exchange, equity, credit and commodity derivatives for market-making, proprietary risk-taking and risk-management purposes. The increase in derivative receivables from December 31, 2006, was related primarily to higher receivables on equity-related and interest rate derivatives due to the strength of the equities markets, as well as rising interest rates and the decline in the value of the U.S. Dollar, respectively. The increase in derivative receivables was offset partially by lower commodity receivables as a result of termination of contracts and risk management activities. The increase in derivative payables from December 31, 2006, was due primarily to higher payables on equity-related and foreign exchange derivatives due to the strength of the equities markets and the decline in the value of the U.S. Dollar, respectively. The increase in derivative payables was offset partially by lower commodity payables as a result of the termination of contracts and risk management activities. For additional information, refer to Derivative contracts and Note 5 on pages 56 58 and 83 85, respectively, of this Form 10-Q.

Securities

Almost all of the Firm s securities portfolios are classified as AFS and are used primarily to manage the Firm s exposure to interest rate movements. The AFS portfolio increased by $4.0 billion from December 31, 2006, primarily due to net purchases of securities by Treasury associated with managing the Firm s exposure to interest rates. For additional information related to securities, refer to the Corporate segment discussion and to Note 11 on pages 40 42 and 89 90, respectively, of this Form 10-Q.

Loans

The Firm provides loans to customers of all sizes, from large corporate and institutional clients to individual consumers. The Firm manages the risk/reward relationship of each portfolio and discourages the retention of loan assets that do not generate a positive return above the cost of risk-adjusted capital. Loans, net of the Allowance for loan losses, declined by $18.4 billion, or 4%, from December 31, 2006, primarily due to the decline of RFS loans as certain prime mortgage loans originated after January 1, 2007, are classified as Trading assets and accounted for at fair value under SFAS 159. In addition, certain loans warehoused in the IB were transferred to Trading assets on January 1, 2007, as part of the adoption of SFAS 159. Also contributing to the decrease were typical seasonal declines in credit card receivables and the restructuring during the first quarter of 2007 of a Firm-administered multi-seller conduit, which resulted in the deconsolidation of $3.2 billion of Loans. These decreases were offset partly by an increase in wholesale lending activity, primarily in the IB. For a more detailed discussion of the loan portfolio and the Allowance for loan losses, refer to Credit risk management on pages 51 62 of this Form 10-Q.

Goodwill

Goodwill arises from business combinations and represents the excess of the cost of an acquired entity over the net fair value amounts assigned to assets acquired and liabilities assumed. The $68 million increase in Goodwill primarily resulted from certain acquisitions by TSS and tax-related purchase accounting adjustments associated with the Bank One merger, partially offset by a reduction from the adoption of FIN 48. For additional information related to Goodwill, including the impact of adopting FIN 48, see Note 17 on pages 100 102 and Note 20 on page 104 of this Form 10-Q.

Other intangible assets

The Firm s Other intangible assets consists of MSRs, purchased credit card relationships, other credit card related intangibles, core deposit intangibles, and all other intangibles. The $1.3 billion increase in Other intangible assets partly reflects higher MSRs of $2.0 billion, primarily due to MSR additions from loan sales, MSR purchases and an increase in the MSR valuation largely attributable to increased long-term interest rates. Partially offsetting these increases were other changes in the fair value of MSRs related primarily to modeled mortgage servicing portfolio runoff (or time decay) and the amortization of intangibles, in particular, credit card related and core deposit intangibles. For additional information on MSRs and other intangible assets, see Note 17 on pages 100 102 of this Form 10-Q.

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Deposits

The Firm s deposits represent a liability to customers, both retail and wholesale, for funds held on their behalf. Deposits are generally classified by location (U.S. and non-U.S.), whether they are interest or noninterest-bearing, and by type (i.e., demand, money market deposit accounts (MMDAs), savings, time or negotiable order of withdrawal (NOW) accounts). Deposits provide a stable and consistent source of funding to the Firm. Deposits increased by $12.6 billion, or 2%, from December 31, 2006. These were primarily wholesale deposits driven by net growth in business volumes, in particular, interest-bearing deposits within TSS. For more information on deposits, refer to the RFS, TSS and AM segment discussions and the Liquidity risk management discussion on pages 21 28, 35 36, 37 39 and 49 51, respectively, of this Form 10-Q. For more information on wholesale liability balances, including deposits, refer to the CB and TSS segment discussions on pages 33 34 and 35 36, respectively, of this Form 10-Q.

Beneficial interests issued by consolidated variable interest entities (VIEs)

Beneficial interests issued by consolidated VIEs declined by $1.4 billion, or 9%, from December 31, 2006, as a result of the restructuring during the first quarter of 2007 of a Firm-administered multi-seller conduit, partially offset by new issuances by an existing consolidated VIE in the second quarter of 2007. For additional information related to multi-seller conduits refer to Off balance sheet arrangements and contractual cash obligations on pages 47 48 and Note 16 on pages 99 100 of this Form 10-Q.

Long-term debt and trust preferred capital debt securities

The Firm utilizes Long-term debt and trust preferred capital debt securities as part of its liquidity and capital management activities. Long-term debt and trust preferred capital debt securities increased by $26.5 billion, or 18%, from December 31, 2006, reflecting net new issuances, including client-driven structured notes in the IB. For additional information on the Firm s long-term debt activities, see the Liquidity risk management discussion on pages 49 51 of this Form 10-Q.

Stockholders equity

Total stockholders equity increased by $3.4 billion, or 3%, from year-end 2006 to $119.2 billion at June 30, 2007. The increase was primarily the result of Net income for the first six months of 2007, net shares issued under the Firm s employee stock-based compensation plans, and the cumulative effect on Retained earnings of changes in accounting principles of $915 million, offset partially by stock repurchases and the declaration of cash dividends. The $915 million increase in Retained earnings resulting from the adoption of new accounting principles primarily reflected $287 million related to SFAS 157, $199 million related to SFAS 159 and $436 million related to FIN 48 in the first quarter of 2007. For a further discussion of capital, see the Capital management section that follows; for a further discussion of the accounting changes see Accounting and Reporting Developments on pages 66 67, Note 3 on pages 73 80, Note 4 on pages 80 83 and Note 20 on page 104 of this Form 10-Q.

CAPITAL MANAGEMENT

The following discussion of JPMorgan Chase s capital management highlights developments since December 31, 2006, and should be read in conjunction with Capital Management, on pages 57 59 of JPMorgan Chase s 2006 Annual Report.

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

Line of business equity

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

In accordance with SFAS 142, the lines of business perform the required goodwill impairment testing. For a further discussion of Goodwill and impairment testing, see Critical accounting estimates and Note 16 on pages 85 and 121, respectively, of JPMorgan Chase s 2006 Annual Report, and Note 17 on page 100 of this Form 10-Q.

Line of business equity	Quarterly Averages	
(in billions)	**2Q07**	2Q06
Investment Bank	**$ 21.0**	$ 21.0
Retail Financial Services	**16.0**	14.3
Card Services	**14.1**	14.1
Commercial Banking	**6.3**	5.5
Treasury & Securities Services	**3.0**	2.2
Asset Management	**3.8**	3.5
Corporate	**53.9**	48.4
Total common stockholders equity	**$ 118.1**	$ 109.0

Economic risk capital

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

Economic risk capital	Quarterly Averages	
(in billions)	**2Q07**	2Q06
Credit risk	**$ 23.5**	$ 21.2
Market risk	**9.9**	10.2
Operational risk	**5.6**	5.8
Private equity risk	**3.8**	3.2
Economic risk capital	**42.8**	40.4

Goodwill	**45.2**	43.5
Other[(a)]	**30.1**	25.1
Total common stockholders equity	**$ 118.1**	$ 109.0

(a) *Reflects additional capital required, in management s view, to meet its regulatory and debt rating objectives.*

Regulatory capital

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

In 2005, the FRB issued a final rule, which became effective April 11, 2005, that continues the inclusion of trust preferred capital debt securities in Tier 1 capital, subject to stricter quantitative limits and revised qualitative standards, and broadens the definition of restricted core capital elements. The rule provides for a transition period that ends March

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31, 2009. As an internationally active bank holding company, JPMorgan Chase is subject to the rule s limitation on restricted core capital elements, including trust preferred capital debt securities, to 15% of total core capital elements, net of goodwill less any associated deferred tax liability. At June 30, 2007, JPMorgan Chase s restricted core capital elements were 15% of total core capital elements.

Tier 1 capital was $85.1 billion at June 30, 2007, compared with $81.1 billion at December 31, 2006, an increase of $4.0 billion. The increase was due primarily to net income of $9.0 billion; net issuances of common stock under the Firm s employee stock-based compensation plans of $2.4 billion; net issuances of $634 million qualifying trust preferred capital debt securities; and the effects of the adoption of new accounting principles reflecting increases of $287 million for SFAS 157, $199 million for SFAS 159 and $436 million for FIN 48. Partially offsetting these increases were decreases in Stockholders equity net of Accumulated other comprehensive income (loss) due to common stock repurchases of $5.9 billion and dividends declared of $2.5 billion. In addition, the change in capital reflects the exclusion of a $289 million valuation adjustment to certain liabilities pursuant to SFAS 157 to reflect the credit quality of the Firm. Additional information regarding the Firm s capital ratios and the federal regulatory capital standards to which it is subject is presented in Note 26 on pages 129 130 of JPMorgan Chase s 2006 Annual Report.

The following table presents the risk-based capital ratios for JPMorgan Chase and its significant banking subsidiaries at June 30, 2007, and December 31, 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
June 30, 2007[a]							
JPMorgan Chase & Co.	**$ 85,096**	**$ 122,276**	**$ 1,016,031**	**$ 1,376,727**	**8.4%**	**12.0%**	**6.2%**
JPMorgan Chase Bank, N.A.	**71,500**	**100,798**	**917,322**	**1,210,657**	**7.8**	**11.0**	**5.9**
Chase Bank USA, N.A.	**9,444**	**11,369**	**68,520**	**60,961**	**13.8**	**16.6**	**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 FRB, OCC and FDIC.*

(c) *Includes off balance sheet risk-weighted assets in the amounts of $330.4 billion, $313.3 billion and $12.0 billion, respectively, at June 30, 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 FRB and OCC.*

Dividends

The Firm s common stock dividend policy reflects JPMorgan Chase s earnings outlook, desired dividend payout ratios, need to maintain an adequate capital level and alternative investment opportunities. The Firm continues to target a dividend payout ratio of approximately 30 40% of Net income over time. On April 17, 2007, the Board of Directors declared a quarterly dividend of $0.38 per share on the outstanding shares of the corporation s common stock, an increase of $0.04 per share, or 12% from the prior quarter; that dividend is payable on July 31, 2007, to stockholders of record at the close of business on July 6, 2007.

Stock repurchases

During the quarter and six months ended June 30, 2007, under the respective stock repurchase programs then in effect, the Firm repurchased a total of 36.7 million and 117.6 million shares for $1.9 billion and $5.9 billion at an average price per share of $51.13 and $49.97, respectively. During the quarter and six months ended June 30, 2006, under the respective stock repurchase programs then in effect, the Firm repurchased a total of 17.7 million and 49.5 million shares for $745 million and $2.0 billion at an average price per share of $42.24 and $41.14, respectively.

On April 17, 2007, the Board of Directors authorized the repurchase of up to $10.0 billion of the Firm s common shares. The new authorization commenced April 19, 2007, and replaced the Firm s previous $8.0 billion repurchase program. The new $10.0 billion authorization will be utilized at management s discretion, and the timing of purchases and the exact number of shares purchased will depend on market conditions and alternative investment opportunities. The new repurchase program does not include specific price targets or timetables; may be executed through open market purchases, privately negotiated transactions or utilizing Rule 10b5-1 programs; and may be suspended at any time. For additional information regarding repurchases of the Firm s equity securities, see Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds, on pages 120 121 of this Form 10-Q.

OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL CASH OBLIGATIONS

Special-purpose entities

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

JPMorgan Chase is involved with SPEs in three broad categories: loan securitizations, multi-seller conduits and client intermediation. Capital is held, as deemed appropriate, against all SPE-related transactions and related exposures, such as derivative transactions and lending-related commitments. For further discussion of SPEs and the Firm s accounting for these types of exposures, see Note 1 on pages 72 73 of this Form 10-Q and Note 14 on pages 114 118 and Note 15 on pages 118 120 of JPMorgan Chase s 2006 Annual Report.

For certain liquidity commitments to SPEs, the Firm could be required to provide funding if the short-term credit rating of JPMorgan Chase Bank, N.A. were downgraded below specific levels, primarily P-1, A-1 and F1 for Moody s, Standard & Poor s and Fitch, respectively. The amounts of these liquidity commitments were $92.4 billion and $74.4 billion at June 30, 2007 and December 31, 2006, respectively. These liquidity commitments are generally included in the Firm s other unfunded commitments to extend credit and asset purchase agreements, as shown in the table on the following page. Alternatively, if JPMorgan Chase Bank, N.A. were downgraded, the Firm could be replaced by another liquidity provider in lieu of providing funding under the liquidity commitment, or, in certain circumstances, could facilitate the sale or refinancing of the assets in the SPE in order to provide liquidity. For further information, refer to Note 15 on pages 118 120 of JPMorgan Chase s 2006 Annual Report.

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

The following table summarizes certain revenue information related to consolidated and nonconsolidated VIEs with which the Firm has significant involvement, and qualifying SPEs (QSPEs). The revenue reported in the table below primarily represents servicing and credit fee income.

Revenue from VIEs and QSPEs

	Three months ended June 30,			Six months ended June 30,		
(in millions)	VIEs	QSPEs	Total	VIEs	QSPEs	Total
2007	**$ 55**	**$ 841**	**$ 896**	**$ 102**	**$ 1,687**	**$ 1,789**
2006	53	785	838	107	1,578	1,685

Off balance sheet lending-related financial instruments and guarantees

JPMorgan Chase utilizes lending-related financial instruments (e.g., commitments and guarantees) to meet the financing needs of its customers. The contractual amount of these financial instruments represents the maximum possible credit risk should the counterparty draw down the commitment or the Firm be required to fulfill its obligation under the guarantee, and the counterparty subsequently fail to perform according to the terms of the contract. Most of these commitments and guarantees expire without a default occurring or without being drawn. As a result, the total contractual amount of these instruments is not, in the Firm s view, representative of its actual future credit exposure or funding requirements. Further, certain commitments, primarily related to consumer financings, are cancelable, upon notice, at the option of the Firm. For further discussion of lending-related commitments and guarantees and the Firm s accounting for them, see Credit risk management on pages 64 76 and Note 29 on pages 132 134 of JPMorgan Chase s 2006 Annual Report.

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

	June 30, 2007					Dec. 31, 2006
By remaining maturity (in millions)	< 1 year	1-<3 years	3-5 years	> 5 years	Total	Total
Lending-related						
Consumer[(a)]	**$ 707,640**	**$ 3,384**	**$ 3,421**	**$ 67,218**	**$ 781,663**	$ 747,535
Wholesale:						
Unfunded commitments to extend credit[(b)(c)(d)]	**99,407**	**54,516**	**71,719**	**17,018**	**242,660**	229,204
Asset purchase agreements[(e)]	**34,823**	**42,147**	**10,432**	**4,091**	**91,493**	67,529
Standby letters of credit and guarantees[(c)(f)(g)]	**24,066**	**23,558**	**41,043**	**6,945**	**95,612**	89,132
Other letters of credit[(c)]	**4,398**	**1,333**	**200**	**22**	**5,953**	5,559
Total wholesale	**162,694**	**121,554**	**123,394**	**28,076**	**435,718**	391,424
Total lending-related	**$ 870,334**	**$ 124,938**	**$ 126,815**	**$ 95,294**	**$ 1,217,381**	$ 1,138,959
Other guarantees						
Securities lending guarantees[(h)]	**$ 400,132**	**$**	**$**	**$**	**$ 400,132**	$ 318,095
Derivatives qualifying as guarantees[(i)]	**17,636**	**9,066**	**26,817**	**29,344**	**82,863**	71,531

(a) Includes Credit card lending-related commitments of $685.3 billion at June 30, 2007, and $657.1 billion at December 31, 2006, that represent the total available credit to the Firm s cardholders. The Firm has not experienced, and does not anticipate, that all of its cardholders will utilize their entire available lines of credit at

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

(b) *Includes unused advised lines of credit totaling $40.2 billion at June 30, 2007, and $39.0 billion at December 31, 2006, which are not legally binding. In regulatory filings with the FRB, unused advised lines are not reportable.*

(c) *Represents contractual amount net of risk participations totaling $26.5 billion at June 30, 2007, and $32.8 billion at December 31, 2006.*

(d) *Excludes firmwide unfunded commitments to private third-party equity funds of $839 million and $686 million at June 30, 2007,* *and December 31, 2006, respectively.*

(e) *The maturity is based upon the underlying assets in the SPE, which are primarily multi-seller asset-backed commercial paper conduits. It includes $1.4 billion of asset purchase agreements to other third-party entities at both June 30, 2007, and December 31, 2006.*

(f) *JPMorgan Chase held collateral relating to $14.4 billion and $13.5 billion of these arrangements at June 30, 2007, and December 31, 2006, respectively.*

(g) *Includes unused commitments to issue standby letters of credit of $52.8 billion and $45.7 billion at June 30, 2007, and December 31, 2006, respectively.*

(h)

Collateral held by the Firm in support of securities lending indemnification agreements was $402.6 billion at June 30, 2007, and $317.9 billion at December 31, 2006, respectively.

(i) Represents notional amounts of derivatives qualifying as guarantees. For further discussion of guarantees, see Note 29 on pages 132 134 of JPMorgan Chase s 2006 Annual Report.

RISK MANAGEMENT

Risk is an inherent part of JPMorgan Chase s business activities. The Firm s risk management framework and governance structure are intended to provide comprehensive controls and ongoing management of the major risks inherent in its business activities. In addition, this framework recognizes the diversity among the Firm s core businesses, which helps reduce the impact of volatility in any particular area on the Firm s operating results as a whole. There are eight major risk types identified in the business activities of the Firm: liquidity risk, credit risk, market risk, interest rate risk, operational risk, legal and reputation risk, fiduciary risk and private equity risk.
For further discussion of these risks see pages 61 82 of JPMorgan Chase s 2006 Annual Report.

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LIQUIDITY RISK MANAGEMENT

The following discussion of JPMorgan Chase s liquidity management framework highlights developments since December 31, 2006, and should be read in conjunction with pages 62 63 of JPMorgan Chase s 2006 Annual Report. Liquidity risk arises from the general funding needs of the Firm s activities and in the management of its assets and liabilities. JPMorgan Chase s liquidity management framework is intended to maximize liquidity access and minimize funding costs. Through active liquidity management the Firm seeks to preserve stable, reliable and cost-effective sources of funding. This access enables the Firm to replace maturing obligations when due and fund assets at appropriate maturities and rates. To accomplish this, management uses a variety of measures to mitigate liquidity and related risks, taking into consideration market conditions, prevailing interest rates, liquidity needs and the desired maturity profile of liabilities, among other factors.

Funding

Sources of funds

As of June 30, 2007, the Firm s liquidity position remained strong based upon its liquidity metrics. JPMorgan Chase s long-dated funding, including core liabilities, exceeded illiquid assets, and the Firm believes its obligations can be met even if access to funding is impaired.

Consistent with its liquidity management policy, the Firm has raised funds at the parent holding company level sufficient to cover its obligations and those of its nonbank subsidiaries that mature over the next 12 months.

The diversity of the Firm s funding sources enhances financial flexibility and limits dependence on any one source, thereby minimizing the cost of funds. The deposits held by the RFS, CB, TSS and AM lines of business are generally a consistent source of funding for JPMorgan Chase Bank, N.A. As of June 30, 2007, total deposits for the Firm were $651.4 billion. A significant portion of the Firm s deposits are retail deposits, which are less sensitive to interest rate changes and therefore are considered more stable than market-based liability balances. The Firm also benefits from stable wholesale liability balances originated by RFS, CB, TSS and AM through the normal course of business. Such liability balances include deposits that are swept to on balance sheet liabilities (e.g., commercial paper, Federal funds purchased and securities sold under repurchase agreements). These liability balances are also a stable and consistent source of funding due to the nature of the businesses from which they are generated. For further discussions of deposit and liability balance trends, see the discussion of the results for the Firm s business segments and the Balance Sheet Analysis on pages 17 39 and 42 44, respectively, of this Form 10-Q.

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

Finally, funding flexibility is provided by the Firm s ability to access the repurchase and asset securitization markets. These markets are evaluated on an ongoing basis to achieve an appropriate balance of secured and unsecured funding. The ability to securitize loans, and the associated gains on those securitizations, are principally dependent upon the credit quality and yields of the assets securitized and are generally not dependent upon the credit ratings of the issuing entity. Transactions between the Firm and its securitization structures are reflected in JPMorgan Chase s consolidated financial statements and notes to the consolidated financial statements; these relationships include retained interests in securitization trusts, liquidity facilities and derivative transactions. For further details, see Off balance sheet arrangements and contractual cash obligations, Note 15 and Note 23 on pages 47 48, 94 98 and 105 106, respectively, of this Form 10-Q.

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Issuance

During the second quarter and first half of 2007, JPMorgan Chase opportunistically issued $29.7 billion and $52.9 billion, respectively, of long-term debt and trust preferred capital debt securities. These issuances included IB structured notes, the issuances of which are generally client-driven and not issued for funding or capital management purposes. The issuances of Long-term debt and trust preferred capital debt securities were offset partially by $15.5 billion and $30.4 billion, respectively, of debt and trust preferred securities that matured or were redeemed during the second quarter and first half of 2007, including IB structured notes. In addition, during the second quarter and first half of 2007, the Firm securitized $10.9 billion and $23.9 billion, respectively, of residential mortgage loans, and $4.9 billion and $10.7 billion, respectively, of credit card loans. The Firm did not securitize any RFS auto loans during the six months ended June 30, 2007. For further discussion of loan securitizations, see Note 15 on pages 94 98 of this Form 10-Q.

In connection with the issuance of certain of its trust preferred capital debt securities, the Firm has entered into Replacement Capital Covenants (RCCs) granting certain rights to the holders of covered debt, as defined in the RCCs, that prohibit the repayment, redemption or purchase of the trust preferred capital debt securities except, with limited exceptions, to the extent that JPMorgan Chase has received specified amounts of proceeds from the sale of certain qualifying securities. Currently the Firm s covered debt is its 5.875% Junior Subordinated Deferrable Interest Debentures, Series O, due in 2035. For more information regarding these covenants, see the Forms 8-K filed by the Firm on August 17, 2006, September 28, 2006, February 2, 2007, and May 30, 2007.

Cash Flows

Cash and due from banks decreased $5.0 billion in the first six months of 2007 compared with an increase of $1.7 billion in the first half of 2006. A discussion of the significant changes in Cash and due from banks during the six months ended June 30, 2007 and 2006, follows:

Cash Flows from Operating Activities

For the six months ended June 30, 2007 and 2006, net cash used in operating activities was $66.4 billion and $53.7 billion, respectively. JPMorgan Chase s operating assets and liabilities vary significantly in the normal course of business due to the amount and timing of cash flows. In both 2007 and 2006, net cash was used in operating activities to support the Firm s capital markets and lending activities. In 2007, proceeds from sales and securitizations of loans held-for-sale exceeded originations and purchases; in 2006, net cash used for such loans exceeded sales proceeds. Management believes cash flows from operations, available cash balances and short- and long-term borrowings will be sufficient to fund the Firm s operating liquidity needs.

Cash Flows from Investing Activities

The Firm s investing activities primarily include originating loans to be held to maturity, other receivables, and the AFS investment securities portfolio. For the six months ended June 30, 2007, net cash of $28.3 billion was used in investing activities, primarily for purchases of investment securities in Treasury s AFS portfolio to manage the Firm s exposure to interest rates; net additions to the retained wholesale and consumer (primarily home equity) loans portfolios; and to increase Deposits with banks as a result of the availability of excess cash for short-term investment opportunities. Partially offsetting these uses of cash were cash proceeds received from: sales and maturities of AFS securities; credit card, residential mortgage, auto and wholesale loan sales and securitization activities; and the typical seasonal decline in consumer credit card receivables as customer payments exceeded new loans generated from customer charges.

For the six months ended June 30, 2006, net cash of $74.2 billion was used in investing activities. Net cash was invested to fund: purchases of Treasury s AFS securities in connection with repositioning the portfolio in response to changes in interest rates; net additions to the retained wholesale loan portfolio, mainly resulting from capital markets activity in the IB (including leveraged financings and syndications); and the acquisition in the second quarter of a private-label credit card portfolio. These uses of cash were partially offset by cash proceeds provided from: sales and maturities of AFS securities; credit card, residential mortgage, auto and wholesale loan sales and securitization activities; and the net decline in auto loans and leases, which was caused partially by the de-emphasis of vehicle leasing.

Cash Flows from Financing Activities

The Firm s financing activities primarily include the issuance of debt and receipt of customer deposits. JPMorgan Chase pays quarterly dividends on its common stock and has an ongoing common stock repurchase program. In the first half of 2007, net cash provided by financing activities was $89.6 billion due to a higher level of securities sold under repurchase agreements in connection with the funding of trading and AFS securities positions; net issuances of Long-term debt and trust preferred capital debt securities; and a net increase in wholesale deposits from growth in business volumes, in particular, interest-bearing deposits at TSS. Cash was used to repurchase common stock and the payment of cash dividends on common stock (including a 12% increase in the quarterly dividend in the second quarter of 2007).

In the first half of 2006, net cash provided by financing activities was $129.4 billion due to: net cash received from growth in deposits reflecting, on the retail side, new account acquisitions and the ongoing expansion of the retail branch distribution network, and on the wholesale side, higher business volumes; increases in securities sold under repurchase agreements to fund trading positions and higher levels of AFS securities positions; and net issuances of Long-term debt and trust preferred capital debt securities. The net cash provided was partially offset by cash used for common stock repurchases and the payment of cash dividends on common and preferred stock.

Credit ratings

The credit ratings of JPMorgan Chase s parent holding company and each of its significant banking subsidiaries as of June 30, 2007, were as follows.

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

On March 2, 2007, Moody s raised senior long-term debt ratings on JPMorgan Chase & Co. and the operating bank subsidiaries to Aa2 and Aaa, respectively, from Aa3 and Aa2, respectively. The cost and availability of unsecured financing are influenced by credit ratings. A reduction in these ratings could have an adverse effect on the Firm s access to liquidity sources, increase the cost of funds, trigger additional collateral requirements and decrease the number of investors and counterparties willing to lend. Critical factors in maintaining high credit ratings include a stable and diverse earnings stream, strong capital ratios, strong credit quality and risk management controls, diverse funding sources and disciplined liquidity monitoring procedures.

If the Firm s ratings were downgraded by one notch, the Firm estimates the incremental cost of funds and the potential loss of funding to be negligible. Additionally, the Firm estimates the additional funding requirements for VIEs and other third-party commitments would not be material. For additional information on the impact of a credit ratings downgrade on the funding requirements for VIEs, and on derivatives and collateral agreements, see Special-purpose entities on page 47 and Ratings profile of derivative receivables MTM on pages 56 57, of this Form 10-Q.

CREDIT RISK MANAGEMENT

The following discussion of JPMorgan Chase s credit portfolio as of June 30, 2007, highlights developments since December 31, 2006. This section should be read in conjunction with pages 64 76 and page 83, and Notes 12, 13, 29, and 30 of JPMorgan Chase s 2006 Annual Report.

The Firm assesses its consumer credit exposure on a managed basis, which includes credit card receivables that have been securitized. For a reconciliation of the Provision for credit losses on a reported basis to managed basis, see pages 13 15 of this Form 10-Q.

CREDIT PORTFOLIO

The following table presents JPMorgan Chase s credit portfolio as of June 30, 2007, and December 31, 2006. Total credit exposure at June 30, 2007, increased by $64.3 billion from December 31, 2006, reflecting an increase of $45.9 billion and $18.4 billion in the wholesale and consumer credit portfolios, respectively. During the first six months of 2007 lending-related commitments increased $78.4 billion ($44.3 billion and $34.1 billion in the wholesale and consumer portfolios, respectively). The increase in lending-related commitments was partially offset by the decrease in loans. Loans decreased primarily due to the decline of RFS loans accounted for at lower of cost or fair value as certain prime mortgage loans originated after January 1, 2007, are classified as Trading assets and accounted for at fair value under SFAS 159. In addition, certain loans warehoused in the IB were transferred to Trading assets on

January 1, 2007, as part of the adoption of SFAS 159. These decreases were offset partially by an increase in wholesale lending activity, primarily in the IB. Also effective January 1, 2007, $24.7 billion of prime mortgages held for investment purposes were transferred from RFS ($19.4 billion) and AM ($5.3 billion) to the Corporate sector for risk management purposes. While this transfer had no impact on the RFS, AM or Corporate financial results, the AM prime mortgages that were transferred are now reported in consumer mortgage loans.

In the table below, reported loans include all HFS loans, which are carried at the lower of cost or fair value with changes in value recorded in Noninterest revenue. However, these HFS loans are excluded from the average loan balances used for the net charge-off rate calculations.

(in millions, except ratios)	Credit exposure June 30, 2007	Credit exposure December 31, 2006	Nonperforming assets(i) June 30, 2007	Nonperforming assets(i) December 31, 2006
Total credit portfolio				
Loans reported(a)(b)	**$ 465,037**	$ 483,127	**$ 2,169**(j)	$ 2,077(j)
Loans securitized(c)	**67,506**	66,950		
Total managed loans(d)	**532,543**	550,077	**2,169**	2,077
Derivative receivables	**59,038**	55,601	**30**	36
Total managed credit-related assets	**591,581**	605,678	**2,199**	2,113
Lending-related commitments(e)	**1,217,381**	1,138,959	**NA**	NA
Assets acquired in loan satisfactions	**NA**	NA	**387**	228
Total credit portfolio	**$ 1,808,962**	$ 1,744,637	**$ 2,586**	$ 2,341
Net credit derivative hedges notional(f)	**$ (60,704)**	$ (50,733)	**$ (4)**	$ (16)
Collateral held against derivatives(g)	**(6,603)**	(6,591)	**NA**	NA
Held-for-sale				
Total HFS loans	**18,334**	55,251	**240**	120
Nonperforming purchased(h)		251	**NA**	NA

(in millions, except ratios)	Three months ended June 30 Net charge-offs 2007	2006	Average annual net charge-off rate 2007	2006	Six months ended June 30 Net charge-offs 2007	2006	Average annual net charge-off rate 2007	2006
Total credit portfolio								
Loans reported	**$ 985**	$ 654	**0.90%**	0.64%	**$ 1,888**	$ 1,322	**0.88%**	0.66%
Loans securitized(c)	**590**	561	**3.46**	3.26	**1,183**	1,010	**3.51**	2.94
Total managed loans	**$ 1,575**	$ 1,215	**1.25%**	1.02%	**$ 3,071**	$ 2,332	**1.23%**	1.00%

(a) Loans are presented net of unearned income and net deferred loan fees of $1.1 billion and $1.3 billion at

June 30, 2007, and December 31, 2006, respectively.

(b) Includes $1.5 billion of loans for which the Firm has elected the fair value option of accounting in 2007.

(c) Represents securitized credit card receivables. For a further discussion of credit card securitizations, see Card Services on pages 29 32 of this Form 10-Q.

(d) Loans past-due 90 days and over and accruing includes credit card receivables of $1.2 billion and $1.3 billion at June 30, 2007, and December 31, 2006, respectively, and related credit card securitizations of $862 million and $962 million at June 30, 2007, and December 31, 2006, respectively.

(e) Includes wholesale

unused advised lines of credit totaling $40.2 billion and $39.0 billion at June 30, 2007, and December 31, 2006, respectively, which are not legally binding. In regulatory filings with the Federal Reserve Board, unused advised lines are not reportable. Credit card lending-related commitments of $685.3 billion and $657.1 billion at June 30, 2007, and December 31, 2006, respectively, represent the total available credit to its cardholders. The Firm has not experienced, and does not anticipate, that all of its cardholders will utilize their entire available lines of credit at the same time. The Firm can reduce or cancel a credit card commitment by providing the cardholder prior notice or, in *some cases, without notice as permitted by law.*

(f) *Represents the net notional amount of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit exposures; these derivatives do not qualify for hedge accounting under SFAS 133. June 30, 2007 and December 31, 2006, both include $22.7 billion notional amount for structured portfolio protection, for which the Firm retains the first risk of loss.*

(g) *Represents other liquid securities collateral held by the Firm as of June 30, 2007, and December 31, 2006, respectively.*

(h)