J P MORGAN CHASE & CO
Form 10-Q
May 10, 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 March 31, 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 April 30, 2007: 3,416,114,978

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JPMORGAN CHASE & CO.
CONSOLIDATED FINANCIAL HIGHLIGHTS

(unaudited) (in millions, except per share, headcount and ratio data) As of or for the three months ended,	**1Q07**	4Q06	3Q06	2Q06	1Q06
Selected income statement data					
Noninterest revenue[a]	**$ 12,850**	$ 10,501	$ 10,166	$ 9,908	$ 10,182
Net interest income	**6,118**	5,692	5,379	5,178	4,993
Total net revenue	**18,968**	16,193	15,545	15,086	15,175
Provision for credit losses	**1,008**	1,134	812	493	831
Noninterest expense	**10,628**	9,885	9,796	9,382	9,780
Income tax expense	**2,545**	1,268	1,705	1,727	1,537
Income from continuing operations	**4,787**	3,906	3,232	3,484	3,027
Income from discontinued operations[b]		620	65	56	54
Net income	**$ 4,787**	$ 4,526	$ 3,297	$ 3,540	$ 3,081
Per common share					
Basic earnings per share:					
Income from continuing operations	**$ 1.38**	$ 1.13	$ 0.93	$ 1.00	$ 0.87
Net income	**1.38**	1.31	0.95	1.02	0.89
Diluted earnings per share:					
Income from continuing operations	**$ 1.34**	$ 1.09	$ 0.90	$ 0.98	$ 0.85
Net income	**1.34**	1.26	0.92	0.99	0.86
Cash dividends declared per share	**0.34**	0.34	0.34	0.34	0.34
Book value per share	**34.45**	33.45	32.75	31.89	31.19
Common shares outstanding					
Average: Basic	**3,456**	3,465	3,469	3,474	3,473
Diluted	**3,560**	3,579	3,574	3,572	3,571
Common shares at period-end	**3,416**	3,462	3,468	3,471	3,473
Share price[c]					
High	**$ 51.95**	$ 49.00	$ 47.49	$ 46.80	$ 42.43
Low	**45.91**	45.51	40.40	39.33	37.88
Close	**48.38**	48.30	46.96	42.00	41.64
Market capitalization	**165,280**	167,199	162,835	145,764	144,614
Financial ratios[d]					
Return on common equity (ROE):					
Income from continuing operations	**17%**	14%	11%	13%	11%
Net income	**17**	16	12	13	12
Return on assets (ROA):					
Income from continuing operations	**1.41**	1.14	0.98	1.05	0.98
Net income	**1.41**	1.32	1.00	1.06	1.00
Tier 1 capital ratio	**8.5**	8.7	8.6	8.5	8.5
Total capital ratio	**11.8**	12.3	12.1	12.0	12.1

Overhead ratio	**56**	61	63	62	64
Selected balance sheet data (period-end)					
Total assets	**$ 1,408,918**	$ 1,351,520	$ 1,338,029	$ 1,328,001	$ 1,273,282
Loans	**449,765**	483,127	463,544	455,104	432,081
Deposits	**626,428**	638,788	582,115	593,716	584,465
Long-term debt	**143,274**	133,421	126,619	125,280	112,133
Total stockholders equity	**117,704**	115,790	113,561	110,684	108,337
Headcount	**176,314**	174,360	171,589	172,423	170,787
Credit quality metrics					
Allowance for credit losses	**$ 7,853**	$ 7,803	$ 7,524	$ 7,500	$ 7,659
Nonperforming assets*[e]*	**2,421**	2,341	2,300	2,384	2,348
Allowance for loan losses to total loans*[f]*	**1.74%**	1.70%	1.65%	1.69%	1.83%
Net charge-offs	**$ 903**	$ 930	$ 790	$ 654	$ 668
Net charge-off rate*[d][f]*	**0.85%**	0.84%	0.74%	0.64%	0.69%
Wholesale net charge-off (recovery) rate*[d][f]*	**(0.02)**	0.07	(0.03)	(0.05)	(0.06)
Managed card net charge-off rate*[d]*	**3.57**	3.45	3.58	3.28	2.99

(a) On January 1, 2007, the Firm adopted SFAS 157 and recognized a benefit of $166 million, in the current quarter, as a result of incorporating an adjustment to the Firm s valuation of derivative liabilities and other liabilities measured at fair value to reflect the credit quality of the Firm. The adoption also resulted in a benefit of $464 million related to valuation adjustments to nonpublic private equity investments.

(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) Quarterly 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.*

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 107 109 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 112 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 by the Form 8-K filed on May 10, 2007 (2006 Annual Report or 2006 Form 10-K), in Part I, Item 1A: Risk factors and in Forward-looking Statements in the MD&A of the 2006 Form 10-K, 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, with $1.4 trillion in assets, $117.7 billion in stockholders equity and operations worldwide. The Firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing, asset management and private equity. Under the JPMorgan and Chase brands, the Firm serves millions of customers in the United States and many of the world s most prominent corporate, institutional and government clients.

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

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

Investment Bank

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

Retail Financial Services

Retail Financial Services (RFS), which includes 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, 8,500 ATMs and 270 mortgage offices, and through relationships with more than 15,000 auto dealerships and 4,300 schools and universities. More than 11,000 branch salespeople assist customers, across a 17-state footprint from New York to Arizona, with checking and savings accounts, mortgage, home equity and business loans, investments and insurance. Over 1,200 additional mortgage officers provide home loans throughout the country.

Card Services

With more than 152 million cards in circulation and $146.6 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 $81.3 billion worth of transactions in the three months ended March 31, 2007.

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 4.5 billion transactions in the three months ended March 31, 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 $1.4 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, comprising JPMorgan Chase and three other firms, announced that they 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. It is expected to close in late 2007.

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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 March 31, (in millions, except per share and ratio data)	**2007**	2006	Change
Selected income statement data Net revenue	**$ 18,968**	$ 15,175	25%
Provision for credit losses	**1,008**	831	21
Noninterest expense	**10,628**	9,780	9
Income from continuing operations	**4,787**	3,027	58
Income from discontinued operations		54	NM
Net income	**4,787**	3,081	55
Diluted earnings per share			
Income from continuing operations	**$ 1.34**	$ 0.85	58%
Net income	**1.34**	0.86	56
Return on common equity (ROE)			
Income from continuing operations	**17%**	11%	
Net income	**17**	12	

Business overview

The Firm reported 2007 first-quarter net income of $4.8 billion, or $1.34 per share, compared with net income of $3.1 billion, or $0.86 per share, for the first quarter of 2006. Return on common equity for the quarter was 17% compared with 12% in the prior year. Income from continuing operations was $4.8 billion, or $1.34 per share, in the current quarter compared with $3.0 billion, or $0.85 per share, for the first quarter of 2006. The Firm s adoption of SFAS 157 (Fair Value Measurements) resulted in a benefit to the current quarter s earnings of $391 million (after-tax), or $0.11 per share; this benefit consisted of $103 million (after-tax) related to adjustments to the valuation of liabilities to incorporate the impact of the Firm s credit quality (recorded in the Investment Bank) and $288 million (after-tax) related to the valuation of nonpublic private equity investments (recorded in the Corporate segment). For a discussion of SFAS 157 and SFAS 159, see Note 3 and Note 4 on pages 71 80 of this Form 10-Q.

In the first quarter of 2007, the Firm successfully completed the systems conversion and rebranding for 339 former Bank of New York branches. The Firm s customers throughout the U.S. now have access to over 3,000 branches and 8,500 ATMs in 17 states, all of which are on common computer systems.

In the first quarter of 2007, the global economy continued to expand at a rate of approximately 5%, which supported continued strong growth in the emerging market economies. During the first quarter, the European economy slowed slightly with an estimated growth rate of 2.8%, Japan experienced steady growth of 2.8% and emerging Asian economies expanded at a rate of approximately 8.6%. U.S. economic growth slowed to a rate of approximately 1.3%, reflecting a solid gain in consumer spending, which was supported by equity market appreciation, low unemployment and wage growth. These benefits were offset partially by a continued slower pace of new home construction, weakness in government spending and a slower rate of capital spending by businesses. The Federal Reserve Board held the federal funds rate steady at 5.25% and the yield curve remained moderately inverted. Equity markets, both domestic and international, reflected positive performance, with the S&P 500 up 3% on average and international indices increasing 5% on average during the first quarter of 2007. Global capital markets activity was strong during the first quarter of 2007, with debt and equity underwriting and merger and acquisition activity surpassing levels from the first quarter of 2006. Demand for wholesale loans in the U.S. was up approximately 6%, while U.S. consumer

loans grew an estimated 7% during the first quarter of 2007.

The first 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 businesses while also contributing to the generally favorable credit environment. However, the interest rate and competitive environments negatively affected both wholesale and consumer loan and deposit spreads.

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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 14 15 of this Form 10-Q.

Investment Bank achieved record net income driven by record revenue and a lower provision for credit losses, partially offset by higher noninterest expense. Investment banking fees were at a record level, benefiting from record debt and record equity underwriting fees as well as strong advisory fees. Record Fixed Income Markets revenue benefited from improved results in commodities (compared with a weak prior-year quarter), and strength in credit and rate markets, partially offset by lower results in currencies. Record Equity Markets revenue benefited from particularly strong performance in Europe and strong derivatives performance across regions. The Provision for credit losses decreased compared with the prior year as the prior-year provision reflected growth in the loan portfolio. The increase in expense was due primarily to higher performance-based compensation, partially offset by the absence of prior-year expense from the adoption of SFAS 123R.

Retail Financial Services net income decreased from the prior year due to a decline in Regional Banking results, largely offset by improved performance in Mortgage Banking. Revenue was up from the prior year driven by higher gain-on-sale income and the reclassification of certain loan origination costs to expense (previously netted against revenue) due to the adoption of SFAS 159 in Mortgage Banking, The Bank of New York transaction, higher home equity loans and deposit balances, increases in deposit-related fees and the absence of a prior-year loss related to auto loans transferred to held-for-sale. These benefits were offset partially by the sale of the insurance business, lower prime and subprime mortgage balances, and a charge resulting from accelerated surrenders of customer annuity contracts. The provision for credit losses was up from the prior year due primarily to higher losses in the subprime mortgages portfolio and, to a lesser extent, increased provision in the home equity portfolio related to weaker housing prices. These increases were offset partially by the reversal of a portion of the reserves related to Hurricane Katrina. Noninterest expense was up from the prior year primarily due to The Bank of New York transaction, the reclassification of certain loan origination costs due to the adoption of SFAS 159, investments in the retail distribution network and higher depreciation expense on owned automobiles subject to operating leases. These increases were offset partially by the sale of the insurance business.

Card Services net income decreased when compared with the prior year, primarily due to prior-year results benefiting from significantly lower net charge-offs related to decreased bankruptcy losses. Net managed revenue was flat compared with the prior year benefiting from higher average managed loan balances, increased fees and increased interchange income from higher charge volume. These benefits were largely offset by higher charge-offs, which resulted in increased revenue reversals; higher cost of funds on balance growth in promotional, introductory and transactor loan balances; and higher volume-driven payments to partners and increased rewards expense. The managed provision for credit losses was up due to the prior year benefiting from a lower level of net charge-offs, reflecting a reduction in bankruptcy losses following the change in bankruptcy legislation in the fourth quarter of 2005. This was partially offset by a reduction in the allowance for credit losses primarily relating to the strength in the underlying credit quality of the loan portfolio. Noninterest expense was flat due primarily to lower marketing expense and fraud-related losses, offset by higher expense related to recent acquisitions and increased customer activity.

Commercial Banking net income was a record, up from the prior year driven by higher net revenue. Revenue increased due to higher liability balances and loan volumes, which reflected organic growth and The Bank of New York transaction, as well as higher investment banking revenue and gains related to the sale of securities acquired in the satisfaction of debt. These benefits were offset partially by the continued shift to narrower-spread liability products and loan spread compression. Expense decreased due to the absence of prior-year expense from the adoption of SFAS 123R, largely offset by expense related to The Bank of New York transaction.

Treasury & Securities Services net income was flat compared with the prior year as higher revenue was offset by increased expense. Revenue benefited from increased product usage by existing clients, new business growth, higher liability balances and market appreciation, all of which was offset largely by price compression across Treasury Services products, a continued shift to narrower-spread liability products and lower foreign exchange revenue. The increase in expense was due to higher compensation expense related to growth in headcount supporting increased

client volume and investment in new product platforms, partially offset by the absence of prior-year expense related to the adoption of SFAS 123R.

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Asset Management achieved record net income driven by increased revenue and the absence of prior-year expense related to the adoption of SFAS 123R, offset primarily by higher compensation expense. Revenue benefited from increased fees and commissions largely due to increased assets under management and higher performance fees. Expense increased due to higher compensation and increased minority interest expense related to Highbridge Capital Management, partially offset by the absence of prior-year expense related to the adoption of SFAS 123R.

Corporate segment net income increased primarily from higher private equity gains and improved net interest income. Private equity gains benefited from a higher level of realized gains and a fair value adjustment on nonpublic investments resulting from the adoption of SFAS 157 as well as the reclassification of certain private equity carried interest from revenue to compensation expense. Treasury benefited from an increase in net interest income driven by improved net interest spread and the absence of securities losses in the prior year. Expense increased compared with the prior year driven by the reclassification of certain private equity carried interest to compensation expense and lower recoveries related to certain material litigation, offset primarily by business efficiencies and the absence of prior-year expense from the adoption of SFAS 123R.

Net income from discontinued operations was zero in the current quarter compared with $54 million in the prior year. Discontinued operations (included in the Corporate segment results) include the related balance sheet and income statement activity of selected corporate trust businesses that were sold to The Bank of New York on October 1, 2006.

During the quarter ended March 31, 2007, approximately $720 million (pretax) of merger savings was realized, which is an annualized rate of approximately $2.9 billion. Merger costs of $62 million were expensed during the first quarter of 2007 bringing the total amount expensed since the merger announcement to $3.5 billion (including capitalized costs).

The managed provision for credit losses was $1.6 billion, up by $321 million, or 25%, from the prior year. The wholesale provision for credit losses was $77 million for the quarter compared with a provision of $179 million in the prior year. The prior-year provision reflected growth in the loan portfolio. Wholesale net recoveries were $6 million in the current quarter compared with net recoveries of $20 million in the prior year, resulting in net recovery rates of 0.02% and 0.06%, respectively. The total consumer managed provision for credit losses was $1.5 billion compared with $1.1 billion in the prior year. The prior year benefited from a lower level of credit card net charge-offs, which reflected a low level of bankruptcy losses following the change in bankruptcy legislation in the fourth quarter of 2005. The increase from last year also reflects higher charge-offs and additions to the allowance for credit losses related to the subprime mortgage and home equity loan portfolios, partially offset by a reduction in the allowance for credit losses in Card Services. The Firm had total nonperforming assets of $2.4 billion at March 31, 2007, up by $73 million, or 3%, from the prior-year level of $2.3 billion.

The Firm had, at March 31, 2007, total stockholders equity of $117.7 billion and a Tier 1 capital ratio of 8.5%. The Firm purchased $4.0 billion, or 80.9 million shares, of common stock during the quarter. On April 17, 2007, the Board of Directors declared a quarterly dividend of $0.38 per share on the outstanding shares of the Firm s common stock, an increase of $0.04 per share, or 12%. The dividend is payable on July 31, 2007, to stockholders of record at the close of business on July 6, 2007. On April 17, 2007, the Board of Directors also authorized a new $10.0 billion common stock repurchase program, which replaces the Firm s previous $8.0 billion repurchase program authorized on March 21, 2006. There was $816 million of remaining authorization under the $8.0 billion repurchase program.

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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 second 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. While the Firm considers outcomes for, and has contingency plans to respond to, stress environments, the current basic outlook is predicated on the interest rate movements implied in the forward rate curve for U.S. Treasury securities, the continuation of favorable U.S. and international equity markets and continued expansion of the global economy.

The Investment Bank enters the second quarter of 2007 with a strong investment bank fee pipeline. In the Corporate segment, the revenue outlook for the Private Equity business is directly related to the strength of the equity markets and the performance of the underlying portfolio investments. If current market conditions persist, the Firm anticipates continued realization of private equity gains, but results can be volatile from quarter to quarter. 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. The performance of each of the Firm s lines of business will be affected by overall global economic growth, by financial market movements, including interest rates movements, by the competitive environment and by client activity levels in any given time period.

The Provision for credit losses is anticipated to be higher, primarily driven by a trend toward a more normal level of provisioning for credit losses in both the wholesale and consumer businesses. The consumer Provision for credit losses is anticipated to increase as the Firm experiences a higher level of net charge-offs in Card Services as bankruptcy filings continue to increase from the significantly lower than normal levels experienced in 2006 related to the change in bankruptcy law in 2005. The provision for credit losses was increased for both the subprime mortgage portfolio and, to a lesser extent, the home equity portfolio during the first quarter of 2007, and management remains cautious with respect to the real estate lending portfolio given continued downward pressure on housing prices and the elevated level of unsold homes nationally.

Firmwide expense is anticipated to reflect investments in each business, recent acquisitions, continued merger savings and other operating efficiencies. Annual Merger savings are expected to reach approximately $3.0 billion by the end of 2007, upon the completion of the last significant conversion activity, which is the wholesale deposit conversion scheduled for the second half of 2007. 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.

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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 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 64 of this Form 10-Q and pages 83 85 of the JPMorgan Chase Annual Report on Form 10-K for the year ended December 31, 2006. Effective January 1, 2007, certain transaction costs previously reported within Principal transactions and Asset management, administration and commission revenues have now been classified and are reported in Professional and outside services expense. Reclassified amounts for 2006, 2005 and 2004 are set forth in the Firm s Annual Report on Form 10-K for the year ended December 31, 2006, as amended by the Firm s Form 8-K filed May 10, 2007 (2006 Annual Report).
The following table presents the components of Total net revenue.

Total net revenue

Three months ended March 31, (in millions)	**2007**	2006	Change
Investment banking fees	**$ 1,739**	$ 1,169	49%
Principal transactions[(a)]	**4,471**	2,709	65
Lending & deposit related fees	**895**	841	6
Asset management, administration and commissions[(a)]	**3,186**	2,874	11
Securities gains (losses)	**2**	(116)	NM
Mortgage fees and related income	**476**	241	98
Credit card income	**1,563**	1,910	(18)
Other income	**518**	554	(6)
Noninterest revenue	**12,850**	10,182	26
Net interest income	**6,118**	4,993	23
Total net revenue	**$ 18,968**	$ 15,175	25%

(a) Certain transaction costs, previously reported within Revenue, have been reclassified to Noninterest expense. Revenue and Noninterest expense have been reclassified for all periods presented. The reclassification did not affect Income from continuing

operations or
Net income.

Total Net revenue

Total net revenue for the first quarter of 2007 was $19.0 billion, up by $3.8 billion, or 25%, from the prior year. The increase was due to higher Principal transactions revenue, reflecting very strong private equity gains (including the impact of the adoption of SFAS 157) and record Fixed Income and record Equity markets revenue, higher Net interest income, record Investment banking fees, increased Asset management, administration and commissions revenue, and higher Mortgage fees and related income (including the impact of the adoption of SFAS 159). These improvements were partially offset by lower Credit card income.

Investment banking fees of $1.7 billion in the first quarter 2007 was a record for the Firm. This result was driven by record debt and record equity underwriting as well as strong advisory 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, 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 $3.1 billion in the first quarter of 2007 was a record for the Firm, driven primarily by strong fixed income and equities performance. Credit Portfolio revenue was up, driven largely by an adjustment to the valuation of the Firm s derivative liabilities and other liabilities measured at fair value to reflect the credit quality of the Firm, as a part of the adoption of SFAS 157, and higher trading revenue from credit portfolio management activities. Private equity gains were very strong, benefiting from a higher level of realized gains, a fair value adjustment to nonpublic investments of $464 million resulting from the adoption of SFAS 157, and the reclassification of certain private equity carried interest to Compensation expense. For a further discussion of Principal transactions revenue, see the IB and Corporate segment results on pages 17 20 and 37 39, respectively, and Note 5 on pages 80 82 of this Form 10-Q.

Lending & deposit related fees rose from the first quarter of 2006 as a result of higher deposit-related fees, which in part, resulted from The Bank of New York transaction. For a further discussion of Lending & deposit related fees, which are primarily recorded in RFS see the RFS segment results on pages 21 27 of this Form 10-Q.

The increase in Asset management, administration and commissions revenue compared with the first quarter of 2006 was primarily due to increased assets under management and higher performance fees. Assets under management in AM was $1.1 trillion at the end of the first quarter of 2007, up 21%, or $180 billion, from the prior year; this growth was primarily

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the result of net asset inflows in the institutional and retail 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 increased due to higher brokerage transaction volume, partly offset by the sale of the insurance business in the third quarter of 2006, and a charge resulting from accelerated surrenders of customer annuity contracts. For additional information on these fees and commissions, see the segment discussions for AM on pages 34 36, TSS on pages 32 33, and RFS on pages 21 27, of this Form 10-Q.

The favorable variance in Securities gains (losses) when compared with the first quarter of 2006 primarily reflects the absence of $158 million of securities losses in the prior year from repositioning of the Treasury investment securities portfolio. 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 37 39 of this Form 10-Q.

Mortgage fees and related income increased in comparison with the first quarter of 2006 due to increased production revenue reflecting higher gain-on-sale income and the reclassification of certain loan origination costs to expense (previously netted against revenue) due to the adoption of SFAS 159. Net mortgage servicing revenue improved reflecting an increase in third-party loans serviced. 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 25 26 and Note 6 on page 83 of this Form 10-Q.

Credit card income decreased $347 million, or 18%, from the prior year primarily from lower servicing fees earned in connection with securitization activities, which were unfavorably affected by higher net credit losses incurred on securitized credit card loans, an increase in interest paid to investors in securitized loans, and a decrease in average securitized loans from the prior year. Also, contributing to the decrease were increases in volume-driven payments to partners and increased expenses related to rewards programs. These were offset partially by higher customer charge volume that favorably impacted interchange income and an increase in fee-based product revenue.

The decrease in Other income from the first quarter of 2006 reflected lower gains from loan workouts, partially offset by higher results on corporate and bank-owned life insurance policies and the absence of a prior-year $50 million loss related to auto loans transferred to held-for-sale.

Net interest income rose from the first quarter of last year as a result of improved trading-related Net interest income, primarily from the impact of a shift of Interest expense to Principal transactions revenue related to certain IB structured notes to which the fair value option was elected in connection with the adoption of SFAS 159; an improvement in Treasury s net interest spread; higher average credit card balances, which included a private-label credit card portfolio acquisition by CS; higher home equity loans; the impact of The Bank of New York transaction; and higher wholesale liability balances and consumer deposits. These increases were offset partially by narrower spreads on consumer and wholesale loans; increased credit card-related interest reversals in the current quarter associated with higher charge-offs; a shift to narrower spread deposit products; and the impact of RFS s sale of the insurance business. The Firm s total average interest-earning assets for the first quarter of 2007 were $1.1 trillion, up 12% from the first quarter of 2006, primarily as a result of an increase in 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 2.39%, an increase of 20 basis points from the prior year, partly reflecting the shift of Interest expense to Principal transactions revenue related to certain IB structured notes to which the fair value option was elected in connection with the adoption of SFAS 159.

Provision for credit losses

Three months ended March 31, (in millions)	**2007**	2006	Change
Provision for credit losses	**$ 1,008**	$ 831	21%

Provision for credit losses

The Provision for credit losses in the first quarter of 2007 increased by $177 million from 2006 due to a $279 million increase in the consumer Provision for credit losses, partly offset by a $102 million decrease in the wholesale Provision for credit losses. The increase in the consumer provision was driven by the following: in RFS, higher losses in the subprime mortgage portfolio and, to a lesser extent, a provision increase against the home equity portfolio related to weaker housing prices; and in CS, the prior-year quarter benefited from lower net charge-offs, which reflected a reduction in bankruptcy-related losses following the change in bankruptcy legislation in the fourth quarter of 2005. The current quarter benefited from an $85 million reduction in the allowance for credit losses, primarily related to strength in the underlying credit quality of the credit card portfolio, and by the reversal of a portion of the reserves in RFS related to

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Hurricane Katrina. The decrease in the wholesale provision was largely the result of a higher provision in the prior year due to growth in the loan portfolio. For a more detailed discussion of the loan portfolio and the Allowance for loan losses, refer to Credit risk management on pages 48 60 of this Form 10-Q.

Noninterest expense

The following table presents the components of Noninterest expense.

Three months ended March 31, (in millions)	**2007**	2006	Change
Compensation expense	**$ 6,234**	$ 5,548	12%
Occupancy expense	**640**	594	8
Technology, communications and equipment expense	**922**	869	6
Professional & outside services[(a)]	**1,200**	1,008	19
Marketing	**482**	519	(7)
Other expense	**735**	816	(10)
Amortization of intangibles	**353**	355	(1)
Merger costs	**62**	71	(13)
Total Noninterest expense	**$ 10,628**	$ 9,780	9

(a) Certain transaction costs, previously reported within Revenue, have been reclassified to Noninterest expense. Revenue and Noninterest expense have been reclassified for all periods presented. The reclassification did not affect Income from continuing operations or Net income.

Noninterest expense

Total Noninterest expense for the first quarter of 2007 was $10.6 billion, up by $848 million, or 9%, from the prior year. The increase was driven by higher Compensation expense, primarily from performance-based incentives. In addition, expense growth was also driven by acquisitions and investments in businesses, as well as lower insurance recoveries related to certain material litigation. The increase in expense was offset partially by the absence of a prior-year expense from the adoption of SFAS 123R, as well as business divestitures and operating expense efficiencies.

The increase in Compensation expense from the first quarter of 2006 was primarily the result of higher performance-based incentives, additional headcount in connection with acquisitions and investments in businesses, the

reclassification of certain private equity carried interest from Principal transactions revenue, as well as the reclassification of certain loan origination costs (previously netted against revenue) due to the adoption of SFAS 159. These increases were partially offset by the absence of a prior-year expense of $459 million from the adoption of SFAS 123R, business divestitures and expense efficiencies throughout the Firm. For a detailed discussion of the adoption of SFAS 159 and SFAS 123R see Note 4 on pages 77 80 and Note 9 on page 85, respectively, of this Form 10-Q.
The increase in Occupancy expense from the first quarter of 2006 was driven by ongoing investments in the retail distribution network, which included incremental expense from The Bank of New York transaction.
The increase in Technology, communications and equipment expense, when compared with the first quarter of 2006, was due primarily to higher depreciation expense on owned automobiles subject to operating leases and technology investments to support business growth, partially offset by operating expense efficiencies.
Professional & outside services expense increased from the first quarter of 2006 due primarily to higher brokerage expense and credit card processing costs as a result of growth in transaction volume. Also contributing to the increase was acquisitions and investments in businesses.
Marketing expense was lower when compared with the first quarter of 2006, reflecting lower expenditures for credit card campaigns.
Other expense declined compared with the first quarter of 2006 due to the sale of the insurance business in the third quarter of 2006, lower charges related to litigation, and lower credit card fraud-related losses. These items were partially offset by lower insurance recoveries pertaining to certain litigation matters, and growth in business volume, acquisitions and investments in businesses.
For a discussion of Amortization of intangibles and Merger costs, refer to Note 17 and Note 10 on pages 96 98 and 85, respectively, of the Form 10-Q.

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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 March 31, (in millions, except rate)	**2007**	2006
Income from continuing operations before income tax expense	**$ 7,332**	$ 4,564
Income tax expense	**2,545**	1,537
Effective tax rate	**34.7%**	33.7%

The increase in the effective tax rate was related to higher reported pre-tax income combined with changes in the proportion of income subject to federal, state and local taxes.

Income from discontinued operations

Net income from discontinued operations was zero in the current quarter compared with $54 million in the prior year. Discontinued operations (included in the Corporate segment results) include the related balance sheet and income statement activity of selected corporate trust businesses that were sold to The Bank of New York on October 1, 2006.

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 66 69 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 27 29 of this Form 10-Q. For information regarding the securitization process, and loans and residual interests sold and securitized, see Note 15 on pages 90 94 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 a reconciliation from the Firm s reported U.S. GAAP results to managed basis.

Three months ended March 31,		**2007**		
(in millions, except per share and ratio data)	Reported results	Credit card[(b)]	Tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	**$ 1,739**	**$**	**$**	**$ 1,739**
Principal transactions	**4,471**			**4,471**
Lending & deposit related fees	**895**			**895**
Asset management, administration and commissions	**3,186**			**3,186**
Securities gains	**2**			**2**
Mortgage fees and related income	**476**			**476**
Credit card income	**1,563**	**(746)**		**817**
Other income	**518**		**110**	**628**
Noninterest revenue	**12,850**	**(746)**	**110**	**12,214**
Net interest income	**6,118**	**1,339**	**70**	**7,527**
Total net revenue	**18,968**	**593**	**180**	**19,741**
Provision for credit losses	**1,008**	**593**		**1,601**
Noninterest expense	**10,628**			**10,628**
Income from continuing operations before income tax expense	**7,332**		**180**	**7,512**
Income tax expense	**2,545**		**180**	**2,725**
Income from continuing operations	**4,787**			**4,787**
Income from discontinued operations				
Net income	**$ 4,787**	**$**	**$**	**$ 4,787**
Net income diluted earnings per share	**$ 1.34**	**$**	**$**	**$ 1.34**
Return on common equity[(a)]	**17%**	**%**	**%**	**17%**
Return on equity less goodwill[(a)]	**27**			**27**
Return on assets[(a)]	**1.41**	**NM**	**NM**	**1.34**
Overhead ratio	**56**	**NM**	**NM**	**54**

Three months ended March 31,		2006		
(in millions, except per share and ratio data)	Reported results	Credit card[(b)]	Tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	$ 1,169	$	$	$ 1,169
Principal transactions	2,709			2,709
Lending & deposit related fees	841			841
Asset management, administration and commissions	2,874			2,874

Securities (losses)	(116)			(116)
Mortgage fees and related income	241			241
Credit card income	1,910	(1,125)		785
Other income	554		146	700
Noninterest revenue	10,182	(1,125)	146	9,203
Net interest income	4,993	1,574	71	6,638
Total net revenue	15,175	449	217	15,841
Provision for credit losses	831	449		1,280
Noninterest expense	9,780			9,780
Income from continuing operations before income tax expense	4,564		217	4,781
Income tax expense	1,537		217	1,754
Income from continuing operations	3,027			3,027
Income from discontinued operations	54			54
Net income	$ 3,081	$	$	$ 3,081
Net income diluted earnings per share	$ 0.86	$	$	$ 0.86
Return on common equity[(a)]	11%	%	%	11%
Return on equity less goodwill[(a)]	19			19
Return on assets[(a)]	0.98	NM	NM	0.95
Overhead ratio	64	NM	NM	62

(a) Based upon Income from continuing operations.

(b) Credit card securitizations affect CS. See pages 27 29 of this Form 10-Q for further information.

Three months ended March 31,	**2007**			2006		
(in millions)	Reported	Securitized	Managed	Reported	Securitized	Managed
Loans Period-end	**$ 449,765**	**$ 68,403**	**$ 518,168**	$ 432,081	$ 69,580	$ 501,661
Total assets average	**1,378,915**	**65,114**	**1,444,029**	1,248,357	67,557	1,315,914

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 March 31,	Total net revenue			Noninterest expense			Net income (loss)			Return on equity	
(in millions, except ratios)	**2007**	2006	Change	**2007**	2006	Change	**2007**	2006	Change	**2007**	2006
Investment Bank	**$ 6,254**	$ 4,828	30%	**$ 3,831**	$ 3,320	15%	**$ 1,540**	$ 850	81%	**30%**	17%
Retail Financial Services	**4,106**	3,763	9	**2,407**	2,238	8	**859**	881	(2)	**22**	26
Card Services	**3,680**	3,685		**1,241**	1,243		**765**	901	(15)	**22**	26
Commercial Banking	**1,003**	900	11	**485**	498	(3)	**304**	240	27	**20**	18
Treasury & Securities Services	**1,526**	1,485	3	**1,075**	1,048	3	**263**	262		**36**	42
Asset Management	**1,904**	1,584	20	**1,235**	1,098	12	**425**	313	36	**46**	36
Corporate[(b)]	**1,268**	(404)	NM	**354**	335	6	**631**	(366)	NM	**NM**	NM
Total	**$ 19,741**	$ 15,841	25%	**$ 10,628**	$ 9,780	9%	**$ 4,787**	$ 3,081	55%	**17%**	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

$54 million for the quarter ended March 31, 2006.

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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.

Selected income statement data Three months ended March 31, (in millions, except ratios)	**2007**	2006	Change
Revenue			
Investment banking fees	**$ 1,729**	$ 1,170	48%
Principal transactions[(a)(b)]	**3,126**	2,480	26
Lending & deposit related fees	**93**	137	(32)
Asset management, administration and commissions[(b)]	**641**	576	11
All other income	**42**	275	(85)
Noninterest revenue	**5,631**	4,638	21
Net interest income	**623**[(f)]	190	228
Total net revenue[(c)]	**6,254**	4,828	30
Provision for credit losses	**63**	183	(66)
Credit reimbursement from TSS[(d)]	**30**	30	
Noninterest expense			
Compensation expense	**2,637**	2,256	17
Noncompensation expense[(b)]	**1,194**	1,064	12
Total noninterest expense	**3,831**	3,320	15
Income before income tax expense	**2,390**	1,355	76
Income tax expense	**850**	505	68
Net income	**$ 1,540**	$ 850	81
Financial ratios			
ROE	**30%**	17%	
ROA	**0.95**	0.53	
Overhead ratio	**61**	69	
Compensation expense as a % of total net revenue[(e)]	**42**	41	
Revenue by business			
Investment banking fees:			
Advisory	**$ 472**	$ 389	21
Equity underwriting	**393**	212	85
Debt underwriting	**864**	569	52

Total investment banking fees	**1,729**	1,170	48
Fixed income markets[a][b]	**2,592**	2,076	25
Equity markets[a][b]	**1,539**	1,262	22
Credit portfolio[a]	**394**	320	23
Total net revenue	**$ 6,254**	$ 4,828	30
Revenue by region			
Americas	**$ 3,366**	$ 2,153	56
Europe/Middle East/Africa	**2,251**	2,025	11
Asia/Pacific	**637**	650	(2)
Total net revenue	**$ 6,254**	$ 4,828	30

(a) As a result of the adoption on January 1, 2007, of SFAS 157, the IB recognized a benefit, in the current quarter, 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) Certain transaction costs, previously reported within

Revenue, have been reclassified to Noninterest expense. Revenue and Noninterest expense have been reclassified for all periods presented.

(c) *Total net revenue includes tax-equivalent adjustments, primarily due to tax-exempt income from municipal bond investments and income tax credits related to affordable housing investments, of $152 million and $194 million for the quarters ended March 31, 2007 and 2006, respectively.*

(d) *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.*

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(e) *For the quarter ended March 31, 2006, the Compensation expense to Total net revenue ratio is adjusted to present this ratio as if SFAS 123R had always been in effect. IB management believes that adjusting the Compensation expense to Total net revenue ratio for the incremental impact of adopting SFAS 123R provides a more meaningful measure of IB s Compensation expense to Total net revenue ratio for 2006.*

(f) *Net Interest Income for the quarter ended March 31, 2007, increased from the prior year due primarily to the adoption of SFAS 159. For certain IB structured notes elected, all components of earnings are reported in Principal transaction; causing a shift*

between Principal transactions and Net interest income in the first quarter of 2007.

Quarterly results

Net income was a record $1.5 billion, up by $690 million, or 81%, compared with the prior year. Earnings growth reflected record revenue and a lower provision for credit losses, partially offset by higher noninterest expense.

Net revenue was a record $6.3 billion, up 30% from the prior year, driven by record investment banking fees and record markets results. Investment banking fees of $1.7 billion were up 48% from the prior year driven by record debt and record equity underwriting as well as strong advisory fees. Debt underwriting fees of $864 million were up 52% driven by record bond underwriting fees and strong loan syndication fees, which benefited from both leveraged and high grade issuance. Advisory fees of $472 million were up 21%, with particular strength in the Americas. Equity underwriting fees of $393 million were up 85%, reflecting strength in common stock and convertible offerings in the Americas and Europe. Record Fixed Income Markets revenue of $2.6 billion was up 25% from the prior year, benefiting from improved results in commodities (compared with a weak prior-year quarter) as well as strength in credit and rate markets, partially offset by lower results in currencies. Record Equity Markets revenue of $1.5 billion increased 22%, benefiting from particularly strong performance in Europe as well as strong derivatives performance across regions. Credit Portfolio revenue of $394 million was up 23%, due 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 (Fair Value Measurements), and higher trading revenue from credit portfolio management activities, partially offset by lower gains from loan workouts.

Provision for credit losses was $63 million compared with $183 million in the prior year. The prior-year provision reflected growth in the loan portfolio.

Noninterest expense was $3.8 billion, up by $511 million, or 15%, from the prior year. This increase was due to higher compensation expense, primarily performance-based, partially offset by the absence of expense from the adoption of SFAS 123R in the prior-year quarter.

Selected metrics Three months ended March 31, (in millions, except headcount and ratio data)	**2007**	2006	Change
Selected average balances			
Total assets	**$ 658,724**	$ 646,220	2%
Trading assets debt and equity instruments[g]	**335,118**	252,415	33
Trading assets derivatives receivables	**56,398**	49,388	14
Loans:			
Loans retained[b]	**59,873**	53,678	12
Loans held-for-sale[a]	**12,784**	19,212	(33)
Total loans	**72,657**	72,890	
Adjusted assets[c]	**572,017**	492,304	16
Equity	**21,000**	20,000	5
Headcount	**23,892**	21,705	10
Credit data and quality statistics			
Net charge-offs (recoveries)	**$ (6)**	$ (21)	71
Nonperforming assets:			
Nonperforming loans[d]	**92**	434	(79)
Other nonperforming assets	**36**	50	(28)
Allowance for loan losses	**1,037**	1,117	(7)
Allowance for lending related commitments	**310**	220	41
Net charge-off (recovery) rate[a][b]	**(0.04)%**	(0.16)%	
Allowance for loan losses to average loans[a][b]	**1.76**	2.08	
Allowance for loan losses to nonperforming loans[d]	**1,178**	305	
Nonperforming loans to average loans	**0.13**	0.60	
Market risk average trading and credit portfolio VAR[e]			
By risk type:			
Fixed income	**$ 45**	$ 60	(25)
Foreign exchange	**19**	20	(5)
Equities	**42**	32	31
Commodities and other	**34**	47	(28)
Less: portfolio diversification[f]	**(58)**	(68)	15
Total trading VAR	**82**	91	(10)
Credit portfolio VAR[g]	**13**	14	(7)
Less: portfolio diversification[f]	**(12)**	(11)	(9)
Total trading and credit portfolio VAR	**$ 83**	$ 94	(12)

(a) Loans held-for-sale are excluded from

the allowance coverage ratio and Net charge-off rate. Loans held-for-sale for the quarter ended March 31, 2007, reflect the impact of reclassifying $11.7 billion of Loans held-for-sale to Trading assets as a result of the adoption of SFAS 159 effective January 1, 2007.

(b) Loans retained include 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 $900 million for the quarter ended March 31, 2007. This amount is excluded from Total loans for the allowance coverage ratio and Net charge-off rate.

(c) Adjusted assets, a non-GAAP financial measure, equals Total assets

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

to have a low risk profile, provides a more meaningful measure of balance sheet leverage in the securities industry.

(d) Nonperforming loans include Loans held-for-sale of $4 million and $68 million at March 31, 2007, and March 31, 2006, respectively, which are excluded from the allowance coverage ratios. Nonperforming loans exclude distressed HFS loans purchased as part of IB s proprietary activities. During the first quarter of 2007, the Firm elected the fair value option of accounting for this portfolio of nonperforming loans. These loans are classified as Trading assets at March 31, 2007.

(e) Average VARs are less than the sum of the VARs of its market risk components, which is due to risk offsets

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

(f) *For a more complete description of VAR, see page 60 of this Form 10-Q.*

(g) *Includes 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 are all reported in Principal Transactions. The VAR does not include the retained loan portfolio.*

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

	Three months ended March 31, 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	**8**	**#2**	6	#3
Global equity and equity-related	**13**	**#1**	7	#6
Global announced M&A	**23**	**#2**	22	#4
U.S. debt, equity and equity-related	**11**	**#2**	9	#3
U.S. syndicated loans	**27**	**#1**	26	#1
U.S. long-term debt	**12**	**#2**	12	#2
U.S. equity and equity-related[(b)]	**19**	**#1**	8	#6
U.S. announced M&A	**39**	**#2**	28	#4

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

(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.
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 March 31, (in millions, except ratios)	**2007**	2006	Change
Revenue			
Lending & deposit related fees	**$ 423**	$ 371	14%
Asset management, administration and commissions	**263**	437	(40)
Securities gains (losses)		(6)	NM
Mortgage fees and related income[(a)]	**482**	236	104
Credit card income	**142**	115	23
Other income	**179**	48	273
Noninterest revenue	**1,489**	1,201	24
Net interest income	**2,617**	2,562	2
Total net revenue	**4,106**	3,763	9
Provision for credit losses	**292**	85	244
Noninterest expense			
Compensation expense[(a)]	**1,065**	920	16
Noncompensation expense[(a)]	**1,224**	1,207	1
Amortization of intangibles	**118**	111	6
Total noninterest expense	**2,407**	2,238	8
Income before income tax expense	**1,407**	1,440	(2)
Income tax expense	**548**	559	(2)
Net income	**$ 859**	$ 881	(2)
Financial ratios			
ROE	**22%**	26%	
Overhead ratio[(a)]	**59**	59	
Overhead ratio excluding core deposit intangibles[(a)(b)]	**56**	57	

(a) As a result of the adoption of

SFAS 159, certain loan origination costs have been reclassified to expense (previously netted against revenue) in the quarter ended March 31, 2007, resulting in increases in Mortgage fees and related income, Noninterest expense and the Overhead ratios.

(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 excludes Regional Banking s core deposit intangible amortization expense related to The Bank of New York transaction and the Bank One merger of $116 million and $109 million for the quarters ended March 31, 2007 and 2006, respectively.

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Quarterly results

Net income of $859 million was down by $22 million, or 2%, from the prior year.

Net revenue of $4.1 billion was up by $343 million, or 9%, from the prior year. Net interest income of $2.6 billion was up 2% due to The Bank of New York transaction, higher home equity loans and deposit balances in Regional Banking, and wider loan spreads in Auto Finance. These benefits were offset partially by lower prime and subprime mortgage balances, the sale of the insurance business, lower auto loan and lease balances, and narrower spreads on deposits. Noninterest revenue of $1.5 billion was up by $288 million, or 24%. Results benefited from higher gain-on-sale income and the reclassification of certain loan origination costs to expense (previously netted against revenue) due to the adoption of SFAS 159 in Mortgage Banking; increases in deposit related fee revenue; the absence of a prior-year loss related to auto loans transferred to held-for-sale; The Bank of New York transaction; and higher automobile operating lease revenue. 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 of $292 million was up by $207 million from the prior year. This increase was due to higher losses in the subprime mortgage portfolio and, to a lesser extent, increased provision in the home equity portfolio related to weaker housing prices. These increases were offset partially by the reversal of a portion of the reserves related to Hurricane Katrina. The Firm s exposure to subprime mortgages is deemed manageable, with current quarter outstandings of $9.0 billion and net charge-offs of $20 million (0.92% net charge-off rate), compared with $15.1 billion of loans and net charge-offs of $9 million (0.26% net charge-off rate) in the prior-year quarter. Since the Firm s current expectations are for continued poor loss experience in subprime mortgages and that weaker home prices are expected to continue to affect losses in the home equity portfolio, underwriting standards were tightened during the quarter.

Noninterest expense of $2.4 billion was up by $169 million, or 8%, primarily due to The Bank of New York transaction, the reclassification of certain loan origination costs due to the adoption of SFAS 159, investments in the retail distribution network and higher depreciation expense on owned automobiles subject to operating leases. These increases were offset partially by the sale of the insurance business.

Selected metrics

Three months ended March 31, (in millions, except headcount and ratios)	**2007**	2006	Change
Selected ending balances			
Assets	**$ 212,997**	$ 235,127	(9)%
Loans[(a)(b)]	**188,468**	202,591	(7)
Deposits	**221,840**	200,154	11
Selected average balances			
Assets	**$ 217,135**	$ 231,587	(6)
Loans[(a)(b)]	**190,979**	198,797	(4)
Deposits	**216,933**	194,382	12
Equity	**16,000**	13,896	15
Headcount	**67,247**	62,472	8
Credit data and quality statistics			
Net charge-offs	**$ 185**	$ 121	53
Nonperforming loans[(c)]	**1,655**	1,349	23
Nonperforming assets	**1,910**	1,537	24
Allowance for loan losses	**1,453**	1,333	9

Net charge-off rate[(d)]	**0.46%**	0.27%
Allowance for loan losses to ending loans[(d)]	**0.89**	0.71
Allowance for loan losses to nonperforming loans[(d)]	**94**	100
Nonperforming loans to total loans	**0.88**	0.67

(a) For the quarter ended March 31, 2007, end-of-period and average loans include $11.6 billion and $6.5 billion, respectively, of prime mortgage loans originated with the intent to sell, which are accounted for at fair value under SFAS 159 and classified as Trading assets in the Consolidated balance sheets.

(b) End-of-period Loans include Loans held-for-sale of $13.4 billion and $14.3 billion at March 31, 2007 and 2006, respectively. Average loans include Loans held-for-sale of $21.7 billion and $16.4 billion for the quarters ended March 31, 2007 and 2006, respectively.

(c) Nonperforming loans include Loans held-for-sale of

$112 million and $16 million at March 31, 2007 and 2006, respectively.

(d) *The net charge-off rate and the allowance coverage ratios do not include amounts related to Loans held-for-sale or Loans accounted for at fair value under SFAS 159.*

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REGIONAL BANKING

Selected income statement data

Three months ended March 31, (in millions, except ratios)	**2007**	2006	Change
Noninterest revenue	**$ 793**	$ 820	(3)%
Net interest income	**2,299**	2,220	4
Total Net revenue	**3,092**	3,040	2
Provision for credit losses	**233**	66	253
Noninterest expense	**1,729**	1,738	(1)
Income before income tax expense	**1,130**	1,236	(9)
Net income	**$ 690**	$ 757	(9)
ROE	**24%**	31%	
Overhead ratio	**56**	57	
Overhead ratio excluding core deposit intangibles[(a)]	**52**	54	

(a) *Regional Banking uses the overhead ratio (excluding the amortization of core deposit intangibles (CDI)), a non-GAAP financial measure, to evaluate the underlying expense trends of the business. Including CDI amortization expense in the overhead ratio calculation results in a higher overhead ratio in the earlier years and a lower overhead ratio*

in later years; this inclusion would result in an improving overhead ratio over time, all things remaining equal. This non-GAAP ratio excludes Regional Banking s core deposit intangible amortization expense related to The Bank of New York transaction and the Bank One merger of $116 million and $109 million for the quarters ended March 31, 2007 and 2006, respectively.

Quarterly results

Regional Banking net income of $690 million was down by $67 million, or 9%, from the prior year. Net revenue of $3.1 billion was up by $52 million, or 2%. Results benefited from The Bank of New York transaction; growth in home equity loans and deposits; and increases in deposit-related fees. These revenue 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 $233 million, up by $167 million, primarily related to higher losses in the subprime mortgage portfolio and to a lesser extent increased provision in the home equity portfolio related to weaker housing prices. These increases were offset partially by the reversal of a portion of the reserves related to Hurricane Katrina. Noninterest expense of $1.7 billion was flat, as increases due to The Bank of New York transaction and investments in the retail distribution network were offset by the sale of the insurance business.

Business metrics

Three months ended March 31, (in billions, except ratios)	**2007**	2006	Change
Home equity origination volume	**$ 12.7**	$ 11.7	9%
End-of-period loans owned			
Home equity	**$ 87.7**	$ 75.3	16
Mortgage[(a)]	**9.2**	47.0	(80)
Business banking	**14.3**	12.8	12
Education	**11.1**	9.5	17
Other loans[(b)]	**2.7**	2.7	
Total end of period loans	**125.0**	147.3	(15)
End-of-period deposits			
Checking	**$ 69.3**	$ 64.9	7
Savings	**100.1**	91.0	10
Time and other	**42.2**	34.2	23
Total end of period deposits	**211.6**	190.1	11
Average loans owned			
Home equity	**$ 86.3**	$ 74.1	16
Mortgage[(a)]	**8.9**	44.6	(80)
Business banking	**14.3**	12.8	12
Education	**11.0**	5.4	104
Other loans[(b)]	**3.0**	3.0	
Total average loans[(c)]	**123.5**	139.9	(12)
Average deposits			
Checking	**$ 67.3**	$ 63.0	7
Savings	**96.7**	89.3	8
Time and other	**42.5**	32.4	31
Total average deposits	**206.5**	184.7	12
Average assets	**135.9**	157.1	(13)
Average equity	**11.8**	9.8	20
Credit data and quality statistics			
30+ day delinquency rate[(d)(e)]	**1.93%**	1.36%	
Net charge-offs			
Home equity	**$ 68**	$ 33	106
Mortgage	**20**	12	67
Business banking	**25**	18	39
Other loans	**13**	7	86

Total net charge-offs	**126**	70	80
Net charge-off rate			
Home equity	**0.32%**	0.18%	
Mortgage	**0.91**	0.11	
Business banking	**0.71**	0.57	
Other loans	**0.55**	0.56	
Total net charge-off rate[(c)]	**0.43**	0.21	
Nonperforming assets[(f)(g)(h)]	**$ 1,770**	$ 1,339	32

(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 quarter ended March 31, 2007, reflect primarily subprime mortgage loans owned.

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

(c) Average loans include loans held-for-sale of $4.4 billion and $3.3 billion for the quarters ended March 31, 2007 and 2006, respectively.

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

(d) *Excludes delinquencies related to loans eligible for repurchase as well as loans repurchased from Governmental National Mortgage Association (GNMA) pools that are insured by government agencies and government-sponsored enterprises of $975 million and $942 million at March 31, 2007 and 2006, respectively. These amounts are excluded as reimbursement is proceeding normally.*

(e) *Excludes loans that are 30 days past due and still accruing, which are insured by government agencies under the Federal Family Education Loan Program of $519 million and $370 million at March 31, 2007 and 2006, respectively. These amounts are excluded as reimbursement is proceeding normally.*

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(f) *Excludes loans that are 90 days past due and still accruing, which are insured by government agencies under the Federal Family Education Loan Program of $178 million and $156 million for the quarters ended March 31, 2007 and 2006, respectively. These amounts are excluded as reimbursement is proceeding normally.*

(g) *Excludes 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 $1.3 billion and $1.1 billion at March 31, 2007 and 2006, respectively. These amounts are excluded as reimbursement is proceeding normally.*

(h) *Includes Nonperforming loans held-for-sale related to mortgage banking activities of $79 million and $16 million at March 31, 2007 and 2006, respectively.*

Retail branch business metrics

Three months ended March 31, (in millions, except where otherwise noted)	**2007**	2006	Change

Investment sales volume	**$ 4,783**	$ 3,553	35%
Number of:			
Branches	**3,071**	2,638	433#
ATMs	**8,560**	7,400	1,160
Personal bankers[(a)]	**7,846**	7,019	827
Sales specialists[(a)]	**3,712**	3,318	394
Active online customers (in thousands)[(b)]	**6,172**	5,030	1,142
Checking accounts (in thousands)	**10,136**	8,936	1,200

(a) Excludes employees acquired as part of The Bank of New York transaction. Mapping of the existing Bank of New York acquired employee base into Chase employment categories is expected to be completed during 2007.

(b) Includes Mortgage Banking and Auto Finance online customers.

MORTGAGE BANKING

Selected income statement data Three months ended March 31, (in millions, except ratios and where otherwise noted)	**2007**	2006	Change
Production revenue[(a)]	**$ 400**	$ 219	83%
Net mortgage servicing revenue:			
Servicing revenue	**601**	560	7
Changes in MSR asset fair value:			
Due to inputs or assumptions in model[(b)]	**108**	711	(85)
Other changes in fair value[(c)]	**(378)**	(349)	(8)
Derivative valuation adjustments and other	**(127)**	(753)	83
Total net mortgage servicing revenue	**204**	169	21

Total net revenue	**604**	388	56
Noninterest expense[(a)]	**468**	324	44
Income before income tax expense	**136**	64	113
Net income	**$ 84**	$ 39	115
ROE	**17%**	9%	
Business metrics (in billions)			
Third-party mortgage loans serviced (ending)	**$ 546.1**	$ 484.1	13
MSR net carrying value (ending)	**7.9**	7.5	5
Average mortgage loans held-for-sale[(d)]	**23.8**	13.0	83
Average assets	**38.0**	27.1	40
Average equity	**2.0**	1.7	18
Mortgage origination volume by channel (in billions)			
Retail	**$ 10.9**	$ 9.1	20
Wholesale	**10.0**	7.4	35
Correspondent (including negotiated transactions)	**13.2**	11.7	13
Total	**$ 34.1**	$ 28.2	21

(a) *As a result of the adoption of SFAS 159, certain loan origination costs have been reclassified to expense (previously netted against revenue) in the quarter ended March 31, 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 servicing portfolio runoff (or time decay).

(d) Includes $6.5 billion of prime mortgage loans for which the fair value option was elected under SFAS 159. These loans are classified as Trading assets on the Consolidated balance sheets for the quarter ended March 31, 2007.

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Quarterly results

Mortgage Banking net income was $84 million compared with $39 million in the prior year. Net revenue of $604 million was up by $216 million, or 56%, from the prior year. Revenue comprises production revenue and net mortgage servicing revenue. Production revenue was $400 million, up by $181 million, reflecting higher gain-on-sale income and the reclassification of certain loan origination costs to expense (previously netted against revenue) 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 $204 million compared with $169 million in the prior year. Loan servicing revenue of $601 million increased by $41 million on a 13% increase in third-party loans serviced. MSR risk management revenue of negative $19 million improved by $23 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 $378 million. Noninterest expense was $468 million, up by $144 million, or 44%, reflecting the reclassification of certain loan origination costs due to the adoption SFAS 159 and higher compensation expense reflecting higher loan originations and a greater number of loan officers.

AUTO FINANCE

Selected income statement data Three months ended March 31, (in millions, except ratios and where otherwise noted)	**2007**	2006	Change
Noninterest revenue	**$ 131**	$ 44	198%
Net interest income	**279**	291	(4)
Total net revenue	**410**	335	22
Provision for credit losses	**59**	19	211
Noninterest expense	**210**	176	19
Income before income tax expense	**141**	140	1
Net income	**$ 85**	$ 85	
ROE	**16%**	14%	
ROA	**0.80**	0.73	
Business metrics (in billions)			
Auto origination volume	**$ 5.2**	$ 4.3	21
End-of-period loans and lease related assets			
Loans outstanding	**$ 39.7**	$ 41.0	(3)
Lease financing receivables	**1.2**	3.6	(67)
Operating lease assets	**1.7**	1.1	55
Total end-of-period loans and lease related assets	**42.6**	45.7	(7)
Average loans and lease related assets			
Loans outstanding	**$ 39.4**	$ 41.2	(4)
Lease financing receivables	**1.5**	4.0	(63)
Operating lease assets	**1.6**	1.0	60
Total average loans and lease related assets	**42.5**	46.2	(8)
Average assets	**43.2**	47.3	(9)

Average equity	**2.2**	2.4	(8)
Credit quality statistics			
30+ day delinquency rate	**1.33%**	1.39%	
Net charge-offs			
Loans	**$ 58**	$ 48	21
Lease receivables	**1**	3	(67)
Total net charge-offs	**59**	51	16
Net charge-off rate			
Loans	**0.60%**	0.47%	
Lease receivables	**0.27**	0.30	
Total net charge-off rate	**0.59**	0.46	
Nonperforming assets	**$ 140**	$ 198	(29)

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Quarterly results

Auto Finance net income of $85 million was flat compared with the prior year. Net revenue of $410 million was up by $75 million, or 22%, reflecting the absence of a prior-year $50 million pretax loss related to auto loans transferred to held-for-sale, higher automobile operating lease revenue, and wider loan spreads on lower loan and direct finance lease balances. The provision for credit losses was $59 million, an increase of $40 million from the prior year, primarily reflecting a reduction of the allowance for credit losses in the prior year. Noninterest expense of $210 million increased by $34 million, or 19%, driven by increased depreciation expense on owned automobiles subject to operating leases.

CARD SERVICES

For a discussion of the business profile of CS, see pages 43 45 of JPMorgan Chase s 2006 Annual Report.

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 14 15 of this Form 10-Q.

Selected income statement data managed basis

Three months ended March 31, (in millions, except ratios)	**2007**	2006	Change
Revenue			
Credit card income	**$ 599**	$ 601	%
All other income	**92**	71	30
Noninterest revenue	**691**	672	3
Net interest income	**2,989**	3,013	(1)
Total net revenue	**3,680**	3,685	
Provision for credit losses	**1,229**	1,016	21
Noninterest expense			
Compensation expense	**254**	259	(2)
Noncompensation expense	**803**	796	1
Amortization of intangibles	**184**	188	(2)
Total noninterest expense	**1,241**	1,243	
Income before income tax expense	**1,210**	1,426	(15)
Income tax expense	**445**	525	(15)
Net income	**$ 765**	$ 901	(15)
Memo: Net securitization gains	**$ 23**	$ 8	188

Financial metrics		
ROE	**22%**	26%
Overhead ratio	**34**	34

Quarterly results

Net income of $765 million was down by $136 million, or 15%, 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 $146.6 billion increased by $12.3 billion, or 9%, from the prior year. Average managed loans of $149.4 billion increased by $11.4 billion, or 8%, from the prior year. The current quarter included $2.0 billion of average and $1.9 billion of end-of-period managed loans acquired with the Kohl s private-label portfolio in the second quarter of 2006.

Net managed revenue was $3.7 billion, flat as compared with the prior year. Net interest income of $3.0 billion was down by $24 million, or 1%, from the prior year. The decrease was driven by higher charge-offs, which resulted in increased revenue reversals in the current quarter and higher cost of funds on balance growth in promotional, introductory and transactor loan balances. These declines were partially offset by higher average managed loan balances and increased fees. Noninterest revenue of $691 million was up by $19 million, or 3%, from the prior year.

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Interchange income increased, benefiting from 9% higher charge volume, but was more than offset by higher volume-driven payments to partners and increased rewards expense (both of which are netted against interchange income). An additional factor impacting noninterest revenue was an increase in fee-based product revenue.

The managed provision for credit losses was $1.2 billion, up by $213 million, or 21%, from the prior year. The prior-year quarter benefited from lower net charge-offs, which reflected a reduction in bankruptcy-related losses following the change in bankruptcy legislation in the fourth quarter of 2005. The current quarter benefited from an $85 million reduction in the allowance for credit losses, primarily related to strength in the underlying credit quality of the loan portfolio. The managed net charge-off rate for the quarter was 3.57%, up from 2.99% in the prior year. The 30-day managed delinquency rate was 3.07%, down from 3.10% in the prior year.

Noninterest expense of $1.2 billion was flat compared with the prior year, primarily due to lower marketing expense and lower fraud-related losses, offset by higher expense related to recent acquisitions and increased customer activity.

Selected metrics Three months ended March 31, (in millions, except headcount, ratios and where otherwise noted)	**2007**	2006	Change
% of average managed outstandings:			
Net interest income	**8.11%**	8.85%	
Provision for credit losses	**3.34**	2.99	
Noninterest revenue	**1.88**	1.97	
Risk adjusted margin[(a)]	**6.65**	7.84	
Noninterest expense	**3.37**	3.65	
Pretax income (ROO)	**3.28**	4.19	
Net income	**2.08**	2.65	
Business metrics			
Charge volume (in billions)	**$ 81.3**	$ 74.3	9%
Net accounts opened (in thousands)	**3,439**	2,718	27
Credit cards issued (in thousands)	**152,097**	112,446	35
Number of registered Internet customers (in millions)	**24.3**	15.9	53
Merchant acquiring business[(b)]			
Bank card volume (in billions)	**$ 163.6**	$ 147.7	11
Total transactions (in millions)	**4,465**	4,130	8
Selected ending balances			
Loans:			
Loans on balance sheets	**$ 78,173**	$ 64,691	21
Securitized loans	**68,403**	69,580	(2)
Managed loans	**$ 146,576**	$ 134,271	9
Selected average balances			
Managed assets	**$ 156,271**	$ 145,994	7
Loans:			
Loans on balance sheets	**$ 81,932**	$ 68,455	20
Securitized loans	**67,485**	69,571	(3)

Managed loans	**$ 149,417**	$ 138,026	8
Equity	**14,100**	14,100	
Headcount	**18,749**	18,801	
Managed credit quality statistics			
Net charge-offs	**$ 1,314**	$ 1,016	29
Net charge-off rate	**3.57%**	2.99%	
Managed delinquency ratios			
30+ days	**3.07%**	3.10%	
90+ days	**1.52**	1.39	
Allowance for loan losses	**$ 3,092**	$ 3,274	(6)
Allowance for loan losses to period-end loans	**3.96%**	5.06%	

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

(b) 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.

Three months ended March 31, (in millions)	**2007**	2006	Change
Income statement data[(a)]			
Credit card income			
Reported basis for the period	**$ 1,345**	$ 1,726	(22)%
Securitization adjustments	**(746)**	(1,125)	34
Managed credit card income	**$ 599**	$ 601	
Net interest income			
Reported basis for the period	**$ 1,650**	$ 1,439	15
Securitization adjustments	**1,339**	1,574	(15)
Managed net interest income	**$ 2,989**	$ 3,013	(1)
Total net revenue			
Reported basis for the period	**$ 3,087**	$ 3,236	(5)
Securitization adjustments	**593**	449	32
Managed total net revenue	**$ 3,680**	$ 3,685	
Provision for credit losses			
Reported basis for the period	**$ 636**	$ 567	12
Securitization adjustments	**593**	449	32
Managed provision for credit losses	**$ 1,229**	$ 1,016	21
Balance sheet average balances[(a)]			
Total average assets			
Reported basis for the period	**$ 91,157**	$ 78,437	16
Securitization adjustments	**65,114**	67,557	(4)
Managed average assets	**$ 156,271**	$ 145,994	7
Credit quality statistics[(a)]			

Net charge-offs			
Reported net charge-offs data for the period	**$ 721**	$ 567	27
Securitization adjustments	**593**	449	32
Managed net charge-offs	**$ 1,314**	$ 1,016	29

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

card portfolio. Managed results exclude the impact of credit card securitizations on Total net revenue, the Provision for credit losses, net charge-offs and loan receivables. Securitization does not change reported net income versus managed earnings; however, it does affect the classification of items on the Consolidated statements of income and Consolidated balance sheets. For further information, see Explanation and reconciliation of the Firm s use of non-GAAP measures on pages 14 15 of this Form 10-Q.

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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.
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 March 31, (in millions, except ratios)	**2007**	2006	Change
Revenue			
Lending & deposit related fees	**$ 158**	$ 142	11%
Asset management, administration and commissions	**23**	15	53
All other income[(a)]	**154**	76	103
Noninterest revenue	**335**	233	44
Net interest income	**668**	667	
Total net revenue	**1,003**	900	11
Provision for credit losses	**17**	7	143
Noninterest expense			
Compensation expense	**180**	197	(9)
Noncompensation expense	**290**	285	2
Amortization of intangibles	**15**	16	(6)
Total noninterest expense	**485**	498	(3)
Income before income tax expense	**501**	395	27
Income tax expense	**197**	155	27
Net income	**$ 304**	$ 240	27
Financial ratios			
ROE	**20%**	18%	
Overhead ratio	**48**	55	

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

Quarterly results

Net income was a record $304 million, up by $64 million, or 27%, from the prior year, driven by higher net revenue.

Net revenue was $1.0 billion, up by $103 million, or 11%, from the prior year. Net interest income of $668 million was flat. The benefit of higher liability balances and loan volumes, which reflected organic growth and The Bank of New York transaction, were offset largely by the continued shift to narrower spread liability products and loan-spread compression. Noninterest revenue of $335 million was up by $102 million, or 44%, primarily due to higher investment banking revenue as well as gains related to the sale of securities acquired in the satisfaction of debt.

On a segment basis, Middle Market Banking revenue of $661 million increased by $38 million, or 6%, from the prior year due to growth across all product areas and The Bank of New York transaction. Mid-Corporate Banking revenue of $212 million increased by $75 million, or 55%, reflecting higher investment banking revenue and a gain on the sale of securities acquired in the satisfaction of debt. Real Estate revenue of $102 million decreased by $3 million, or 3%.

Provision for credit losses was $17 million compared with $7 million in the prior year.

Noninterest expense was $485 million, down by $13 million, or 3%, from the prior year 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.

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Selected metrics Three months ended March 31, (in millions, except ratio and headcount data)	**2007**	2006	Change
Revenue by product:			
Lending	**$ 348**	$ 319	9%
Treasury services	**556**	550	1
Investment banking	**76**	40	90
Other	**23**	(9)	NM
Total Commercial Banking revenue	**$ 1,003**	$ 900	11
IB revenues, gross[a]	**$ 231**	$ 114	103
Revenue by business:			
Middle Market Banking	**$ 661**	$ 623	6
Mid-Corporate Banking	**212**	137	55
Real Estate Banking	**102**	105	(3)
Other	**28**	35	(20)
Total Commercial Banking revenue	**$ 1,003**	$ 900	11
Selected average balances			
Total assets	**$ 82,545**	$ 54,771	51
Loans and leases[b]	**57,660**	50,836	13
Liability balances[c]	**81,752**	70,763	16
Equity	**6,300**	5,500	15
Average loans by business:			
Middle Market Banking	**$ 36,317**	$ 31,861	14
Mid-Corporate Banking	**10,669**	7,577	41
Real Estate Banking	**7,074**	7,436	(5)
Other	**3,600**	3,962	(9)
Total Commercial Banking loans	**$ 57,660**	$ 50,836	13
Headcount	**4,281**	4,310	(1)
Credit data and quality statistics:			
Net charge-offs (recoveries)	**$ (1)**	$ (7)	86
Nonperforming loans	**141**	202	(30)
Allowance for loan losses	**1,531**	1,415	8
Allowance for lending-related commitments	**187**	145	29
Net charge-off (recovery) rate[b]	**(0.01)%**	(0.06)%	

Allowance for loan losses to average loans[b]	**2.68**	2.80
Allowance for loan losses to nonperforming loans	**1,086**	700
Nonperforming loans to average loans	**0.24**	0.40

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

(b) Average loans include Loans held-for-sale of $475 million and $268 million for the quarters ended March 31, 2007 and 2006, respectively. These amounts are not included in the net charge-off (recovery) rate or allowance coverage ratios.

(c) Liability balances include 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.

Selected income statement data Three months ended March 31, (in millions, except ratios)	**2007**	2006	Change
Revenue			
Lending & deposit related fees	**$ 213**	$ 182	17%
Asset management, administration and commissions	**686**	650	6
All other income	**125**	146	(14)
Noninterest revenue	**1,024**	978	5
Net interest income	**502**	507	(1)
Total net revenue	**1,526**	1,485	3
Provision for credit losses	**6**	(4)	NM
Credit reimbursement to IB[(a)]	**(30)**	(30)	
Noninterest expense			
Compensation expense	**558**	549	2
Noncompensation expense	**502**	480	5
Amortization of intangibles	**15**	19	(21)
Total noninterest expense	**1,075**	1,048	3
Income before income tax expense	**415**	411	1
Income tax expense	**152**	149	2
Net income	**$ 263**	$ 262	
Financial ratios			
ROE	**36%**	42%	
Overhead ratio	**70**	71	
Pretax margin ratio[(b)]	**27**	28	

(a) TSS is charged a credit reimbursement related to certain exposures managed within the IB credit

portfolio on behalf of clients shared with TSS. For a further discussion, see Credit reimbursement on page 35 of JPMorgan Chase s 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 $263 million, flat compared with the prior year. Earnings benefited from increased revenue and the absence of prior-year expense from the adoption of SFAS 123R, but these items were offset by higher compensation expense and investment in new product platforms.

Net revenue was $1.5 billion, up by $41 million, or 3%, from the prior year. Worldwide Securities Services net revenue of $837 million was up by $45 million, or 6%, driven by increased product usage by existing clients and new business growth, as well as market appreciation. These benefits were partially offset by lower foreign exchange revenue as a result of narrower market spreads. Treasury Services net revenue of $689 million was down by $4 million, or 1%, driven by a continued shift to narrower spread liability products and price compression across all products, primarily offset by an increase in average liability balances from new and existing clients. TSS firmwide net revenue, which includes Treasury Services net revenue recorded in other lines of business, grew to $2.1 billion, up by $59 million, or 3%. Treasury Services firmwide net revenue grew to $1.3 billion, up by $14 million, or 1%.

Provision for credit losses was $6 million compared with a benefit of $4 million in the prior year.

Noninterest expense was $1.1 billion, up by $27 million, or 3%. The increase was due largely to higher compensation expense related to growth in headcount supporting increased client volume and investment in new product platforms, partially offset by the absence of prior-year expense from the adoption of SFAS 123R.

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Selected metrics Three months ended March 31, (in millions, except headcount, ratio data and where otherwise noted)	**2007**	2006	Change
Revenue by business			
Treasury Services	**$ 689**	$ 693	(1)%
Worldwide Securities Services	**837**	792	6
Total net revenue	**$ 1,526**	$ 1,485	3
Business metrics			
Assets under custody (in billions)	**$ 14,661**	$ 11,179	31
Number of:			
US$ ACH transactions originated (in millions)	**971**	838	16
Total US$ clearing volume (in thousands)	**26,840**	25,182	7
International electronic funds transfer volume (in thousands)[(a)]	**42,399**	33,741	26
Wholesale check volume (in millions)	**771**	852	(10)
Wholesale cards issued (in thousands)[(b)]	**17,146**	16,977	1
Selected balance sheets (average)			
Total assets	**$ 46,005**	$ 29,230	57
Loans	**18,948**	12,940	46
Liability balances[(c)]	**210,639**	178,133	18
Equity	**3,000**	2,545	18
Headcount	**24,875**	23,598	5
TSS firmwide metrics			
Treasury Services firmwide revenue[(d)]	**$ 1,305**	$ 1,291	1
Treasury & Securities Services firmwide revenue[(d)]	**2,142**	2,083	3
Treasury Services firmwide overhead ratio[(e)]	**59%**	56%	
Treasury & Securities Services firmwide overhead ratio[(e)]	**63**	62	
Treasury Services firmwide liability balances (average)[(f)]	**$ 186,631**	$ 155,422	20
Treasury & Securities Services firmwide liability balances (average)[(f)]	**292,391**	248,328	18

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

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

electronic benefit card products.

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

TSS firmwide metrics

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

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

Three months ended March 31, (in millions)	**2007**	2006	Change
Treasury Services revenue reported in CB	**$ 556**	$ 550	1%
Treasury Services revenue reported in other lines of business	**60**	48	25

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 $112 million and $118 million for the quarters ended March 31, 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 are not included in this ratio.*

(f) *Firmwide liability balances include*

TS liability balances recorded in certain other lines of business. Liability balances associated with TS customers who are also customers of the CB line of business are not included in TS liability balances.

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ASSET MANAGEMENT

For a discussion of the business profile of AM, see pages 50 52 of JPMorgan Chase s 2006 Annual Report.

Selected income statement data

Three months ended March 31, (in millions, except ratios)	**2007**	2006	Change
Revenue			
Asset management, administration and commissions	**$ 1,489**	$ 1,222	22%
All other income	**170**	116	47
Noninterest revenue	**1,659**	1,338	24
Net interest income	**245**	246	
Total net revenue	**1,904**	1,584	20
Provision for credit losses	**(9)**	(7)	(29)
Noninterest expense			
Compensation expense	**764**	682	12
Noncompensation expense	**451**	394	14
Amortization of intangibles	**20**	22	(9)
Total noninterest expense	**1,235**	1,098	12
Income before income tax expense	**678**	493	38
Income tax expense	**253**	180	41
Net income	**$ 425**	$ 313	36

Financial ratios

ROE