

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 September 30, 2007

Commission file number 1-5805

JPMORGAN CHASE & CO.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

10017
(Zip Code)

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

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

☒ Yes ☐ No

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

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

☐ Yes ☒ No

Number of shares of common stock outstanding as of October 31, 2007: 3,359,043,795

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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 period ended,	3Q07	2Q07	1Q07	4Q06	3Q06	Nine months ended September 30,		
						2007	2006	
Selected income statement data								
Noninterest revenue ^(a)	\$ 8,786	\$ 12,593	\$ 12,850	\$ 10,501	\$ 10,166	\$ 34,229	\$ 30,256	
Net interest income	7,326	6,315	6,118	5,692	5,379	19,759	15,550	
Total net revenue	16,112	18,908	18,968	16,193	15,545	53,988	45,806	
Provision for credit losses	1,785	1,529	1,008	1,134	812	4,322	2,136	
Noninterest expense	9,327	11,028	10,628	9,885	9,796	30,983	28,958	
Income tax expense	1,627	2,117	2,545	1,268	1,705	6,289	4,969	
Income from continuing operations	3,373	4,234	4,787	3,906	3,232	12,394	9,743	
Income from discontinued operations ^(b)	—	—	—	620	65	—	175	
Net income	\$ 3,373	\$ 4,234	\$ 4,787	\$ 4,526	\$ 3,297	\$ 12,394	\$ 9,918	
Per common share								
Basic earnings per share:								
Income from continuing operations	\$ 1.00	\$ 1.24	\$ 1.38	\$ 1.13	\$ 0.93	\$ 3.63	\$ 2.81	
Net income	1.00	1.24	1.38	1.31	0.95	3.63	2.86	
Diluted earnings per share:								
Income from continuing operations	\$ 0.97	\$ 1.20	\$ 1.34	\$ 1.09	\$ 0.90	\$ 3.52	\$ 2.73	
Net income	0.97	1.20	1.34	1.26	0.92	3.52	2.78	
Cash dividends declared per share	0.38	0.38	0.34	0.34	0.34	1.10	1.02	
Book value per share	35.72	35.08	34.45	33.45	32.75			
Common shares outstanding								
Average: Basic	3,376#	3,415#	3,456#	3,465#	3,469#	3,416#	3,472#	
Diluted	3,478	3,522	3,560	3,579	3,574	3,520	3,572	
Common shares at period end	3,359	3,399	3,416	3,462	3,468			
Share price^(c)								
High	\$ 50.48	\$ 53.25	\$ 51.95	\$ 49.00	\$ 47.49	\$ 53.25	\$ 47.49	
Low	42.16	47.70	45.91	45.51	40.40	42.16	37.88	
Close	45.82	48.45	48.38	48.30	46.96			
Market capitalization	153,901	164,659	165,280	167,199	162,835			
Financial ratios								
Return on common equity ("ROE") ^(d) :								
Income from continuing operations	11%	14%	17%	14%	11%	14%	12%	
Net income	11	14	17	16	12	14	12	
Return on assets ("ROA") ^(d) :								
Income from continuing operations	0.91	1.19	1.41	1.14	0.98	1.16	1.02	
Net income	0.91	1.19	1.41	1.32	1.00	1.16	1.02	
Overhead ratio	58	58	56	61	63	57	63	
Tier 1 capital ratio	8.4	8.4	8.5	8.7	8.6			
Total capital ratio	12.5	12.0	11.8	12.3	12.1			
Selected balance sheet data (period-end)								
Total assets	\$ 1,479,575	\$ 1,458,042	\$ 1,408,918	\$ 1,351,520	\$ 1,338,029			
Loans	486,320	465,037	449,765	483,127	463,544			
Deposits	678,091	651,370	626,428	638,788	582,115			
Long-term debt	173,696	159,493	143,274	133,421	126,619			
Total stockholders' equity	119,978	119,211	117,704	115,790	113,561			
Headcount	179,847#	179,664#	176,314#	174,360#	171,589#			
Credit quality metrics								
Allowance for credit losses	\$ 8,971	\$ 8,399	\$ 7,853	\$ 7,803	\$ 7,524			
Nonperforming assets ^(e)	3,181	2,586	2,421	2,341	2,300			
Allowance for loan losses to total loans ^(f)	1.76%	1.71%	1.74%	1.70%	1.65%			
Net charge-offs	\$ 1,221	\$ 985	\$ 903	\$ 930	\$ 790	\$ 3,109	\$ 2,112	
Net charge-off rate ^{(d)(f)}	1.07%	0.90%	0.85%	0.84%	0.74%	0.94%	0.69%	
Wholesale net charge-off (recovery) rate ^{(d)(f)}	0.19	(0.07)	(0.02)	0.07	(0.03)	0.04	(0.04)	
Managed card net charge-off rate ^(d)	3.64	3.62	3.57	3.45	3.58	3.61	3.29	

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

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

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

(d) Ratios are based upon annualized amounts.

(e) Excludes purchased wholesale loans held-for-sale.

(f) End-of-period and average Loans at fair value and loans held-for-sale were excluded when calculating the allowance coverage ratios and net charge-off rates, respectively.

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 114–116 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 119 of this Form 10-Q and the JPMorgan Chase Annual Report on Form 10-K for the year ended December 31, 2006, as amended ("2006 Annual Report" or "2006 Form 10-K"), Part I, Item 1A: Risk factors to which reference is hereby made).

INTRODUCTION

JPMorgan Chase & Co. ("JPMorgan Chase" or the "Firm"), a financial holding company incorporated under Delaware law in 1968, is a leading global financial services firm and one of the largest banking institutions in the United States of America ("U.S."), with \$1.5 trillion in assets, \$120.0 billion in stockholders' equity and operations worldwide. The Firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing and asset management. Under the JPMorgan and Chase brands, the Firm serves millions of customers in the U.S. and many of the world's most prominent corporate, institutional and government clients.

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

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

Investment Bank

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

Retail Financial Services

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

RFS serves customers through 3,096 bank branches, 8,943 ATMs and 280 mortgage offices, and through relationships with more than 15,000 auto dealerships and 4,300 schools and universities. Over 13,000 branch salespeople assist customers, across a 17-state footprint from New York to Arizona, with checking and savings accounts, mortgage, home equity and business loans, investments and insurance. More than 1,200 additional mortgage officers provide home loans throughout the country.

Card Services

With 154 million cards in circulation and \$149.1 billion in managed loans, Chase Card Services ("CS") is one of the nation's largest credit card issuers. Customers used Chase cards for \$259.1 billion worth of transactions in the nine months ended September 30, 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, the 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.

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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 14.3 billion transactions in the nine months ended September 30, 2007.

Commercial Banking

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

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

Treasury & Securities Services

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

Asset Management

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

OTHER BUSINESS EVENTS

Investment in SLM Corporation

On April 16, 2007, an investor group, comprised of JPMorgan Chase Bank, N.A. and three other firms (the "investor group"), announced an Agreement and Plan of Merger (the "merger agreement") to acquire SLM Corporation ("Sallie Mae") for \$60 per share in cash. On September 26, 2007, the investor group advised Sallie Mae that if the conditions to the closing of the merger agreement were required to be measured at that time, the conditions to closing would not be satisfied because Sallie Mae had suffered a Material Adverse Effect as defined in the merger agreement. On October 2, 2007, the investor group advised Sallie Mae that it would be willing to revise its offer, and proposed a revised purchase price for Sallie Mae, composed of \$50 in cash and warrants with a payout of up to an additional \$10 per share. That offer was rejected by Sallie Mae and, on October 8, 2007, Sallie Mae filed a lawsuit in Delaware Chancery Court against the investor group. The lawsuit seeks a declaration that, among other things, the investor group repudiated the merger agreement, that no Material Adverse Effect has occurred and that Sallie Mae may terminate the Agreement and collect a \$900 million termination fee (the "reverse termination fee"), of which JPMorgan Chase's portion would be approximately \$224 million. On October 15, 2007, the investor group filed an Answer and Counterclaims to Sallie Mae's lawsuit. In addition, the investor group has waived Sallie Mae's obligations to comply with certain of its agreements and covenants under the merger agreement, including Sallie Mae's agreements to refrain from negotiating with other possible buyers, and has waived its right to receive the reverse termination fee from Sallie Mae in the event that another buyer acquires Sallie Mae. A trial date has not yet been set.

Headquarters for the Investment Bank in London and New York

On May 3, 2007, JPMorgan Chase announced plans to build a new investment banking headquarters in London. The building will have more than one million square feet with at least five trading floors of approximately 70,000 useable square feet each. The Firm is expecting the building to open late 2012. On June 14, 2007, JPMorgan Chase announced it will build a new 1.3 million square-foot global investment banking headquarters in the World Trade Center complex in New York City. The Firm expects the building to open by late 2012.

Master Liquidity Enhancement Conduit

On October 15, 2007, JPMorgan Chase and several other financial institutions announced an agreement in principle to create a "master liquidity enhancement conduit" ("M-LEC") and provide liquidity support for it in order to enhance liquidity in the market for asset-backed commercial paper and medium-term notes issued by structured investment vehicles. The financial institutions are working toward the finalization of the various terms.

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

(in millions, except per share and ratio data)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change	2007	2006	Change
Selected income statement data						
Total net revenue	\$ 16,112	\$ 15,545	4%	\$ 53,988	\$ 45,806	18%
Provision for credit losses	1,785	812	120	4,322	2,136	102
Total noninterest expense	9,327	9,796	(5)	30,983	28,958	7
Income from continuing operations	3,373	3,232	4	12,394	9,743	27
Income from discontinued operations	—	65	NM	—	175	NM
Net income	3,373	3,297	2	12,394	9,918	25
Diluted earnings per share						
Income from continuing operations	\$ 0.97	\$ 0.90	8%	\$ 3.52	\$ 2.73	29%
Net income	0.97	0.92	5	3.52	2.78	27
Return on common equity						
Income from continuing operations	11%	11%		14%	12%	
Net income	11	12		14	12	

Business overview

The Firm reported 2007 third-quarter Net income of \$3.4 billion, or \$0.97 per share, compared with Net income of \$3.3 billion, or \$0.92 per share, for the third quarter of 2006. Return on common equity for the quarter was 11% compared with 12% in the prior year.

Net income for the first nine months of 2007 was \$12.4 billion, or \$3.52 per share, compared with \$9.9 billion, or \$2.78 per share, in the prior year. Return on common equity was 14% for the first nine months of 2007, compared with 12% for the prior-year period.

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

The rate of growth in the global economy slowed in the third quarter, but still expanded by approximately 4% annually, while inflation broadly remained well-contained. The industrial economies continued to grow by approximately 2% annually (with the U.S. economy growing at 3.9%). The developing economies continued to grow, although at a slightly slower rate than their recent level of 8% annual growth. Global financial markets were mixed during the quarter, and capital markets activity declined from the historically high levels of the first six months of 2007, as concerns about losses on U.S. subprime mortgage investments triggered a flight to quality in the capital markets and credit markets experienced spread widening and lower levels of liquidity. In spite of these challenges, both U.S. and international equity markets posted gains during the quarter: the S&P 500 and international indices were up, on average, approximately 1% and 5%, respectively. The U.S. Treasury market rallied, with rates dropping approximately 100 basis points during the quarter. In September of 2007, the Federal Reserve Board lowered the federal funds rate from 5.25% to 4.75% in an effort to help offset the adverse effects of the market disruption.

The Firm's performance benefited from investments in all of its businesses, which has driven organic revenue growth and improved operating margins over time. These benefits were tempered by the capital markets environment, which experienced significantly wider spreads and reduced levels of liquidity in the mortgage and corporate credit markets, resulting in lower earnings in the Investment Bank. In addition, continued weakness in the housing markets led to an increased Provision for credit losses and, as a result, lower earnings in Retail Financial Services. The Firm's other businesses each posted improved results versus the prior year with Asset Management and Treasury & Securities Services reporting record earnings; Card Services and Commercial Banking growing earnings at a double-digit pace; and Private Equity realizing strong results.

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

Investment Bank net income decreased from the prior year, driven by lower net revenue as well as a higher Provision for credit losses, partially offset by lower noninterest expense. Investment banking fees decreased, reflecting lower debt underwriting fees offset partially by record advisory fees. Fixed Income Markets revenue declined due to markdowns on leveraged lending funded loans and unfunded commitments and markdowns on collateralized debt obligation ("CDO")

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warehouses and unsold positions. In addition, Fixed Income Markets declined due to weak credit-trading performance and significantly lower commodities results, compared with a strong prior-year quarter. These lower results in Fixed Income Markets were offset partially by record revenue in both rates and currencies. Equity Markets revenue decreased from the prior year, as weaker trading results were offset partially by strong client revenue across businesses. The Provision for credit losses was up, driven by an increase in the allowance for credit losses, primarily related to portfolio growth. The decrease in noninterest expense was due primarily to lower performance-based compensation expense.

Retail Financial Services net income decreased from the prior year due to lower results in Regional Banking, primarily related to an increase in the Provision for credit losses. Total net revenue increased due primarily to the absence of a prior-year negative valuation adjustment to the mortgage servicing right ("MSR") asset, the Bank of New York transaction and higher deposit-related fees. Total net revenue also benefited from the classification of certain mortgage loan origination costs as expense, due to the adoption of SFAS 159, and wider spreads on loans. These benefits were offset partially by markdowns on the mortgage warehouse and pipeline and a continued shift to narrower-spread deposit products. The increase in the Provision for credit losses was due primarily to an increase in the allowance for credit losses related to the home equity portfolio. Total noninterest expense increased due to the Bank of New York transaction; the classification of certain loan origination costs as expense, due to the adoption of SFAS 159; and investments in the retail distribution network.

Card Services net income increased from the prior year, benefiting from higher revenue, partially offset by an increase in the Provision for credit losses. Total net revenue increased, reflecting a higher level of fees, higher average loan balances and increased net interchange income. These benefits were offset partially by the discontinuation of certain billing practices (including the elimination of certain over-limit fees and the two-cycle billing method for calculating finance charges) and a narrower loan spread. The Managed provision for credit losses increased, reflecting a higher level of net charge-offs. Credit quality was stable in the quarter. Total noninterest expense was up slightly, primarily due to higher volume-related expense.

Commercial Banking grew net income over the prior-year period, as an increase in Total net revenue and a decrease in Total noninterest expense were offset partially by a higher Provision for credit losses. Total net revenue increased due to double-digit growth in liability and loan balances, reflecting organic growth and the Bank of New York transaction. These increases were offset partially by a continued shift to narrower-spread liability products and spread compression in the loan and liability portfolios. The increase in Provision for credit losses largely reflected portfolio activity and growth in loan balances. Total noninterest expense decreased, as lower performance-based compensation expense was offset partially by higher volume-related expense.

Treasury & Securities Services achieved record net income, driven by record Total net revenue, partially offset by higher noninterest expense. Total net revenue growth was driven by increased product usage by new and existing clients, market appreciation, growth in electronic volumes and higher liability balances. These benefits were offset partially by spread compression and a continued shift to narrower-spread liability products. Total noninterest expense increased, due primarily to higher expense related to business and volume growth, as well as investment in new product platforms.

Asset Management generated record net income, reflecting record Total net revenue, partially offset by higher noninterest expense. Total net revenue benefited largely from increased assets under management, higher performance and placement fees, increases in deposit and loan balances and wider deposit spreads. The Provision for credit losses increased, reflecting a higher level of recoveries in the prior year. Total noninterest expense increased, due largely to higher compensation, primarily performance-based, and investments in all business segments.

Corporate segment net income increased from the prior year, benefiting from higher Total net revenue and lower noninterest expense. The increase in Total net revenue was driven primarily by higher private equity gains, higher trading-related gains and a gain from the sale of MasterCard shares. Partially offsetting the increased revenue was a narrower net interest spread. Total noninterest expense decreased due to lower compensation expense and continuing business efficiencies.

Income from discontinued operations was \$65 million in the third quarter of 2006. Discontinued operations (included in the Corporate segment results) include the income statement activity of selected corporate trust businesses sold to The Bank of New York.

JPMorgan Chase realized approximately \$740 million (pretax) of merger savings during the quarter ended September 30, 2007, which is an annualized rate of approximately \$2.96 billion. Merger costs of \$61 million were expensed during the third quarter of 2007, bringing the total amount expensed since the merger announcement to \$3.7 billion (including capitalized costs). In the third quarter of 2007, the Firm successfully completed the in-sourcing of its credit card processing platform and the conversion of the wholesale deposit system. The wholesale deposit conversion was the largest in the Firm's history, involving approximately \$180 billion in customer balances, and was the last significant merger integration event.

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The Managed provision for credit losses was \$2.4 billion, up by \$944 million, or 67%, from the prior year. The wholesale Provision for credit losses was \$351 million, compared with \$35 million in the prior year, reflecting an increase in the allowance for credit losses, primarily related to portfolio growth. Wholesale net charge-offs were \$82 million, compared with net recoveries of \$11 million, resulting in net charge-off rates of 0.19% and recoveries of 0.03%, respectively. The total consumer Managed provision for credit losses was \$2.0 billion, compared with \$1.4 billion in the prior year, primarily reflecting an increase in the allowance for credit losses related to the home equity portfolio and growth in the subprime mortgage portfolio. Consumer managed net charge-offs were \$1.7 billion, compared with \$1.4 billion, resulting in managed net charge-off rates of 1.96% and 1.69%, respectively. The Firm had total nonperforming assets of \$3.2 billion at September 30, 2007, up by \$881 million, or 38%, from the prior-year level of \$2.3 billion.

The Firm had, at September 30, 2007, Total stockholders' equity of \$120.0 billion and a Tier 1 capital ratio of 8.4%. The Firm purchased \$2.1 billion, or 47.0 million shares, of common stock during the quarter.

Business outlook

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

JPMorgan Chase's outlook for the fourth quarter of 2007 should be viewed against the backdrop of the global economy, financial markets activity (including interest rate movements), the geopolitical environment, the competitive environment and client activity levels. Each of these interlinked factors will affect the performance of the Firm's lines of business.

The Investment banking fee pipeline was lower at September 30, 2007, than it was at June 30, 2007, due largely to a lower level of debt underwriting activity. In light of current capital market and economic conditions, management remains cautious with regard to the realization of this pipeline. Capital market conditions are still being affected by the disruption in the mortgage market, as well as by overall lower levels of liquidity and wider credit spreads, all of which could potentially lead to reduced levels of client activity, difficulty in syndicating leveraged loans, lower investment banking fees and lower trading revenue. While there have been some successfully completed leveraged finance transactions during the fourth quarter of 2007, the Firm continues to hold a substantial amount of leveraged loans and unfunded commitments as held-for-sale (\$40.6 billion as of September 30, 2007). These positions are difficult to hedge effectively and further markdowns could result if market conditions worsen for this asset class. The Firm's CDO and subprime mortgage warehouse and trading positions could also be negatively affected by market conditions during the fourth quarter of 2007.

Future economic conditions may also cause the Provision for credit losses to increase over time. The consumer Provision for credit losses could increase as a result of a higher level of losses in Retail Financial Services' home equity loan portfolio and growth in the retained subprime mortgage loan portfolio. Given the potential stress on the consumer from continued downward pressure on housing prices and the elevated inventory of unsold houses nationally, management remains cautious with respect to the home equity portfolio. Management currently expects that quarterly losses related to the home equity portfolio to increase over the next few quarters, to a range of \$250 million to \$270 million per quarter, or a net charge-off rate of 1.05% to 1.10%. In addition, the consumer provision could increase due to a higher level of net charge-offs in Card Services, as losses continue to return to a more normal level, which could be in the range of 4.00% to 4.50% of managed loans by the end of 2008. The wholesale Provision for credit losses may also increase over time as a result of loan growth, customer activity and changes in underlying credit conditions. In addition, a weaker overall economy may lead to an increase in both the wholesale and consumer provision for credit losses.

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 over time; and that private equity results, which are dependent upon the capital markets, could continue to be volatile. Firmwide, Total noninterest expense is anticipated to reflect investments in each business, recent acquisitions and divestitures and other operating efficiencies. Management continues to believe that annual merger savings will reach approximately \$3.0 billion by the end of 2007. Management currently expects total merger costs (including costs associated with the Bank of New York transaction) will be approximately \$3.8 billion, and that all remaining costs will be incurred by the end of 2007.

CONSOLIDATED RESULTS OF OPERATIONS

The following section provides a comparative discussion of JPMorgan Chase's consolidated results of operations on a reported basis. Factors that relate primarily to a single business segment are discussed in more detail within that business segment than they are in this consolidated section. For a discussion of the Critical accounting estimates used by the Firm that affect the Consolidated results of operations, see page 66 of this Form 10-Q and pages 83–85 of the JPMorgan Chase 2006 Form 10-K.

Total net revenue

The following table presents the components of Total net revenue.

(in millions)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change	2007	2006	Change
Investment banking fees	\$ 1,336	\$ 1,416	(6)%	\$ 4,973	\$ 3,955	26%
Principal transactions	237	2,737	(91)	8,274	8,187	1
Lending & deposit-related fees	1,026	867	18	2,872	2,573	12
Asset management, administration and commissions	3,663	2,842	29	10,460	8,682	20
Securities gains (losses)	237	40	493	16	(578)	NM
Mortgage fees and related income	221	62	256	1,220	516	136
Credit card income	1,777	1,567	13	5,054	5,268	(4)
Other income	289	635	(54)	1,360	1,653	(18)
Noninterest revenue	8,786	10,166	(14)	34,229	30,256	13
Net interest income	7,326	5,379	36	19,759	15,550	27
Total net revenue	\$ 16,112	\$ 15,545	4	\$ 53,988	\$ 45,806	18

Total net revenue for the third quarter of 2007 was \$16.1 billion, up by \$567 million, or 4%, from the prior year. This increase was the result of higher Net interest income; record Asset management, administration and commissions revenue; strong private equity gains (included in Principal transactions revenue); and higher Credit card income. These improvements were partly offset by a significant decline in trading revenue within Principal transactions revenue, reflecting markdowns on leveraged lending funded loans and unfunded commitments and lower fixed income trading results. For the first nine months of 2007, Total net revenue was \$54.0 billion, up by \$8.2 billion, or 18%, from the prior year. The increase was driven by higher Net interest income; very strong private equity gains; record Asset management, administration and commissions revenue; and record Investment banking fees. Lower trading revenue in the 2007 third quarter partially offset these increases.

Investment banking fees in the third quarter of 2007 declined slightly from the comparable period last year, reflecting lower debt underwriting fees offset partially by record advisory fees. In the first nine months of 2007, Investment banking fees were a record for the Firm, reflecting record fees for advisory and debt and equity underwriting. For a further discussion of Investment banking fees, which are primarily recorded in IB, see the IB segment results on pages 17–20 of this Form 10-Q.

Principal transactions revenue consists of trading revenue and private equity gains. In the third quarter of 2007, the Firm recognized a net loss of \$548 million from trading activities primarily reflecting markdowns of \$1.3 billion (net of fees) on \$40.6 billion of leveraged lending funded loans and unfunded commitments, as well as markdowns of \$339 million (net of risk management results) on \$6.8 billion of CDO warehouses and unsold positions. For the first nine months of 2007, trading revenue was lower by \$2.4 billion compared with the same period last year, primarily reflecting markdowns of \$1.4 billion (net of fees) on leveraged lending funded loans and unfunded commitments, as well as markdowns of \$358 million (net of risk management results) on CDO warehouses and unsold positions. In addition, trading revenue was also impacted by weak credit trading and significantly lower commodities results, compared with a strong prior year, partially offset by record revenue in rates and currencies, and strong equity trading results across all products. IB's Credit Portfolio results increased from the third quarter of 2006 due to higher trading revenue from risk management activities; in addition, for the first nine months of 2007, IB's Credit Portfolio benefited from an adjustment to the valuation of the Firm's derivative liabilities measured at fair value, to reflect the credit quality of the Firm as part of the adoption of SFAS 157. Private equity gains in the third quarter and first nine months of 2007 increased compared with the same periods in 2006, reflecting a higher level of gains and the classification of certain private equity carried interest as Compensation expense. Also favorably affecting the first nine months of 2007 was a fair value adjustment in the first quarter of 2007 on nonpublic private equity investments resulting from the adoption of SFAS 157. For a further discussion of Principal transactions revenue, see the IB and Corporate segment results on pages 17–20 and 40–41, respectively, and Note 5 on pages 83–85 of this Form 10-Q.

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Lending & deposit-related fees rose from the third quarter and first nine months of 2006 as a result of higher deposit-related fees and the Bank of New York transaction. For a further discussion of Lending & deposit-related fees, which are partly recorded in RFS and CB, see the RFS segment results on pages 21–28 and the CB segment results on pages 33–34 of this Form 10-Q.

Asset management, administration and commissions revenue reached record levels in the third quarter and first nine months of 2007, primarily due to an increase in assets under management and higher performance and placement fees in AM. The growth in assets under management, which reached \$1.2 trillion at the end of the third quarter of 2007, up 24% from the prior year, was the result of net asset inflows into the Institutional, Retail and Private Bank segments and market appreciation. Also contributing to the rise in Asset management, administration and commissions revenue were higher assets under custody in TSS, driven by new business and market appreciation. In addition, other service fees were higher due to a combination of new clients and increased product usage by existing clients. In addition, commissions revenue increased due to higher brokerage transaction volume (primarily included within Fixed Income and Equity Markets revenue of IB) and higher investment sales volume in RFS; these were partly offset by the sale of the insurance business in the third quarter of 2006, and a charge in the first quarter of 2007 resulting from accelerated surrenders of customer annuities. For additional information on these fees and commissions, see the segment discussions for IB on pages 17–20, RFS on pages 21–28, TSS on pages 35–36, and AM on pages 37–39, of this Form 10-Q.

The favorable variances in Securities gains (losses) for the third quarter and first nine months of 2007 when compared with the same periods in 2006 were primarily the result of a \$115 million gain from the sale of MasterCard shares; higher gains from marketable securities received from loan workouts in IB; and improvements in the results of Treasury's portfolio-repositioning activities. For a further discussion of Securities gains (losses), which are mostly recorded in the Firm's Treasury business, see the Corporate segment discussion on pages 40–41 of this Form 10-Q.

Mortgage fees and related income increased from the third quarter and first nine months of 2006. Net mortgage servicing improved due primarily to the absence of a prior-year negative valuation adjustment of \$235 million to the MSR asset and growth in third-party loans serviced. In the quarter-to-quarter comparison, production revenue declined as markdowns of \$186 million on the mortgage warehouse and pipeline were offset partially by an increase in mortgage loan originations and the classification of certain loan origination costs as expense (loan origination costs previously netted against revenue commenced being recorded as an expense in the first quarter of 2007 due to the adoption of SFAS 159). For the first nine months of 2007, production revenue was up from the same period in 2006 as a result of increased mortgage loan originations, and the classification of certain loan origination costs as expense (loan origination costs previously netted against revenue are currently recorded as expense due to the adoption of SFAS 159). These increases were offset partially by markdowns of \$186 million on the mortgage warehouse and pipeline. Mortgage fees and related income exclude the impact of NII and AFS securities gains and losses related to mortgage activities. For a discussion of Mortgage fees and related income, which is recorded primarily in RFS's Mortgage Banking business, see the Mortgage Banking discussion on pages 26–27 of this Form 10-Q.

Credit card income rose from the third quarter of 2006 due primarily to an increase in net interchange income, which benefited from higher charge volume; and an increase in servicing fees earned in connection with securitization activities, which were favorably affected by higher net interest income earned on the securitized credit card loans. For the first nine months of 2007, Credit card income decreased due primarily to lower servicing fees earned in connection with securitization activities, which were affected unfavorably by lower net interest income earned and higher net credit losses incurred on the securitized credit card loans. These were partially offset by an increase in net interchange income and a higher level of fee-based revenue. For further discussion of Credit card income, see CS's segment results on pages 29–32 of this Form 10-Q.

Other income declined from the third quarter and first nine months of 2006. The decrease from the first nine months of 2006 was driven by the absence of a \$103 million gain in the second quarter of 2006, related to the sale of MasterCard shares in its initial public offering; and lower net gains on credit card securitizations. These were offset partially by higher gains on the sale of leveraged leases and education loans, increased income from automobile operating leases, and the absence of a loss related to auto loans transferred to the held-for-sale portfolio in the first quarter of 2006.

Net interest income rose from the third quarter of 2006, primarily from the following: higher trading-related Net interest income, due to a shift of Interest expense to Principal transactions revenue (related to certain IB structured notes to which fair value accounting was elected in connection with the adoption of SFAS 159); a higher level of credit card loans and fees; growth in liability and deposit balances, primarily in the wholesale businesses; and the impact of the Bank of New York transaction. These increases were offset partially by compression in Treasury's net interest spread and a shift to narrower spread liability and deposit products. Net interest income in the first nine months of 2007 rose from the same period of last year, driven by the aforementioned items, with the exception of an improvement in Treasury's net interest spread. These were offset partially by narrower spreads on credit card loans. The Firm's total average interest-earning assets for the third quarter of 2007 were \$1.1 trillion, up 15% from the third quarter of 2006. The increase was primarily a result of higher Trading assets — debt instruments, Available for sale securities, and Loans. The net interest yield on these

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assets, on a fully-taxable equivalent basis, was 2.57%, an increase of 40 basis points from the prior year, partly reflecting the adoption of SFAS 159. The Firm's total average interest earning assets for the first nine months of 2007 were \$1.1 trillion, up 12% from the first nine months of 2006. The increase was also driven by the aforementioned items, 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 2.44%, an increase of 30 basis points from the prior year.

Provision for credit losses (in millions)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change	2007	2006	Change
Provision for credit losses	\$ 1,785	\$ 812	120%	\$ 4,322	\$ 2,136	102%

The Provision for credit losses in the third quarter and first nine months of 2007 rose from the comparable prior-year periods. The increase from the third quarter of 2006 in the consumer Provision for credit losses was due to a net \$306 million increase in the Allowance for loan losses due to higher estimated losses for home equity loans. The increase from the first nine months of 2006 in the consumer provision was due to: a net increase of \$635 million in the Allowance for loan losses resulting from higher estimated losses for home equity loans; an increase in subprime mortgage loan balances; and an increase in credit card net charge-offs. Credit card net charge-offs for the nine months ended September 30, 2006 benefited following the change in bankruptcy legislation in the fourth quarter of 2005. The increase in the wholesale provision from the third quarter of 2006 reflected an increase in the Allowance for credit losses, primarily related to portfolio growth. The increase in the wholesale provision from the first nine months of 2006 primarily reflected an increase in the allowance due to portfolio activity and growth. For a more detailed discussion of the loan portfolio and the Allowance for loan losses, see the segment discussions for RFS on pages 21–28, CS on pages 29–32, and IB on pages 17–20, and Credit risk management on pages 51–62 of this Form 10-Q.

Noninterest expense

The following table presents the components of Noninterest expense.

(in millions)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change	2007	2006	Change
Compensation expense	\$ 4,677	\$ 5,390	(13)%	\$ 17,220	\$ 16,206	6%
Occupancy expense	657	563	17	1,949	1,710	14
Technology, communications and equipment expense	950	911	4	2,793	2,656	5
Professional & outside services	1,260	1,111	13	3,719	3,204	16
Marketing	561	550	2	1,500	1,595	(6)
Other expense	812	877	(7)	2,560	2,324	10
Amortization of intangibles	349	346	1	1,055	1,058	—
Merger costs	61	48	27	187	205	(9)
Total noninterest expense	\$ 9,327	\$ 9,796	(5)	\$ 30,983	\$ 28,958	7

Total noninterest expense for the third quarter of 2007 was \$9.3 billion, down by \$469 million, or 5%, from the prior year. Expense decreased due to lower Compensation expense, primarily incentive-based, partially offset by investments across the business segments and acquisitions. For the first nine months of 2007, Total noninterest expense was \$31.0 billion, up by \$2.0 billion, or 7%, from the prior year, driven by higher Compensation expense, primarily incentive-based, as well as investments across the business segments and acquisitions.

The decrease in Compensation expense from the third quarter of 2006 was primarily the result of lower performance-based incentives, business divestitures and continuing business efficiencies. These declines were offset partially by additional headcount from the Bank of New York transaction, acquisitions and investments in the businesses; the classification of certain private equity carried interest from Principal transactions revenue; and the classification of certain loan origination costs (previously netted against revenue) due to the adoption of SFAS 159. Compensation expense for the first nine months of 2007 increased from the prior-year period, reflecting the aforementioned items, with the exception of performance-based incentives, which were higher in the current year period. These increases were offset partially by the absence of a prior-year expense of \$459 million from the adoption of SFAS 123R. For a detailed discussion of the adoption of SFAS 123R see Note 9 on page 88 of this Form 10-Q.

The increases in Occupancy expense from the third quarter and first nine months of 2006 were driven by ongoing investments in the businesses; in particular, the retail distribution network, which includes the incremental expense from The Bank of New York branches. Partially offsetting the increase in Occupancy expense was continuing business efficiencies.

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

Professional & outside services rose from the third quarter and first nine months of 2006, reflecting higher brokerage expense and credit card processing costs resulting from growth in transaction volume. Also contributing to the increases were acquisitions and investments in the businesses.

Marketing expense was relatively flat compared with the third quarter of 2006. The decrease from the first nine months of 2006 was due to a reduction in credit card marketing expense.

Other expense decreased from the third quarter of 2006 due to a higher level of legal-related recoveries and lower legal expense, offset partially by business growth and investments in the businesses. For the nine-month period comparison, Other expense was higher due to increased net legal-related costs reflecting a lower level of recoveries and higher expense. Also contributing to the increase were business growth and investments in the businesses offset partially by the sale of the insurance business at the beginning of the third quarter of 2006, lower credit card fraud-related losses and continuing business efficiencies.

For a discussion of Amortization of intangibles and Merger costs, refer to Note 17 and Note 10 on pages 101–103 and 89, respectively, of this Form 10-Q.

Income tax expense

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

(in millions, except rate)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Income from continuing operations before income tax expense	\$ 5,000	\$ 4,937	\$ 18,683	\$ 14,712
Income tax expense	1,627	1,705	6,289	4,969
Effective tax rate	32.5%	34.5%	33.7%	33.8%

The effective tax rate decrease for the third quarter of 2007 compared with the prior year third quarter was primarily attributable to a favorable resolution of a tax audit.

Income from discontinued operations

Income from discontinued operations was zero in all periods of 2007 compared with \$65 million and \$175 million in the third quarter and first nine months of 2006, respectively. Discontinued operations (included in the Corporate segment results) include the 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 68–71 of this Form 10-Q. That presentation, which is referred to as "reported basis," provides the reader with an understanding of the Firm's results that can be tracked consistently from year to year and enables a comparison of the Firm's performance with other companies' U.S. GAAP financial statements.

In addition to analyzing the Firm's results on a reported basis, management reviews the Firm's and the line-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 assume credit card loans securitized by CS remain on the balance sheet and present revenue on a fully taxable-equivalent ("FTE") basis. These adjustments do not have any impact on Net income as reported by the lines of business or by the Firm as a whole.

The presentation of CS results on a managed basis assumes that credit card loans that have been securitized and sold in accordance with SFAS 140 still remain on the balance sheet and that the earnings on the securitized loans are classified in the same manner as the earnings on retained loans recorded on the balance sheet. JPMorgan Chase uses the concept of managed basis to evaluate the credit performance and overall financial performance of the entire managed credit card portfolio. Operations are funded and decisions are made about allocating resources, such as employees and capital, based upon managed financial information. In addition, the same underwriting standards and ongoing risk monitoring are used for both loans on the balance sheet and securitized loans. Although securitizations result in the sale of credit card receivables to a trust, JPMorgan Chase retains the ongoing customer relationships, as the customers may continue to use their credit cards; accordingly, the customer's credit performance will affect both the securitized loans and the loans retained on the balance sheet. JPMorgan Chase believes managed-basis information is useful to investors, enabling them to understand both the credit risks associated with the loans reported on the balance sheet and the Firm's retained interests in securitized loans. For a reconciliation of reported to managed basis of CS results, see Card Services segment results on pages 29–32 of this Form 10-Q. For information regarding the securitization process, and loans and residual interests sold and securitized, see Note 15 on pages 94–99 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 September 30, (in millions, except per share and ratio data)	2007			
	Reported results	Credit card ^(b)	Tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	\$ 1,336	\$ —	\$ —	\$ 1,336
Principal transactions	237	—	—	237
Lending & deposit-related fees	1,026	—	—	1,026
Asset management, administration and commissions	3,663	—	—	3,663
Securities gains	237	—	—	237
Mortgage fees and related income	221	—	—	221
Credit card income	1,777	(836)	—	941
Other income	289	—	192	481
Noninterest revenue	8,786	(836)	192	8,142
Net interest income	7,326	1,414	95	8,835
Total net revenue	16,112	578	287	16,977
Provision for credit losses	1,785	578	—	2,363
Noninterest expense	9,327	—	—	9,327
Income from continuing operations before income tax expense	5,000	—	287	5,287
Income tax expense	1,627	—	287	1,914
Income from continuing operations	3,373	—	—	3,373
Income from discontinued operations	—	—	—	—
Net income	\$ 3,373	\$ —	\$ —	\$ 3,373
Net income – diluted earnings per share	\$ 0.97	\$ —	\$ —	\$ 0.97
Return on common equity ^(a)	11%	—%	—%	11%
Return on equity less goodwill ^(a)	18	—	—	18
Return on assets ^(a)	0.91	NM	NM	0.87
Overhead ratio	58	NM	NM	55

Three months ended September 30, (in millions, except per share and ratio data)	2006			
	Reported results	Credit card ^(b)	Tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	\$ 1,416	\$ —	\$ —	\$ 1,416
Principal transactions	2,737	—	—	2,737
Lending & deposit-related fees	867	—	—	867
Asset management, administration and commissions	2,842	—	—	2,842
Securities gains	40	—	—	40
Mortgage fees and related income	62	—	—	62
Credit card income	1,567	(721)	—	846
Other income	635	—	165	800
Noninterest revenue	10,166	(721)	165	9,610
Net interest income	5,379	1,328	57	6,764
Total net revenue	15,545	607	222	16,374
Provision for credit losses	812	607	—	1,419
Noninterest expense	9,796	—	—	9,796
Income from continuing operations before income tax expense	4,937	—	222	5,159
Income tax expense	1,705	—	222	1,927
Income from continuing operations	3,232	—	—	3,232
Income from discontinued operations	65	—	—	65
Net income	\$ 3,297	\$ —	\$ —	\$ 3,297
Net income – diluted earnings per share	\$ 0.92	\$ —	\$ —	\$ 0.92
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	63	NM	NM	60

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Nine months ended September 30,
2007

(in millions, except per share and ratio data)	Reported results	Credit card ^(b)	Tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	\$ 4,973	\$ —	\$ —	\$ 4,973
Principal transactions	8,274	—	—	8,274
Lending & deposit-related fees	2,872	—	—	2,872
Asset management, administration and commissions	10,460	—	—	10,460
Securities gains	16	—	—	16
Mortgage fees and related income	1,220	—	—	1,220
Credit card income	5,054	(2,370)	—	2,684
Other income	1,360	—	501	1,861
Noninterest revenue	34,229	(2,370)	501	32,360
Net interest income	19,759	4,131	287	24,177
Total net revenue	53,988	1,761	788	56,537
Provision for credit losses	4,322	1,761	—	6,083
Noninterest expense	30,983	—	—	30,983
Income from continuing operations before income tax expense	18,683	—	788	19,471
Income tax expense	6,289	—	788	7,077
Income from continuing operations	12,394	—	—	12,394
Income from discontinued operations	—	—	—	—
Net income	\$12,394	\$ —	\$ —	\$12,394
Net income – diluted earnings per share	\$ 3.52	\$ —	\$ —	\$ 3.52
Return on common equity ^(a)	14%	—%	—%	14%
Return on equity less goodwill ^(a)	23	—	—	23
Return on assets ^(a)	1.16	NM	NM	1.11
Overhead ratio	57	NM	NM	55

Nine months ended September 30,
2006

(in millions, except per share and ratio data)	Reported results	Credit card ^(b)	Tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	\$ 3,955	\$ —	\$ —	\$ 3,955
Principal transactions	8,187	—	—	8,187
Lending & deposit-related fees	2,573	—	—	2,573
Asset management, administration and commissions	8,682	—	—	8,682
Securities (losses)	(578)	—	—	(578)
Mortgage fees and related income	516	—	—	516
Credit card income	5,268	(2,783)	—	2,485
Other income	1,653	—	481	2,134
Noninterest revenue	30,256	(2,783)	481	27,954
Net interest income	15,550	4,400	175	20,125
Total net revenue	45,806	1,617	656	48,079
Provision for credit losses	2,136	1,617	—	3,753
Noninterest expense	28,958	—	—	28,958
Income from continuing operations before income tax expense	14,712	—	656	15,368
Income tax expense	4,969	—	656	5,625
Income from continuing operations	9,743	—	—	9,743
Income from discontinued operations	175	—	—	175
Net income	\$ 9,918	\$ —	\$ —	\$ 9,918
Net income – diluted earnings per share	\$ 2.78	\$ —	\$ —	\$ 2.78
Return on common equity ^(a)	12%	—%	—%	12%
Return on equity less goodwill ^(a)	20	—	—	20
Return on assets ^(a)	1.02	NM	NM	0.97
Overhead ratio	63	NM	NM	60

(a) Based upon Income from continuing operations.

(b) Credit card securitizations affect CS. See pages 29–32 of this Form 10-Q for further information.

Three months ended September 30, (in millions)	2007			2006		
	Reported	Securitized	Managed	Reported	Securitized	Managed
Loans – period-end	\$ 486,320	\$ 69,643	\$ 555,963	\$ 463,544	\$ 65,245	\$ 528,789
Total assets – average	1,477,334	66,100	1,543,434	1,309,139	62,971	1,372,110

Nine months ended September 30, (in millions)	2007			2006		
	Reported	Securitized	Managed	Reported	Securitized	Managed
Loans – period-end	\$ 486,320	\$ 69,643	\$ 555,963	\$ 463,544	\$ 65,245	\$ 528,789
Total assets – average	1,429,772	65,715	1,495,487	1,297,344	65,797	1,363,141

BUSINESS SEGMENT RESULTS

The Firm is managed on a line-of-business basis. The business-segment financial results 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 September 30, (in millions, except ratios)	Total net revenue			Noninterest expense			Net income (loss)			Return on equity	
	2007	2006	Change	2007	2006	Change	2007	2006	Change	2007	2006
Investment Bank	\$ 2,946	\$ 4,816	(39)%	\$ 2,378	\$ 3,244	(27)%	\$ 296	\$ 976	(70)%	6%	18%
Retail Financial Services	4,201	3,555	18	2,469	2,139	15	639	746	(14)	16	21
Card Services	3,867	3,646	6	1,262	1,253	1	786	711	11	22	20
Commercial Banking	1,009	933	8	473	500	(5)	258	231	12	15	17
Treasury & Securities Services	1,748	1,499	17	1,134	1,064	7	360	256	41	48	46
Asset Management	2,205	1,636	35	1,366	1,115	23	521	346	51	52	39
Corporate ^(b)	1,001	289	246	245	481	(49)	513	31	NM	NM	NM
Total	\$ 16,977	\$ 16,374	4%	\$ 9,327	\$ 9,796	(5)%	\$ 3,373	\$ 3,297	2%	11%	12%

Nine months ended September 30, (in millions, except ratios)	Total net revenue			Noninterest expense			Net income (loss)			Return on equity	
	2007	2006	Change	2007	2006	Change	2007	2006	Change	2007	2006
Investment Bank	\$ 14,998	\$ 13,973	7%	\$ 10,063	\$ 9,655	4%	\$ 3,015	\$ 2,665	13%	19%	17%
Retail Financial Services	12,664	11,097	14	7,360	6,636	11	2,283	2,495	(8)	19	24
Card Services	11,264	10,995	2	3,691	3,745	(1)	2,310	2,487	(7)	22	24
Commercial Banking	3,019	2,782	9	1,454	1,494	(3)	846	754	12	18	18
Treasury & Securities Services	5,015	4,572	10	3,358	3,162	6	975	834	17	43	48
Asset Management	6,246	4,840	29	3,956	3,294	20	1,439	1,002	44	50	38
Corporate ^(b)	3,331	(180)	NM	1,101	972	13	1,526	(319)	NM	NM	NM
Total	\$ 56,537	\$ 48,079	18%	\$ 30,983	\$ 28,958	7%	\$ 12,394	\$ 9,918	25%	14%	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 \$65 million and \$175 million for the three and nine months ended September 30, 2006, respectively. There was no income from discontinued operations during the first nine months of 2007.

INVESTMENT BANK

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

Selected income statement data (in millions, except ratios)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change	2007	2006	Change
Revenue						
Investment banking fees	\$ 1,330	\$ 1,419	(6)%	\$ 4,959	\$ 3,957	25%
Principal transactions ^(a)	(848)	2,548	NM	4,456	7,185	(38)
Lending & deposit-related fees	118	127	(7)	304	398	(24)
Asset management, administration and commissions	712	512	39	1,996	1,671	19
All other income	(76)	159	NM	88	437	(80)
Noninterest revenue	1,236	4,765	(74)	11,803	13,648	(14)
Net interest income	1,710 ^(e)	51	NM	3,195 ^(e)	325	NM
Total net revenue^(b)	2,946	4,816	(39)	14,998	13,973	7
Provision for credit losses	227	7	NM	454	128	255
Credit reimbursement from TSS ^(c)	31	30	3	91	90	1
Noninterest expense						
Compensation expense	1,178	2,093	(44)	6,404	6,310	1
Noncompensation expense	1,200	1,151	4	3,659	3,345	9
Total noninterest expense	2,378	3,244	(27)	10,063	9,655	4
Income before income tax expense	372	1,595	(77)	4,572	4,280	7
Income tax expense	76	619	(88)	1,557	1,615	(4)
Net income	\$ 296	\$ 976	(70)	\$ 3,015	\$ 2,665	13
Financial ratios						
ROE	6%	18%		19%	17%	
ROA	0.17	0.62		0.59	0.55	
Overhead ratio	81	67		67	69	
Compensation expense as a % of total net revenue ^(d)	40	42		43	43	
Revenue by business						
Investment banking fees:						
Advisory	\$ 595	\$ 436	36	\$ 1,627	\$ 1,177	38
Equity underwriting	267	275	(3)	1,169	851	37
Debt underwriting	468	708	(34)	2,163	1,929	12
Total investment banking fees	1,330	1,419	(6)	4,959	3,957	25
Fixed income markets ^(a)	687	2,468	(72)	5,724	6,675	(14)
Equity markets ^(a)	537	658	(18)	3,325	2,500	33
Credit portfolio ^(a)	392	271	45	990	841	18
Total net revenue	\$ 2,946	\$ 4,816	(39)	\$ 14,998	\$ 13,973	7
Revenue by region						
Americas	\$ 1,016	\$ 2,803	(64)	\$ 7,037	\$ 7,066	—
Europe/Middle East/Africa	1,389	1,714	(19)	5,967	5,535	8
Asia/Pacific	541	299	81	1,994	1,372	45
Total net revenue	\$ 2,946	\$ 4,816	(39)	\$ 14,998	\$ 13,973	7

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

(b) Total net revenue included tax-equivalent adjustments – due primarily to tax-exempt income from municipal bond investments and income tax credits related to affordable housing investments – of \$255 million and \$197 million for the quarters ended September 30, 2007 and 2006, respectively; and \$697 million and \$584 million for year-to-date 2007 and 2006, respectively.

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

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

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

Quarterly results

Net income was \$296 million, down by \$680 million, or 70%, compared with the prior year. The decrease in earnings reflected lower net revenue as well as a higher Provision for credit losses, partially offset by lower noninterest expense.

Net revenue was \$2.9 billion, down by \$1.9 billion, or 39%, from the prior year. Investment banking fees were \$1.3 billion, down by 6% from the prior year, reflecting lower debt underwriting fees offset partially by record advisory fees. Debt underwriting fees were \$468 million, down 34%, reflecting lower bond underwriting and loan syndication fees, which were negatively affected by market conditions. Advisory fees were \$595 million, up 36%, driven by a strong performance across all regions. Equity underwriting fees were \$267 million, down 3%, driven by lower revenue in Europe and Asia, partially offset by strong performance in the Americas in common stock and convertible offerings. Fixed Income Markets revenue was \$687 million, down by \$1.8 billion, or 72%, from the prior year. The decrease was primarily due to markdowns of \$1.3 billion (net of fees) on leveraged lending funded loans and unfunded commitments and markdowns of \$339 million (net of risk management results) on CDO warehouses and unsold positions. Fixed Income Markets revenue also decreased due to weak credit trading performance and significantly lower commodities results, compared with a strong prior-year quarter. These lower results were offset partially by record revenue in both rates and currencies. Equity Markets revenue was \$537 million, down 18% from the prior year, as weaker trading results were offset partially by strong client revenue across businesses. Fixed Income Markets and Equity Markets had a combined benefit of \$454 million from the widening of the Firm's credit spread on certain structured liabilities, with an impact of \$304 million and \$150 million, respectively. Credit Portfolio revenue was \$392 million, up 45% from the prior year, primarily due to higher trading revenue from risk management activities and gains from loan workouts.

The Provision for credit losses was \$227 million, compared with \$7 million in the prior year. The provision was up due to an increase in the Allowance for credit losses, primarily related to portfolio growth. Net charge-offs were \$67 million, compared with net recoveries of \$8 million in the prior year. The Allowance for loan losses to average loans retained was 1.80% for the current quarter, an increase from 1.64% in the prior year. Nonperforming assets were \$325 million, compared with \$456 million from the prior year.

Noninterest expense was \$2.4 billion, down by \$866 million, or 27%, from the prior year. The decrease was due primarily to lower performance-based compensation.

Year-to-date results

Net income was \$3.0 billion, driven by record year-to-date revenues of \$15.0 billion. Compared with the prior year, net income increased by \$350 million, or 13%, reflecting record investment banking fees and equity markets revenue, partially offset by weaker fixed income results and increases in noninterest expense and the Provision for credit losses.

Net revenue was \$15.0 billion, up by \$1.0 billion, or 7%, from the prior year, driven by record investment banking fees and record equity market results. Investment banking fees were \$5.0 billion, up 25% from the prior year, driven by record fees across advisory, debt underwriting and equity underwriting. Advisory fees were \$1.6 billion, up 38%, benefiting from strong performance across all regions. Debt underwriting fees were \$2.2 billion, up 12%, driven by record loan syndication fees and record bond underwriting. Equity underwriting fees were \$1.2 billion, up 37%, reflecting strong performance across all regions. Fixed Income Markets revenue decreased by 14% from the prior year, primarily due to markdowns of \$1.4 billion (net of fees) on leverage lending funded loans and unfunded commitments and markdowns of \$358 million (net of risk management results) on CDO warehouses and unsold positions. Fixed Income Markets revenue also decreased due to weak credit trading and significantly lower commodities results, compared with a strong prior year. These lower results were offset partially by record revenue in rates and currencies. Equity Markets revenue was \$3.3 billion, up 33%, benefiting from strong trading results across all products and strong client revenue. Credit Portfolio revenue was \$990 million, up 18%, primarily due to higher trading revenue from risk management activities, partially offset by lower gains from loan sales and workouts.

The Provision for credit losses was \$454 million, an increase of \$326 million from the prior year. The change was due to a net increase of \$240 million in the Allowance for credit losses, primarily due to portfolio activity and growth. In addition, there were \$45 million of net charge-offs in the current year, compared with \$41 million of net recoveries in the prior period. The Allowance for loan losses to average loans was 1.85% for 2007, compared with a ratio of 1.74% in the prior year.

Noninterest expense was \$10.1 billion, up by \$408 million, or 4%, from the prior year.

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Selected metrics (in millions, except headcount and ratio data)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change	2007	2006	Change
Selected average balances						
Total assets	\$ 710,665	\$ 626,245	13%	\$ 688,730	\$ 648,101	6%
Trading assets – debt and equity instruments ^(a)	372,212	283,915	31	355,708	268,256	33
Trading assets – derivatives receivables	63,017	53,184	18	59,336	52,769	12
Loans:						
Loans retained ^(b)	61,919	61,623	—	59,996	58,137	3
Loans at fair value and loans held-for-sale ^(a)	17,315	24,030	(28)	15,278	21,072	(27)
Total loans	79,234	85,653	(7)	75,274	79,209	(5)
Adjusted assets ^(c)	625,619	539,278	16	600,688	520,718	15
Equity	21,000	21,000	—	21,000	20,670	2
Headcount	25,691#	23,447#	10	25,691#	23,447#	10
Credit data and quality statistics						
Net charge-offs (recoveries)	\$ 67	\$ (8)	NM	\$ 45	\$ (41)	NM
Nonperforming assets ^(d)						
Nonperforming loans	265	420	(37)	265	420	(37)
Other nonperforming assets	60	36	67	60	36	67
Allowance for credit losses:						
Allowance for loan losses	1,112	1,010	10	1,112	1,010	10
Allowance for lending-related commitments	568	292	95	568	292	95
Total Allowance for credit losses	1,680	1,302	29	1,680	1,302	29
Net charge-off (recovery) rate ^{(a)(b)}	0.43%	(0.05)%		0.10%	(0.09)%	
Allowance for loan losses to average loans ^{(a)(b)}	1.80	1.64		1.85	1.74	
Allowance for loan losses to nonperforming loans ^(d)	585	253		585	253	
Nonperforming loans to average loans	0.33	0.49		0.35	0.53	
Market risk – average trading and credit portfolio VAR^(e)						
By risk type:						
Fixed income	\$ 98	\$ 63	56	\$ 72	\$ 58	24
Foreign exchange	23	24	(4)	21	23	(9)
Equities	35	32	9	43	29	48
Commodities and other	28	46	(39)	34	48	(29)
Less: portfolio diversification ^(f)	(72)	(82)	12	(68)	(74)	8
Total trading VAR^(g)	112	83	35	102	84	21
Credit portfolio VAR ^(h)	17	14	21	14	14	—
Less: portfolio diversification ^(f)	(22)	(8)	(175)	(16)	(9)	(78)
Total trading and credit portfolio VAR	\$ 107	\$ 89	20	\$ 100	\$ 89	12

- (a) As a result of the adoption of SFAS 159 in the first quarter of 2007, \$11.7 billion of loans were reclassified to trading assets. Loans at fair value and loans held-for-sale were excluded when calculating the allowance coverage ratio and Net charge-off rate.
- (b) Loans retained included credit portfolio loans, leveraged leases and other accrual loans, and excluded loans at fair value.
- (c) Adjusted assets, a non-GAAP financial measure, equals Total assets minus (1) Securities purchased under resale agreements and Securities borrowed less Securities sold, not yet purchased; (2) assets of variable interest entities consolidated under FIN 46R; (3) cash and securities segregated and on deposit for regulatory and other purposes; and (4) goodwill and intangibles. The amount of adjusted assets is presented to assist the reader in comparing 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. IB believed an adjusted asset amount that excluded the assets discussed above, which were considered to have a low risk profile, provided a more meaningful measure of balance sheet leverage in the securities industry.
- (d) Nonperforming loans included Loans held-for-sale of \$75 million and \$21 million at September 30, 2007 and 2006, respectively, which were excluded from the allowance coverage ratios. Nonperforming loans excluded distressed loans held-for-sale purchased as part of IB's proprietary activities and assets classified as trading assets. Loans elected under the fair value option and classified within trading assets are also excluded from Nonperforming loans.
- (e) For a more complete description of VAR, see pages 62–65 of this Form 10-Q.
- (f) Average VARs were less than the sum of the VARs of their market risk components, which was due to risk offsets resulting from portfolio diversification. The diversification effect reflected the fact that the risks were not perfectly correlated. The risk of a portfolio of positions is usually less than the sum of the risks of the positions themselves.
- (g) Trading VAR includes substantially all trading activities in IB. Trading VAR does not include VAR related to the debit valuation adjustments ("DVA") taken on derivative and structured liabilities to reflect the credit quality of the Firm. See the DVA Sensitivity table on page 64 of this Form 10-Q for further details.
- (h) Included VAR on derivative credit valuation adjustments, hedges of the credit valuation adjustment and mark-to-market hedges of the retained loan portfolio, which were all reported in Principal Transactions revenue. The VAR did not include the retained loan portfolio.

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

Market shares and rankings^(a)	Nine months ended September 30, 2007		Full Year 2006	
	Market Share	Rankings	Market Share	Rankings
Global debt, equity and equity-related	7%	#2	7%	#2
Global syndicated loans	14	#1	14	#1
Global long-term debt	7	#2	6	#3
Global equity and equity-related	9	#1	7	#6
Global announced M&A	23	#4	23	#4
U.S. debt, equity and equity-related	10	#2	9	#2
U.S. syndicated loans	26	#1	26	#1
U.S. long-term debt	11	#2	12	#2
U.S. equity and equity-related ^(b)	11	#2	8	#6
U.S. announced M&A	26	#5	28	#3

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

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

RETAIL FINANCIAL SERVICES

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

During the first quarter of 2006, RFS completed the purchase of Collegiate Funding Services, which contributed an education loan servicing capability and provided an entry into the Federal Family Education Loan Program consolidation market. On July 1, 2006, RFS sold its life insurance and annuity-underwriting businesses to Protective Life Corporation. On October 1, 2006, JPMorgan Chase completed the Bank of New York transaction, significantly strengthening RFS’s distribution network in the New York tri-state area. See Note 2 on page 73 of this Form 10-Q.

Selected income statement data (in millions, except ratios)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change	2007	2006	Change
Revenue						
Lending & deposit-related fees	\$ 492	\$ 406	21%	\$ 1,385	\$ 1,167	19%
Asset management, administration and commissions	336	326	3	943	1,129	(16)
Securities (losses)	—	(7)	NM	—	(52)	NM
Mortgage fees and related income ^(a)	229	67	242	1,206	507	138
Credit card income	167	136	23	472	380	24
Other income	296	170	74	687	381	80
Noninterest revenue	1,520	1,098	38	4,693	3,512	34
Net interest income	2,681	2,457	9	7,971	7,585	5
Total net revenue	4,201	3,555	18	12,664	11,097	14
Provision for credit losses	680	114	496	1,559	299	421
Noninterest expense						
Compensation expense ^(a)	1,087	886	23	3,256	2,707	20
Noncompensation expense ^(a)	1,265	1,142	11	3,753	3,595	4
Amortization of intangibles	117	111	5	351	334	5
Total noninterest expense	2,469	2,139	15	7,360	6,636	11
Income before income tax expense	1,052	1,302	(19)	3,745	4,162	(10)
Income tax expense	413	556	(26)	1,462	1,667	(12)
Net income	\$ 639	\$ 746	(14)	\$ 2,283	\$ 2,495	(8)
Financial ratios						
ROE	16%	21%		19%	24%	
Overhead ratio ^(a)	59	60		58	60	
Overhead ratio excluding core deposit intangibles ^{(a)(b)}	56	57		55	57	

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

(b) Retail Financial Services uses the overhead ratio excluding the amortization of core deposit intangibles (“CDI”), a non-GAAP financial measure, to evaluate the underlying expense trends of the business. Including CDI amortization expense in the overhead ratio calculation results in a higher overhead ratio in earlier years and a lower overhead ratio in later years; this method would result in an improving overhead ratio over time, all things remaining equal. This non-GAAP ratio excluded Regional Banking’s core deposit intangible amortization expense related to the Bank of New York transaction and the Bank One merger of \$116 million and \$109 million for the three months ended September 30, 2007 and 2006, respectively, and \$347 million and \$328 million for the nine months ended September 30, 2007 and 2006, respectively.

Quarterly results

Net income was \$639 million, down by \$107 million, or 14%, from the prior year, due to lower results in Regional Banking, primarily due to an increase in the Provision for credit losses.

Net revenue was \$4.2 billion, up by \$646 million, or 18%, from the prior year. Net interest income was \$2.7 billion, up by \$224 million, or 9%, due to the Bank of New York transaction, wider spreads on loans and higher deposit balances. These benefits were offset partially by a shift to narrower-spread deposit products. Noninterest revenue was \$1.5 billion, up by \$422 million, or 38%, benefiting from the absence of a prior-year negative valuation adjustment to the MSR asset; increases in deposit-related fees; an increase in mortgage loan originations; a higher level of education loan sales; and increased mortgage loan servicing revenue. Noninterest revenue also benefited from the Bank of New York transaction and the classification of certain mortgage loan origination costs as expense (loan origination costs previously netted against revenue commenced being recorded as an expense in the first quarter of 2007 due to the adoption of SFAS 159). These benefits were offset partially by markdowns on the mortgage warehouse and pipeline.

The Provision for credit losses was \$680 million, compared with \$114 million in the prior year. The current-quarter provision includes a net increase of \$306 million in the Allowance for loan losses related to home equity loans as continued weak housing prices have resulted in an increase in estimated losses for high loan-to-value loans. Home equity net charge-offs were \$150 million (0.65% net charge-off rate), compared with \$29 million (0.15% net charge-off rate) in the prior year. In addition, the current-quarter provision includes an increase in the Allowance for loan losses, reflecting increased loan balances resulting from the decision to retain rather than sell subprime mortgage loans. Subprime mortgage net charge-offs were \$40 million (1.62% net charge-off rate), compared with \$13 million (0.36% net charge-off rate) in the prior year.

Noninterest expense was \$2.5 billion, up by \$330 million, or 15%, due to the Bank of New York transaction, the classification of certain loan origination costs as expense due to the adoption of SFAS 159, investments in the retail distribution network and an increase in loan originations in Mortgage Banking.

Year-to-date results

Net income was \$2.3 billion, down by \$212 million, or 8%, from the prior year, as lower results in Regional Banking and Auto Finance, primarily due to an increase in the Provision for credit losses, were offset partially by improved results in Mortgage Banking.

Net revenue was \$12.7 billion, up by \$1.6 billion, or 14%, from the prior year. Net interest income was \$8.0 billion, up by \$386 million, or 5%, due to the Bank of New York transaction, wider spreads on loans and higher deposit balances. These benefits were offset partially by the sale of the insurance business, a shift to narrower-spread deposit products and a decrease in loan balances. Noninterest revenue was \$4.7 billion, up by \$1.2 billion, or 34%, benefiting from increases in deposit-related fees; the absence of a prior-year negative valuation adjustment to the MSR asset; an increase in mortgage originations; increased mortgage loan servicing revenue; higher operating lease revenue; and a higher level of education loan sales. Noninterest revenue also benefited from the Bank of New York transaction and the classification of certain mortgage loan origination costs as expense (loan origination costs previously netted against revenue commenced being recorded as an expense in the first quarter of 2007 due to the adoption of SFAS 159). These benefits were offset partially by markdowns on the mortgage warehouse and pipeline and the sale of the insurance business.

The Provision for credit losses was \$1.6 billion, compared with \$299 million in the prior year. The year-to-date provision includes a net increase of \$635 million in the Allowance for loan losses related to home equity loans, as continued weak housing prices have resulted in an increase in estimated losses for high loan-to-value loans. Home equity net charge-offs were \$316 million (0.47% net charge-off rate), compared with \$92 million (0.16% net charge-off rate) in the prior year. In addition, the year-to-date provision reflects an increase in estimated losses in the subprime mortgage portfolio, as well as increased loan balances resulting from the decision to retain rather than sell subprime mortgage loans. Subprime mortgage net charge-offs were \$86 million (1.28% net charge-off rate), compared with \$30 million (0.27% net charge-off rate) in the prior year. Home equity and subprime mortgage underwriting standards were tightened during the year-to-date period, and pricing actions were implemented to reflect elevated risks in these segments.

Noninterest expense was \$7.4 billion, up by \$724 million, or 11%, due to the Bank of New York transaction, the classification of certain loan origination costs as expense due to the adoption of SFAS 159, investments in the retail distribution network and an increase in loan originations in Mortgage Banking. These increases were offset partially by the sale of the insurance business.

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Selected metrics (in millions, except headcount and ratio data)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change	2007	2006	Change
Selected ending balances						
Assets	\$ 216,754	\$ 227,056	(5)%	\$ 216,754	\$ 227,056	(5)%
Loans:						
Loans retained	172,498	188,549	(9)	172,498	188,549	(9)
Loans at fair value and loans held-for-sale ^(a)	18,274	17,005	7	18,274	17,005	7
Total loans	190,772	205,554	(7)	190,772	205,554	(7)
Deposits	216,135	198,260	9	216,135	198,260	9
Selected average balances						
Assets	\$ 214,852	\$ 225,307	(5)	\$ 216,218	\$ 230,307	(6)
Loans						
Loans retained	168,495	189,313	(11)	165,479	186,852	(11)
Loans at fair value and loans held-for-sale ^(a)	19,560	13,994	40	24,289	14,411	69
Total loans	188,055	203,307	(8)	189,768	201,263	(6)
Deposits	216,904	198,967	9	217,669	197,491	10
Equity	16,000	14,300	12	16,000	14,167	13
Headcount	68,528#	61,915#	11	68,528#	61,915#	11
Credit data and quality statistics						
Net charge-offs	\$ 350	\$ 128	173	\$ 805	\$ 362	122
Nonperforming loans ^{(b)(d)}	1,991	1,404	42	1,991	1,404	42
Nonperforming assets	2,404	1,595	51	2,404	1,595	51
Allowance for loan losses	2,105	1,306	61	2,105	1,306	61
Net charge-off rate ^(c)	0.82%	0.27%		0.65%	0.26%	
Allowance for loan losses to ending loans ^(c)	1.22	0.69		1.22	0.69	
Allowance for loan losses to nonperforming loans ^(c)	107	95		107	95	
Nonperforming loans to total loans	1.04	0.68		1.04	0.68	

(a) Loans included prime mortgage loans originated with the intent to sell, which, for new originations on or after January 1, 2007, were accounted for at fair value under SFAS 159. These loans, classified as Trading assets on the Consolidated balance sheets, totaled \$14.4 billion at September 30, 2007. Average Loans included \$14.1 billion and \$11.4 billion of these loans for the three and nine months ended September 30, 2007, respectively.

(b) Nonperforming loans included Loans held-for-sale and Loans accounted for at fair value under SFAS 159 of \$17 million and \$24 million at September 30, 2007 and 2006, respectively. Certain of these loans are classified as Trading assets on the Consolidated balance sheet.

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

(d) Excluded Nonperforming assets related to (1) loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by U.S. government agencies of \$1.3 billion and \$1.1 billion at September 30, 2007 and 2006, respectively; and (2) education loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of \$241 million and \$189 million at September 30, 2007 and 2006, respectively. These amounts for GNMA and education loans are excluded, as reimbursement is proceeding normally.

REGIONAL BANKING

Selected income statement data (in millions, except ratios)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change	2007	2006	Change
Noninterest revenue	\$ 1,013	\$ 855	18%	\$ 2,783	\$ 2,526	10%
Net interest income	2,325	2,107	10	6,920	6,539	6
Total Net revenue	3,338	2,962	13	9,703	9,065	7
Provision for credit losses	574	53	NM	1,301	189	NM
Noninterest expense	1,760	1,611	9	5,238	5,095	3
Income before income tax expense	1,004	1,298	(23)	3,164	3,781	(16)
Net income	\$ 611	\$ 744	(18)	\$ 1,930	\$ 2,265	(15)
ROE	21%	29%		22%	30%	
Overhead ratio	53	54		54	56	
Overhead ratio excluding core deposit intangibles ^(a)	49	51		50	53	

(a) Regional Banking uses the overhead ratio excluding the amortization of CDI, a non-GAAP financial measure, to evaluate the underlying expense trends of the business. Including CDI amortization expense in the overhead ratio calculation results in a higher overhead ratio in earlier years and a lower overhead ratio in later years; this method would result in an improving overhead ratio over time, all things remaining equal. This non-GAAP ratio excluded Regional Banking's core deposit intangible amortization expense related to the Bank of New York transaction and the Bank One merger of \$116 million and \$109 million for the three months ended September 30, 2007 and 2006, respectively; and \$347 million and \$328 million for the nine months ended September 30, 2007 and 2006, respectively.

Quarterly results

Regional Banking net income was \$611 million, down by \$133 million, or 18%, from the prior year. Net revenue was \$3.3 billion, up by \$376 million, or 13%, benefiting from the following: the Bank of New York transaction; increases in deposit-related fees; a higher level of education loan sales; growth in deposits and wider loan spreads. These benefits were offset partially by a shift to narrower-spread deposit products. The Provision for credit losses was \$574 million, compared with \$53 million in the prior year. The increase in provision was due to the home equity and subprime mortgage portfolios (see Retail Financial Services discussion of Provision for credit losses for further detail). Noninterest expense was \$1.8 billion, up by \$149 million, or 9%, from the prior year due to the Bank of New York transaction and investments in the retail distribution network.

Year-to-date results

Regional Banking net income was \$1.9 billion, down by \$335 million, or 15%, from the prior year. Net revenue was \$9.7 billion, up by \$638 million, or 7%, benefiting from the following: the Bank of New York transaction; increases in deposit-related fees; growth in deposits; wider loan spreads; and a higher level of education loan sales. These benefits were offset partially by the sale of the insurance business and a shift to narrower-spread deposit products. The Provision for credit losses was \$1.3 billion, compared with \$189 million in the prior year. The increase in provision was due to the home equity and subprime mortgage portfolios (see Retail Financial Services discussion of Provision for credit losses for further detail). Noninterest expense was \$5.2 billion, up by \$143 million, or 3%, from the prior year as the Bank of New York transaction and investments in the retail distribution network were offset partially by the sale of the insurance business.

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Business metrics (in billions, except ratios)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change	2007	2006	Change
Home equity origination volume	\$ 11.2	\$ 13.3	(16)%	\$ 38.5	\$ 39.0	(1)%
End-of-period loans owned						
Home equity	\$ 93.0	\$ 80.4	16	\$ 93.0	\$ 80.4	16
Mortgage ^(a)	12.3	46.6	(74)	12.3	46.6	(74)
Business banking	14.9	13.1	14	14.9	13.1	14
Education	10.2	9.4	9	10.2	9.4	9
Other loans ^(b)	2.4	2.2	9	2.4	2.2	9
Total end-of-period loans	132.8	151.7	(12)	132.8	151.7	(12)
End-of-period deposits						
Checking	\$ 64.5	\$ 59.8	8	\$ 64.5	\$ 59.8	8
Savings	95.7	86.9	10	95.7	86.9	10
Time and other	46.5	41.5	12	46.5	41.5	12
Total end-of-period deposits	206.7	188.2	10	206.7	188.2	10
Average loans owned						
Home equity	\$ 91.8	\$ 78.8	16	\$ 89.1	\$ 76.4	17
Mortgage ^(a)	9.9	47.8	(79)	9.2	46.5	(80)
Business banking	14.8	13.0	14	14.5	12.9	12
Education	9.8	8.9	10	10.4	7.7	35
Other loans ^(b)	2.4	2.2	9	2.6	2.6	—
Total average loans^(c)	128.7	150.7	(15)	125.8	146.1	(14)
Average deposits						
Checking	\$ 64.9	\$ 60.3	8	\$ 66.5	\$ 61.9	7
Savings	97.1	88.1	10	97.4	89.1	9
Time and other	43.3	39.0	11	42.5	35.6	19
Total average deposits	205.3	187.4	10	206.4	186.6	11
Average assets	140.6	159.1	(12)	138.1	160.3	(14)
Average equity	11.8	10.2	16	11.8	10.1	17
Credit data and quality statistics						
(in millions, except ratios)						
30+ day delinquency rate ^(d)	2.39%	1.57%		2.39%	1.57%	
Net charge-offs						
Home equity	\$ 150	\$ 29	417	\$ 316	\$ 92	243
Mortgage	40	14	186	86	35	146
Business banking	33	19	74	88	53	66
Other loans	23	1	NM	88	21	319
Total net charge-offs	246	63	290	578	201	188
Net charge-off rate						
Home equity	0.65%	0.15%		0.47%	0.16%	
Mortgage	1.60	0.12		1.25	0.10	
Business banking	0.88	0.58		0.81	0.55	
Other loans	1.01	0.05		1.28	0.36	
Total net charge-off rate^(e)	0.78	0.17		0.63	0.19	
Nonperforming assets ^(e)	\$ 2,206	\$ 1,417	56	\$ 2,206	\$ 1,417	56

(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. The transfer had no impact on the financial results of Regional Banking. Balances reported at and for the three and nine months ended September 30, 2007, primarily reflected subprime mortgage loans owned.

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

(c) Average loans included Loans held-for-sale of \$3.2 billion and \$2.5 billion for the three months ended September 30, 2007 and 2006, respectively and \$3.8 billion and \$2.6 billion for the nine months ended September 30, 2007 and 2006, respectively. These amounts were excluded when calculating the Net charge-off rate.

(d) Excluded loans that are 30 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of \$590 million and \$462 million at September 30, 2007 and 2006, respectively. These amounts are excluded as reimbursement is proceeding normally.

(e) Excluded Nonperforming assets related to education loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of \$241 million and \$189 million at September 30, 2007 and 2006, respectively. These amounts are excluded as reimbursement is proceeding normally.

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Retail branch business metrics

	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change	2007	2006	Change
Investment sales volume (in millions)	\$ 4,346	\$ 3,536	23%	\$ 14,246	\$ 10,781	32%
Number of:						
Branches	3,096#	2,677#	419#	3,096#	2,677#	419#
ATMs	8,943	7,825	1,118	8,943	7,825	1,118
Personal bankers ^(a)	9,503	7,484	2,019	9,503	7,484	2,019
Sales specialists ^(a)	4,025	3,471	554	4,025	3,471	554
Active online customers (in thousands) ^(b)	5,706	4,717	989	5,706	4,717	989
Checking accounts (in thousands)	10,644	9,270	1,374	10,644	9,270	1,374

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

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

MORTGAGE BANKING
Selected income statement data

(in millions, except ratios and where otherwise noted)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change	2007	2006	Change
Production revenue ^(a)	\$ 176	\$ 197	(11)%	\$ 1,039	\$ 618	68%
Net mortgage servicing revenue:						
Loan servicing revenue	629	579	9	1,845	1,702	8
Changes in MSR asset fair value:						
Due to inputs or assumptions in model	(810)	(1,075)	25	250	127	97
Other changes in fair value	(377)	(327)	(15)	(1,138)	(1,068)	(7)
Total changes in MSR asset fair value	(1,187)	(1,402)	15	(888)	(941)	6
Derivative valuation adjustments and other	788	824	(4)	(353)	(475)	26
Total net mortgage servicing revenue	230	1	NM	604	286	111
Total net revenue	406	198	105	1,643	904	82
Noninterest expense ^(a)	485	334	45	1,469	987	49
Income before income tax expense	(79)	(136)	42	174	(83)	NM
Net income	\$ (48)	\$ (83)	42	\$ 107	\$ (51)	NM
ROE	NM	NM		7%	NM	

Business metrics (in billions)

Third-party mortgage loans serviced (ending)	\$ 600.0	\$ 510.7	17	\$ 600.0	\$ 510.7	17
MSR net carrying value (ending)	9.1	7.4	23	9.1	7.4	23
Average mortgage loans held-for-sale ^(b)	16.4	10.5	56	20.4	11.1	84
Average assets	31.4	22.4	40	35.0	24.5	43
Average equity	2.0	1.7	18	2.0	1.7	18

**Mortgage origination volume by channel
(in billions)**

Retail	\$ 11.1	\$ 10.1	10	\$ 35.6	\$ 30.0	19
Wholesale	9.8	7.7	27	32.5	23.8	37
Correspondent	7.2	2.7	167	18.4	9.8	88
CNT (Negotiated transactions)	11.1	8.5	31	32.9	25.8	28
Total^(c)	\$ 39.2	\$ 29.0	35	\$ 119.4	\$ 89.4	34

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

(b) Included \$14.1 billion and \$11.4 billion of prime mortgage loans at fair value for the three and nine months ended September 30, 2007, respectively. These loans are classified as Trading assets on the Consolidated balance sheets for 2007.

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

Quarterly results

Mortgage Banking net loss was \$48 million, compared with a net loss of \$83 million in the prior year. Net revenue was \$406 million, up by \$208 million. Net revenue comprises production revenue and net mortgage servicing revenue. Production revenue was \$176 million, down by \$21 million, as markdowns of \$186 million on the mortgage warehouse and pipeline were offset partially by an increase in mortgage loan originations and the classification of certain loan origination costs as expense (loan origination costs previously netted against revenue commenced being recorded as an expense in the first quarter of 2007 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 \$230 million, compared with \$1 million in the prior year. Loan servicing revenue of \$629 million increased by \$50 million on growth of 17% in third-party loans serviced. MSR risk management revenue of negative \$22 million improved by \$229 million, due primarily to the absence of a prior-year negative valuation adjustment of \$235 million to the MSR asset. Other changes in fair value of the MSR asset, representing run-off of the asset against the realization of servicing cash flows, were negative \$377 million, compared with negative \$327 million in the prior year. Noninterest expense was \$485 million, up by \$151 million, or 45%. The increase reflected the classification of certain loan origination costs due to the adoption of SFAS 159, and higher compensation expense, the result of higher loan originations and a greater number of loan officers.

Year-to-date results

Mortgage Banking net income was \$107 million, compared with a net loss of \$51 million in the prior year. Net revenue was \$1.6 billion, up by \$739 million. Net revenue comprises production revenue and net mortgage servicing revenue. Production revenue was \$1.0 billion, up by \$421 million, due to an increase in mortgage loan originations and the classification of certain loan origination costs as expense (loan origination costs previously netted against revenue commenced being recorded as an expense in the first quarter of 2007 due to the adoption of SFAS 159). These increases were offset partially by markdowns of \$186 million on the mortgage warehouse and pipeline, in the third quarter of 2007. Net mortgage servicing revenue, which includes loan servicing revenue, MSR risk management results and other changes in fair value, was \$604 million, compared with \$286 million in the prior year. Loan servicing revenue of \$1.8 billion increased by \$143 million on growth of 17% in third-party loans serviced. MSR risk management revenue of negative \$103 million improved by \$245 million, due primarily to the absence of a prior-year negative valuation adjustment of \$235 million to the MSR asset. Other changes in fair value of the MSR asset, representing run-off of the asset against the realization of servicing cash flows, were negative \$1.1 billion. Noninterest expense was \$1.5 billion, up by \$482 million, or 49%. The increase reflected the classification of certain loan origination costs due to the adoption of SFAS 159, and higher compensation expense, the result of higher loan originations and a greater number of loan officers.

AUTO FINANCE

Selected income statement data (in millions, except ratios and where otherwise noted)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change	2007	2006	Change
Noninterest revenue	\$ 140	\$ 110	27%	\$ 409	\$ 244	68%
Net interest income	307	285	8	898	884	2
Total net revenue	447	395	13	1,307	1,128	16
Provision for credit losses	96	61	57	247	110	125
Noninterest expense	224	194	15	653	554	18
Income before income tax expense	127	140	(9)	407	464	(12)
Net income	\$ 76	\$ 85	(11)	\$ 246	\$ 281	(12)
ROE	14%	14%		15%	16%	
ROA	0.70	0.77		0.76	0.82	
Business metrics (in billions)						
Auto origination volume	\$ 5.2	\$ 5.5	(5)	\$ 15.7	\$ 14.3	10
End-of-period loans and lease related assets						
Loans outstanding	\$ 40.3	\$ 38.1	6	\$ 40.3	\$ 38.1	6
Lease financing receivables	0.6	2.2	(73)	0.6	2.2	(73)
Operating lease assets	1.8	1.5	20	1.8	1.5	20
Total end-of-period loans and lease related assets	42.7	41.8	2	42.7	41.8	2
Average loans and lease related assets						
Loans outstanding ^(a)	\$ 39.9	\$ 38.9	3	\$ 39.8	\$ 40.1	(1)
Lease financing receivables	0.7	2.5	(72)	1.1	3.2	(66)
Operating lease assets	1.8	1.4	29	1.7	1.2	42
Total average loans and lease related assets	42.4	42.8	(1)	42.6	44.5	(4)
Average assets	42.9	43.8	(2)	43.1	45.6	(5)
Average equity	2.2	2.4	(8)	2.2	2.4	(8)
Credit quality statistics						
30+ day delinquency rate	1.65%	1.61%		1.65%	1.61%	
Net charge-offs						
Loans	\$ 98	\$ 63	56	\$ 218	\$ 155	41
Lease receivables	1	2	(50)	3	6	(50)
Total net charge-offs	99	65	52	221	161	37
Net charge-off rate						
Loans ^(a)	0.97%	0.66%		0.73%	0.53%	
Lease receivables	0.57	0.32		0.36	0.25	
Total net charge-off rate^(a)	0.97	0.64		0.72	0.51	
Nonperforming assets	\$ 156	\$ 174	(10)	\$ 156	\$ 174	(10)

(a) For the three and nine month periods ended September 30, 2006, Average loans included Loans held-for-sale of \$943 million and \$709 million, respectively. These amounts are excluded when calculating the Net charge-off rate. For the three and nine month periods ended September 30, 2007, Auto loans classified as held-for-sale were insignificant.

Quarterly results

Auto Finance net income was \$76 million, down by \$9 million, or 11%, from the prior year. Net revenue was \$447 million, up by \$52 million, or 13%, reflecting higher automobile operating lease revenue and wider loan spreads. The Provision for credit losses was \$96 million, an increase of \$35 million, reflecting an increase in estimated losses from low prior-year levels. Noninterest expense of \$224 million increased by \$30 million, or 15%, driven by increased depreciation expense on owned automobiles subject to operating leases.

Year-to-date results

Auto Finance net income was \$246 million, down by \$35 million, or 12%, from the prior year. Net revenue was \$1.3 billion, up by \$179 million, or 16%, reflecting higher automobile operating lease revenue, wider loan spreads and the absence of a prior-year \$50 million pretax loss related to auto loans transferred to held-for-sale. The Provision for credit losses was \$247 million, an increase of \$137 million, reflecting an increase in estimated losses from low prior-year levels. Noninterest expense of \$653 million increased by \$99 million, or 18%, 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 and pages 4–5 of this Form 10-Q.

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

Selected income statement data—managed basis (in millions, except ratios)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change	2007	2006	Change
Revenue						
Credit card income	\$ 692	\$ 636	9%	\$ 1,973	\$ 1,890	4%
All other income	67	126	(47)	239	246	(3)
Noninterest revenue	759	762	—	2,212	2,136	4
Net interest income	3,108	2,884	8	9,052	8,859	2
Total net revenue	3,867	3,646	6	11,264	10,995	2
Provision for credit losses	1,363	1,270	7	3,923	3,317	18
Noninterest expense						
Compensation expense	256	251	2	761	761	—
Noncompensation expense	827	823	—	2,383	2,429	(2)
Amortization of intangibles	179	179	—	547	555	(1)
Total noninterest expense	1,262	1,253	1	3,691	3,745	(1)
Income before income tax expense	1,242	1,123	11	3,650	3,933	(7)
Income tax expense	456	412	11	1,340	1,446	(7)
Net Income	\$ 786	\$ 711	11	\$ 2,310	\$ 2,487	(7)
Memo: Net securitization gains (amortization)	\$ —	\$ 48	NM	\$ 39	\$ 50	(22)
Financial metrics						
ROE	22%	20%		22%	24%	
Overhead ratio	33	34		33	34	

Quarterly results

Net income was \$786 million, up by \$75 million, or 11%, from the prior year. Earnings benefited from higher revenue offset partially by an increase in the Provision for credit losses.

End-of-period managed loans of \$149.1 billion increased by \$5.2 billion, or 4%, from the prior year. Average managed loans of \$148.7 billion increased by \$7.0 billion, or 5%, from the prior year. Both end-of-period and average managed loans benefited from organic growth.

Net managed revenue was \$3.9 billion, up by \$221 million, or 6%, from the prior year. Net interest income was \$3.1 billion, up by \$224 million, or 8%, from the prior year. The increase in net interest income was driven by an increased level of fees and higher average loan balances. These benefits were offset partially by the discontinuation of certain billing practices (including the elimination of certain over-limit fees and the two-cycle billing method for calculating finance charges) and a narrower loan spread. Noninterest revenue was \$759 million, flat compared with the prior year. Increased net interchange income, which benefited from higher charge volume, was offset by lower net securitization gains. Charge volume growth of 3% reflects an approximate 10% growth rate in sales volume, offset primarily by a lower level of balance transfers, the result of a more targeted marketing effort.

The Managed provision for credit losses was \$1.4 billion, up by \$93 million, or 7%, from the prior year due to a higher level of net charge-offs. Credit quality was stable in the quarter, with a managed net charge-off rate for the quarter of 3.64%, up from 3.58% in the prior year. The 30-day managed delinquency rate was 3.25%, up from 3.17% in the prior year.

Noninterest expense was \$1.3 billion, up by \$9 million, or 1%, compared with the prior year, primarily due to higher volume-related expense.

Year-to-date results

Net income was \$2.3 billion, down by \$177 million, or 7%, 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 \$149.1 billion increased by \$5.2 billion, or 4%, from the prior year. Average managed loans of \$148.5 billion increased by \$9.5 billion, or 7%, from the prior year. Both end-of-period and average managed loans benefited from organic growth.

Net managed revenue was \$11.3 billion, up by \$269 million, or 2%, from the prior year. Net interest income was \$9.1 billion, up by \$193 million, or 2%, compared with the prior year. The increase in net interest income was driven by higher average loan balances and an increased level of fees. These benefits were offset partially by a narrower loan spread, the discontinuation of certain billing practices (including the elimination of over-limit fees and the two-cycle method for calculating finance charges) and increased revenue reversals, resulting from a higher level of charge-offs. Noninterest revenue was \$2.2 billion, up by \$76 million, or 4%, from the prior year. The increase reflects a higher level of fee-based revenue and increased net interchange income, benefiting from 5% higher charge volume. Charge volume reflects an approximate 10% growth rate in sales volume, offset partially by a lower level of balance transfers, the result of a more targeted marketing effort.

The Managed provision for credit losses was \$3.9 billion, up by \$606 million, or 18%, from the prior year. The prior year benefited from lower net charge-offs, following the change in bankruptcy legislation in the fourth quarter of 2005. The managed net charge-off rate increased to 3.61%, up from 3.29% in the prior year. The 30-day managed delinquency rate was 3.25%, up from 3.17% in the prior year.

Noninterest expense was \$3.7 billion, down by \$54 million, or 1%, compared with the prior year, primarily due to lower marketing expense and lower fraud-related expense, offset partially by higher volume-related expense.

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Selected metrics (in millions, except headcount, ratios and where otherwise noted)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change	2007	2006	Change
% of average managed outstandings:						
Net interest income	8.29%	8.07%		8.15%	8.52%	
Provision for credit losses	3.64	3.56		3.53	3.19	
Noninterest revenue	2.03	2.13		1.99	2.05	
Risk adjusted margin ^(a)	6.68	6.65		6.61	7.39	
Noninterest expense	3.37	3.51		3.32	3.60	
Pretax income (ROO)	3.31	3.14		3.29	3.78	
Net income	2.10	1.99		2.08	2.39	
Business metrics						
Charge volume (in billions)	\$ 89.8	\$ 87.5	3%	\$ 259.1	\$ 246.2	5%
Net accounts opened (in thousands) ^(b)	3,957#	4,186#	(5)	11,102#	31,477#	(65)
Credit cards issued (in thousands)	153,637	139,513	10	153,637	139,513	10
Number of registered Internet customers (in millions)	26.4	20.4	29	26.4	20.4	29
Merchant acquiring business ^(c)						
Bank card volume (in billions)	\$ 181.4	\$ 168.7	8	\$ 524.7	\$ 482.7	9
Total transactions (in millions)	4,990#	4,597#	9	14,266#	13,203#	8
Selected ending balances						
Loans:						
Loans on balance sheets	\$ 79,409	\$ 78,587	1	\$ 79,409	\$ 78,587	1
Securitized loans	69,643	65,245	7	69,643	65,245	7
Managed loans	\$ 149,052	\$ 143,832	4	\$ 149,052	\$ 143,832	4
Selected average balances						
Managed assets	\$ 154,956	\$ 148,272	5	\$ 155,206	\$ 146,192	6
Loans:						
Loans on balance sheets	\$ 79,993	\$ 76,655	4	\$ 80,301	\$ 71,129	13
Securitized loans	68,673	65,061	6	68,200	67,862	—
Managed loans	\$ 148,666	\$ 141,716	5	\$ 148,501	\$ 138,991	7
Equity	\$ 14,100	\$ 14,100	—	\$ 14,100	\$ 14,100	—
Headcount	18,887#	18,696#	1	18,887#	18,696#	1
Managed credit quality statistics						
Net charge-offs	\$ 1,363	\$ 1,280	6	\$ 4,008	\$ 3,417	17
Net charge-off rate	3.64%	3.58%		3.61%	3.29%	
Managed delinquency ratios						
30+ days	3.25%	3.17%		3.25%	3.17%	
90+ days	1.50	1.48		1.50	1.48	
Allowance for loan losses	\$ 3,107	\$ 3,176	(2)	\$ 3,107	\$ 3,176	(2)
Allowance for loan losses to period-end loans	3.91%	4.04%		3.91%	4.04%	

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

(b) Year-to-date 2006 included approximately 21 million accounts from the acquisition of the Kohl's private-label portfolio in the second quarter of 2006.

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

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Reconciliation from reported basis to managed basis

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

(in millions)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change	2007	2006	Change
Income statement data^(a)						
Credit card income						
Reported basis for the period	\$ 1,528	\$ 1,357	13%	\$ 4,343	\$ 4,673	(7)%
Securitization adjustments	(836)	(721)	(16)	(2,370)	(2,783)	15
Managed credit card income	\$ 692	\$ 636	9	\$ 1,973	\$ 1,890	4
Net interest income						
Reported basis for the period	\$ 1,694	\$ 1,556	9	\$ 4,921	\$ 4,459	10
Securitization adjustments	1,414	1,328	6	4,131	4,400	(6)
Managed net interest income	\$ 3,108	\$ 2,884	8	\$ 9,052	\$ 8,859	2
Total net revenue						
Reported basis for the period	\$ 3,289	\$ 3,039	8	\$ 9,503	\$ 9,378	1
Securitization adjustments	578	607	(5)	1,761	1,617	9
Managed total net revenue	\$ 3,867	\$ 3,646	6	\$ 11,264	\$ 10,995	2
Provision for credit losses						
Reported basis for the period	\$ 785	\$ 663	18	\$ 2,162	\$ 1,700	27
Securitization adjustments	578	607	(5)	1,761	1,617	9
Managed provision for credit losses	\$ 1,363	\$ 1,270	7	\$ 3,923	\$ 3,317	18
Balance sheet – average balances^(a)						
Total average assets						
Reported basis for the period	\$ 88,856	\$ 85,301	4	\$ 89,491	\$ 80,395	11
Securitization adjustments	66,100	62,971	5	65,715	65,797	—
Managed average assets	\$ 154,956	\$ 148,272	5	\$ 155,206	\$ 146,192	6
Credit quality statistics^(a)						
Net charge-offs						
Reported net charge-offs data for the period	\$ 785	\$ 673	17	\$ 2,247	\$ 1,800	25
Securitization adjustments	578	607	(5)	1,761	1,617	9
Managed net charge-offs	\$ 1,363	\$ 1,280	6	\$ 4,008	\$ 3,417	17

(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 Financial Measures on pages 13–16 of this Form 10-Q.

COMMERCIAL BANKING

For a discussion of the business profile of CB, see pages 46–47 of JPMorgan Chase’s 2006 Annual Report and page 5 of this Form 10-Q.

On October 1, 2006, JPMorgan Chase completed the acquisition of The Bank of New York’s consumer, business banking and middle-market banking businesses adding approximately \$2.3 billion in loans and \$1.2 billion in deposits to CB.

Selected income statement data (in millions, except ratios)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change	2007	2006	Change
Revenue						
Lending & deposit-related fees	\$ 159	\$ 145	10%	\$ 475	\$ 434	9%
Asset management, administration and commissions	24	16	50	68	47	45
All other income ^(a)	107	95	13	394	282	40
Noninterest revenue	290	256	13	937	763	23
Net interest income	719	677	6	2,082	2,019	3
Total net revenue	1,009	933	8	3,019	2,782	9
Provision for credit losses	112	54	107	174	49	255
Noninterest expense						
Compensation expense	160	190	(16)	522	566	(8)
Noncompensation expense	300	296	1	890	883	1
Amortization of intangibles	13	14	(7)	42	45	(7)
Total noninterest expense	473	500	(5)	1,454	1,494	(3)
Income before income tax expense	424	379	12	1,391	1,239	12
Income tax expense	166	148	12	545	485	12
Net income	\$ 258	\$ 231	12	\$ 846	\$ 754	12
Financial ratios						
ROE	15%	17%		18%	18%	
Overhead ratio	47	54		48	54	

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

Quarterly results

Net income was \$258 million, up by \$27 million, or 12%, from the prior year. The increase was driven by growth in net revenue and lower noninterest expense, offset primarily by a higher Provision for credit losses.

Net revenue was \$1.0 billion, up by \$76 million, or 8%, from the prior year. Net interest income was \$719 million, up by \$42 million, or 6%. The increase was driven by double-digit growth in liability and loan balances, reflecting organic growth and the Bank of New York transaction, partially offset by a continued shift to narrower-spread liability products and spread compression in the loan and liability portfolios. Noninterest revenue was \$290 million, up by \$34 million, or 13%, primarily due to higher deposit-related fees and other income.

Middle Market Banking revenue was \$680 million, an increase of \$63 million, or 10%, from the prior year, due to the Bank of New York transaction, higher deposit-related fees, and growth in investment banking revenue. Mid-Corporate Banking revenue was \$167 million, an increase of \$7 million, or 4%. Real Estate Banking revenue was \$108 million, a decrease of \$11 million, or 9%.

The Provision for credit losses was \$112 million, compared with \$54 million in the prior year. The current-quarter provision largely reflected portfolio activity and growth in loan balances. The Allowance for loan losses to average loans retained was 2.67% for the current quarter, which decreased from 2.70% in the prior year. Nonperforming loans were \$134 million, down 15% from the prior year. The net charge-off rate was 0.13% in the current quarter compared with 0.16% in the prior year.

Noninterest expense was \$473 million, down by \$27 million, or 5%, from the prior year, as lower performance-based compensation expense was offset partially by higher volume-related expense.

Year-to-date results

Net income was \$846 million, an increase of \$92 million, or 12%, from the prior year due primarily to growth in net revenue, partially offset by higher Provision for credit losses.

Net revenue of \$3.0 billion increased by \$237 million, or 9%. Net interest income of \$2.1 billion increased by \$63 million, or 3%, driven by double-digit growth in liability balances and loans, which reflected organic growth and the Bank of New York transaction, largely offset by the continued shift to narrower-spread liability products and spread compression in the loan and

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liability portfolios. Noninterest revenue was \$937 million, up by \$174 million, or 23%, due to higher investment banking-related revenues, increased deposit-related fees and gains related to the sale of securities acquired in the satisfaction of debt.

On a segment basis, Middle Market Banking revenue was \$2.0 billion, an increase of \$120 million, or 6%, primarily due to the Bank of New York transaction, growth in investment banking revenue and higher deposit-related fees. Mid-Corporate Banking revenue was \$576 million, an increase of \$118 million, or 26%, reflecting higher lending revenue, investment banking revenue, and gains on sales of securities acquired in the satisfaction of debt. Real Estate Banking revenue of \$319 million decreased by \$19 million, or 6%.

Provision for credit losses was \$174 million, compared with \$49 million in the prior year. The increase in the Allowance for credit losses reflected portfolio activity and growth in loan balances. The Allowance for loan losses to average loans was 2.75%, compared with 2.76% in the prior year.

Noninterest expense was \$1.5 billion, a decrease of \$40 million, or 3%, largely due to lower compensation expense driven by the absence of prior-year expense from the adoption of SFAS 123R, partially offset by expense related to the Bank of New York transaction.

Selected metrics (in millions, except ratio and headcount data)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change	2007	2006	Change
Revenue by product:						
Lending	\$ 343	\$ 335	2%	\$ 1,039	\$ 985	5%
Treasury services	594	551	8	1,719	1,667	3
Investment banking	64	60	7	222	166	34
Other	8	(13)	NM	39	(36)	NM
Total Commercial Banking revenue	\$ 1,009	\$ 933	8	\$ 3,019	\$ 2,782	9
IB revenues, gross^(a)	\$ 194	\$ 170	14	\$ 661	\$ 470	41
Revenue by business:						
Middle Market Banking	\$ 680	\$ 617	10	\$ 1,994	\$ 1,874	6
Mid-Corporate Banking	167	160	4	576	458	26
Real Estate Banking	108	119	(9)	319	338	(6)
Other	54	37	46	130	112	16
Total Commercial Banking revenue	\$ 1,009	\$ 933	8	\$ 3,019	\$ 2,782	9
Selected average balances						
Total assets	\$ 86,652	\$ 57,378	51	\$ 84,643	\$ 56,246	50
Loans and leases ^(b)	61,272	53,404	15	59,595	52,227	14
Liability balances ^(c)	88,081	72,009	22	84,697	71,781	18
Equity	6,700	5,500	22	6,435	5,500	17
Average loans by business:						
Middle Market Banking	\$ 37,617	\$ 32,890	14	\$ 37,016	\$ 32,418	14
Mid-Corporate Banking	12,076	8,756	38	11,484	8,205	40
Real Estate Banking	7,144	7,564	(6)	7,038	7,505	(6)
Other	4,435	4,194	6	4,057	4,099	(1)
Total Commercial Banking loans	\$ 61,272	\$ 53,404	15	\$ 59,595	\$ 52,227	14
Headcount	4,158#	4,447#	(6)	4,158#	4,447#	(6)
Credit data and quality statistics:						
Net charge-offs	\$ 20	\$ 21	(5)	\$ 11	\$ 11	—
Nonperforming loans	134	157	(15)	134	157	(15)
Allowance for credit losses:						
Allowance for loan losses	1,623	1,431	13	1,623	1,431	13
Allowance for lending-related commitments	236	156	51	236	156	51
Total allowance for credit losses	1,859	1,587	17	1,859	1,587	17
Net charge-off rate ^(b)	0.13%	0.16%		0.02%	0.03%	
Allowance for loan losses to average loans ^(b)	2.67	2.70		2.75	2.76	
Allowance for loan losses to nonperforming loans	1,211	911		1,211	911	
Nonperforming loans to average loans	0.22	0.29		0.22	0.30	

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

(b) Average loans include Loans held-for-sale of \$433 million and \$359 million for the quarters ended September 30, 2007 and 2006, respectively; and \$550 million and \$321 million for year-to-date 2007 and 2006, respectively. These amounts are excluded when calculating the Net charge-off rate and the allowance coverage ratio.

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

TREASURY & SECURITIES SERVICES

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

Selected income statement data (in millions, except ratios)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change	2007	2006	Change
Revenue						
Lending & deposit-related fees	\$ 244	\$ 183	33%	\$ 676	\$ 549	23%
Asset management, administration and commissions	730	642	14	2,244	1,975	14
All other income	171	155	10	480	479	—
Noninterest revenue	1,145	980	17	3,400	3,003	13
Net interest income	603	519	16	1,615	1,569	3
Total net revenue	1,748	1,499	17	5,015	4,572	10
Provision for credit losses	9	1	NM	15	1	NM
Credit reimbursement to IB ^(a)	(31)	(30)	(3)	(91)	(90)	(1)
Noninterest expense						
Compensation expense	579	557	4	1,746	1,643	6
Noncompensation expense	538	489	10	1,563	1,462	7
Amortization of intangibles	17	18	(6)	49	57	(14)
Total noninterest expense	1,134	1,064	7	3,358	3,162	6
Income before income tax expense	574	404	42	1,551	1,319	18
Income tax expense	214	148	45	576	485	19
Net income	\$ 360	\$ 256	41	\$ 975	\$ 834	17
Financial ratios						
ROE	48%	46%		43%	48%	
Overhead ratio	65	71		67	69	
Pretax margin ratio ^(b)	33	27		31	29	

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

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

Quarterly results

Net income was a record \$360 million, up by \$104 million, or 41%, from the prior year, driven by record revenue offset partially by higher noninterest expense.

Net revenue was \$1.7 billion, up by \$249 million, or 17%, from the prior year. Worldwide Securities Services net revenue of \$968 million was up by \$166 million, or 21%. The growth was driven by increased product usage by new and existing clients and market appreciation, partially offset by spread compression and a shift to narrower-spread liability products. Treasury Services net revenue of \$780 million was up by \$83 million, or 12%, driven by growth in electronic volumes and higher liability balances. These benefits were offset partially by a continued shift to narrower-spread liability products. TSS firmwide net revenue, which includes Treasury Services net revenue recorded in other lines of business, grew to \$2.4 billion, up by \$308 million, or 15%. Treasury Services firmwide net revenue grew to \$1.4 billion, up by \$142 million, or 11%.

Noninterest expense was \$1.1 billion, up by \$70 million, or 7%, from the prior year. The increase was due to higher expense related to business and volume growth, as well as investment in new product platforms.

Year-to-date results

Net income was \$975 million, up by \$141 million, or 17%, from the prior year. The increase was driven by record revenue, partially offset by higher noninterest expense.

Net revenue was \$5.0 billion, up by \$443 million, or 10%, from the prior year. Worldwide Securities Services net revenue was \$2.8 billion, up by \$346 million, or 14%, driven by increased product usage by new and existing clients and market appreciation, partially offset by spread compression and a shift to narrower-spread liability products. Treasury Services net revenue was \$2.2 billion, up by \$97 million, or 5%, driven by growth in electronic volumes and higher liability balances. These benefits were offset partially by a continued shift to narrower-spread liability products. TSS firmwide net revenues, which includes Treasury Services net revenue recorded in other lines of business, grew to \$6.9 billion, up by \$538 million, or 8%. Treasury Services firmwide net revenue grew to \$4.1 billion, up by \$192 million, or 5%.

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Noninterest expense was \$3.4 billion, up by \$196 million, or 6%. The increase was due to higher expense related to business and volume growth as well as investment in new product platforms.

Selected metrics (in millions, except headcount, ratio data and where otherwise noted)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change	2007	2006	Change
Revenue by business						
Treasury Services	\$ 780	\$ 697	12%	\$ 2,189	\$ 2,092	5%
Worldwide Securities Services	968	802	21	2,826	2,480	14
Total net revenue	\$ 1,748	\$ 1,499	17	\$ 5,015	\$ 4,572	10
Business metrics						
Assets under custody (in billions)	\$ 15,614	\$ 12,873	21	\$ 15,614	\$ 12,873	21
Number of:						
US\$ ACH transactions originated (in millions)	943#	886#	6	2,886#	2,572#	12
Total US\$ clearing volume (in thousands)	28,031	26,252	7	82,650	77,940	6
International electronic funds transfer volume (in thousands)(a)	41,415	35,322	17	125,882	104,318	21
Wholesale check volume (in millions)	731	860	(15)	2,269	2,616	(13)
Wholesale cards issued (in thousands)(b)	18,108	16,662	9	18,108	16,662	9
Selected balance sheets (average)						
Total assets	\$ 55,688	\$ 30,558	82	\$ 50,829	\$ 30,526	67
Loans	20,602	15,231	35	19,921	14,396	38
Liability balances(c)	236,381	192,518	23	221,606	188,330	18
Equity	3,000	2,200	36	3,000	2,314	30
Headcount	25,209#	24,575#	3	25,209#	24,575#	3
TSS firmwide metrics						
Treasury Services firmwide revenue(d)	\$ 1,442	\$ 1,300	11	\$ 4,101	\$ 3,909	5
Treasury & Securities Services firmwide revenue(d)	2,410	2,102	15	6,927	6,389	8
Treasury Services firmwide overhead ratio(e)	54%	57%		57%	56%	
Treasury & Securities Services firmwide overhead ratio(e)	59	63		60	61	
Treasury Services firmwide liability balances (average)(f)	\$ 201,671	\$ 162,326	24	\$ 192,560	\$ 159,897	20
Treasury & Securities Services firmwide liability balances (average)(f)	324,462	264,527	23	306,302	259,477	18

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

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

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

TSS firmwide metrics

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

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

(in millions)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change	2007	2006	Change
Treasury Services revenue reported in CB	\$ 592	\$ 551	7%	\$ 1,717	\$ 1,667	3%
Treasury Services revenue reported in other lines of business	70	52	35	195	150	30

TSS firmwide FX revenue, which includes FX revenue recorded in TSS and FX revenue associated with TSS customers who are FX customers of IB, was \$144 million and \$85 million for the quarters ended September 30, 2007 and 2006, respectively, and \$395 million and \$349 million year-to-date 2007 and 2006, respectively.

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

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

ASSET MANAGEMENT

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

Selected income statement data (in millions, except ratios)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change	2007	2006	Change
Revenue						
Asset management, administration and commissions	\$ 1,760	\$ 1,285	37%	\$ 4,920	\$ 3,786	30%
All other income	152	120	27	495	329	50
Noninterest revenue	1,912	1,405	36	5,415	4,115	32
Net interest income	293	231	27	831	725	15
Total net revenue	2,205	1,636	35	6,246	4,840	29
Provision for credit losses	3	(28)	NM	(17)	(42)	60
Noninterest expense						
Compensation expense	848	676	25	2,491	2,027	23
Noncompensation expense	498	417	19	1,405	1,201	17
Amortization of intangibles	20	22	(9)	60	66	(9)
Total noninterest expense	1,366	1,115	23	3,956	3,294	20
Income before income tax expense	836	549	52	2,307	1,588	45
Income tax expense	315	203	55	868	586	48
Net income	\$ 521	\$ 346	51	\$ 1,439	\$ 1,002	44
Financial ratios						
ROE	52%	39%		50%	38%	
Overhead ratio	62	68		63	68	
Pretax margin ratio ^(a)	38	34		37	33	
Selected metrics						
Revenue by client segment						
Private bank	\$ 686	\$ 469	46%	\$ 1,892	\$ 1,379	37%
Retail	639	456	40	1,768	1,344	32
Institutional	603	464	30	1,771	1,348	31
Private client services	277	247	12	815	769	6
Total net revenue	\$ 2,205	\$ 1,636	35	\$ 6,246	\$ 4,840	29

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

Quarterly results

Net income was a record \$521 million, up by \$175 million, or 51%, from the prior year. Results benefited from record net revenue offset partially by higher noninterest expense.

Net revenue was \$2.2 billion, up by \$569 million, or 35%, from the prior year. Noninterest revenue, primarily fees and commissions, was \$1.9 billion, up by \$507 million, or 36%. This result was due largely to increased assets under management and higher performance and placement fees. Net interest income was \$293 million, up by \$62 million, or 27%, from the prior year, largely due to higher deposit and loan balances and wider deposit spreads.

Private Bank revenue grew 46%, to \$686 million, due to higher asset management and placement fees, increased loan and deposit balances, and wider deposit spreads. Retail revenue grew 40%, to \$639 million, primarily due to market appreciation and net asset inflows. Institutional revenue grew 30%, to \$603 million, due to net asset inflows and performance fees. Private Client Services revenue grew 12%, to \$277 million, due to increased revenue from higher assets under management and higher deposit balances.

The Provision for credit losses was \$3 million, compared with a benefit of \$28 million in the prior year, reflecting a higher level of recoveries in the prior year.

Noninterest expense was \$1.4 billion, up by \$251 million, or 23%, from the prior year. The increase was due largely to higher compensation, primarily performance-based, and investments in all business segments.

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Year-to-date results

Net income was a record \$1.4 billion, up by \$437 million, or 44%, from the prior year. Results benefited from record net revenue, partially offset by higher noninterest expense.

Net revenue was \$6.2 billion, up by \$1.4 billion, or 29%, from the prior year. Noninterest revenue, primarily fees and commissions, was \$5.4 billion, up by \$1.3 billion, or 32%. This result was due largely to increased assets under management and higher performance and placement fees. Net interest income was \$831 million, up by \$106 million, or 15%, largely due to higher deposit and loan balances and slightly wider deposit spreads.

Private Bank revenue grew 37%, to \$1.9 billion, due to higher asset management and placement fees, increased loan and deposit balances, and wider deposit spreads. Retail revenue grew 32%, to \$1.8 billion, primarily due to market appreciation and net asset inflows. Institutional revenue grew 31%, to \$1.8 billion, due to net asset inflows and performance fees. Private Client Services revenue grew 6%, to \$815 million, due to increased revenue from higher assets under management and higher deposit balances, partially offset by a shift to narrower-spread deposit products.

The Provision for credit losses was a benefit of \$17 million, compared with a benefit of \$42 million in the prior year.

Noninterest expense was \$4.0 billion, up by \$662 million, or 20%, from the prior year. The increase was due largely to higher compensation expense, primarily performance-based, investments in all business segments, and increased minority-interest expense related to Highbridge Capital Management. These factors were partially offset by the absence of prior-year expense from the adoption of SFAS 123R.

Business metrics (in millions, except headcount, ratios and ranking data, and where otherwise noted)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change	2007	2006	Change
Number of:						
Client advisors	1,680#	1,489#	13%	1,680#	1,489#	13%
Retirement planning services participants	1,495,000	1,372,000	9	1,495,000	1,372,000	9
% of customer assets in 4 & 5 Star Funds ^(a)	55%	58%	(5)	55%	58%	(5)
% of AUM in 1st and 2nd quartiles ^(b)						
1 year	47%	79%	(41)	47%	79%	(41)
3 years	73%	75%	(3)	73%	75%	(3)
5 years	76%	80%	(5)	76%	80%	(5)
Selected balance sheets data (average)						
Total assets	\$ 53,879	\$ 43,524	24	\$ 50,498	\$ 42,597	19
Loans ^(c)	30,928	26,770	16	28,440	25,695	11
Deposits	59,907	51,395	17	56,920	50,360	13
Equity	4,000	3,500	14	3,834	3,500	10
Headcount	14,510#	12,761#	14	14,510#	12,761#	14
Credit data and quality statistics						
Net charge-offs (recoveries)	\$ (5)	\$ (24)	79	\$ (10)	\$ (21)	52
Nonperforming loans	28	57	(51)	28	57	(51)
Allowance for loan losses	115	112	3	115	112	3
Allowance for lending-related commitments	6	4	50	6	4	50
Net charge-off (recovery) rate	(0.06)%	(0.36)%		(0.05)%	(0.11)%	
Allowance for loan losses to average loans	0.37	0.42		0.40	0.44	
Allowance for loan losses to nonperforming loans	411	196		411	196	
Nonperforming loans to average loans	0.09	0.21		0.10	0.22	

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

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

(c) Held-for-investment prime mortgage loans transferred from AM to Treasury within the Corporate segment during the three and nine months ended September 30, 2007, were \$1.2 billion and \$6.5 billion, respectively. There were no loans transferred during 2006. Although the loans, together with the responsibility for the investment management of the portfolio, were transferred to Treasury, the transfer has no material impact on the financial results of AM.

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Assets under supervision

Assets under supervision were \$1.5 trillion, up 22%, or \$274 billion, from the prior year. Assets under management were \$1.2 trillion, up 24%, or \$228 billion, from the prior year. The increase was the result of net asset inflows into the Institutional segment, primarily in liquidity and alternative products; the Retail segment, primarily fixed income, equity and alternative products; the Private Bank segment, primarily in liquidity and alternative products; and from market appreciation. Custody, brokerage, administration and deposit balances were \$376 billion, up by \$46 billion.

ASSETS UNDER SUPERVISION^(a) (in billions)

As of September 30,	2007	2006
Assets by asset class		
Liquidity	\$ 368	\$ 281
Fixed income	195	171
Equities & balanced	481	392
Alternatives	119	91
Total Assets under management	1,163	935
Custody/brokerage/administration/deposits	376	330
Total Assets under supervision	\$ 1,539	\$ 1,265
Assets by client segment		
Institutional	\$ 603	\$ 503
Private Bank	196	150
Retail	304	228
Private Client Services	60	54
Total Assets under management	\$ 1,163	\$ 935
Institutional	\$ 604	\$ 505
Private Bank	423	347
Retail	399	309
Private Client Services	113	104
Total Assets under supervision	\$ 1,539	\$ 1,265
Assets by geographic region		
U.S./Canada	\$ 745	\$ 596
International	418	339
Total Assets under management	\$ 1,163	\$ 935
U.S./Canada	\$ 1,022	\$ 855
International	517	410
Total Assets under supervision	\$ 1,539	\$ 1,265
Mutual fund assets by asset class		
Liquidity	\$ 308	\$ 221
Fixed income	46	45
Equity	235	184
Total mutual fund assets	\$ 589	\$ 450

(a) Excludes Assets under management of American Century Companies, Inc, in which the Firm has 44% ownership.

Assets under management rollforward (in billions)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Beginning balance	\$ 1,109	\$ 898	\$ 1,013	\$ 847
Flows:				
Liquidity	33	15	52	20
Fixed income	(2)	4	6	10
Equities, balanced and alternatives	2	3	24	29
Market/performance/other impacts	21	15	68	29
Ending balance	\$ 1,163	\$ 935	\$ 1,163	\$ 935
Assets under supervision rollforward				
Beginning balance	\$ 1,472	\$ 1,213	\$ 1,347	\$ 1,149
Net asset flows	41	26	106	71
Market/performance/other impacts	26	26	86	45
Ending balance	\$ 1,539	\$ 1,265	\$ 1,539	\$ 1,265

CORPORATE

For a discussion of the business profile of Corporate, see pages 53–54 of JPMorgan Chase's 2006 Annual Report.

The transaction with The Bank of New York closed on October 1, 2006. As a result of this transaction, select corporate trust businesses were transferred from TSS to the Corporate segment and are reported in discontinued operations for 2006. See Note 2 on page 73 of this Form 10-Q.

Selected income statement data (in millions, except headcount)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change	2007	2006	Change
Revenue						
Principal transactions ^{(a)(b)}	\$ 1,082	\$ 195	455%	\$ 3,779	\$ 945	300%
Securities gains (losses) ^(c)	128	24	433	(107)	(626)	83
All other income ^(d)	70	125	(44)	228	458	(50)
Noninterest revenue	1,280	344	272	3,900	777	402
Net interest income (expense)	(279)	(55)	(407)	(569)	(957)	41
Total net revenue	1,001	289	246	3,331	(180)	NM
Provision for credit losses	(31)	1	NM	(25)	1	NM
Noninterest expense						
Compensation expense ^(b)	569	737	(23)	2,040	2,192	(7)
Noncompensation expense ^(e)	674	731	(8)	2,048	1,679	22
Merger costs	61	48	27	187	205	(9)
Subtotal	1,304	1,516	(14)	4,275	4,076	5
Net expenses allocated to other businesses	(1,059)	(1,035)	(2)	(3,174)	(3,104)	(2)
Total noninterest expense	245	481	(49)	1,101	972	13
Income (loss) from continuing operations before income tax expense	787	(193)	NM	2,255	(1,153)	NM
Income tax expense (benefit)	274	(159)	NM	729	(659)	NM
Income (loss) from continuing operations	513	(34)	NM	1,526	(494)	NM
Income from discontinued operations^(f)	—	65	NM	—	175	NM
Net income (loss)	\$ 513	\$ 31	NM	\$ 1,526	\$ (319)	NM
Total net revenue						
Private equity ^{(a)(b)}	\$ 733	\$ 188	290	\$ 3,279	\$ 892	268
Treasury and Corporate other ^(c)	268	101	165	52	(1,072)	NM
Total net revenue	\$ 1,001	\$ 289	246	\$ 3,331	\$ (180)	NM
Net income (loss)						
Private equity ^(a)	\$ 409	\$ 95	331	\$ 1,809	\$ 491	268
Treasury and Corporate other ^(c)	142	(99)	NM	(167)	(858)	81
Merger costs	(38)	(30)	(27)	(116)	(127)	9
Income (loss) from continuing operations	513	(34)	NM	1,526	(494)	NM
Income from discontinued operations ^(f)	—	65	NM	—	175	NM
Total net income (loss)	\$ 513	\$ 31	NM	\$ 1,526	\$ (319)	NM
Headcount	22,864#	25,748#	(11)	22,864#	25,748#	(11)

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

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

(c) Included a gain of \$115 million in the third quarter of 2007 related to the sale of MasterCard shares.

(d) The nine months ended September 30, 2006, included a gain of \$103 million related to the sale of Mastercard shares in its initial public offering, which occurred during the second quarter of 2006.

(e) Included insurance recoveries related to settlement of the Enron and WorldCom class action litigations and for certain other material proceedings of \$17 million and \$375 million for the quarter and nine months ended September 30, 2006, respectively.

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

Quarterly results

Net income was \$513 million, compared with \$31 million in the prior year, benefiting from increased net revenue and lower noninterest expense. Prior-year results also included net income from discontinued operations of \$65 million.

Net revenue was \$1.0 billion, compared with \$289 million in the prior year. The increase was driven by Private Equity gains of \$766 million, compared with \$226 million, reflecting a higher level of gains and the classification of certain private equity carried interest as compensation expense. Net revenue also increased due to higher trading-related gains and a \$115 million gain from the sale of MasterCard shares. The increase in revenue was offset partially by a narrower net interest spread.

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Noninterest expense was \$245 million, down by \$236 million from the prior year. The decrease was driven by lower compensation expense and continuing business efficiencies. Partially offsetting the benefit of lower expense was the impact of the classification of certain private equity carried interest as compensation expense.

Year-to-date results

Net income was \$1.5 billion, compared with net loss of \$319 million in the prior year, benefiting from increased net revenue, partially offset by higher expense. Prior-year results also included net income from discontinued operations of \$175 million.

Net revenue was \$3.3 billion, compared with a negative \$180 million in the prior year. The increase was driven by Private Equity gains of \$3.4 billion, compared with \$1.0 billion, reflecting a higher level of gains, the classification of certain private equity carried interest as compensation expense and a fair value adjustment on nonpublic investments resulting from the adoption of SFAS 157. Net revenue also increased due to a \$115 million gain from the sale of MasterCard shares, lower securities losses and improved net interest income. Prior-year results included a \$103 million gain related to the MasterCard initial public offering.

Noninterest expense was \$1.1 billion, compared with \$972 million in the prior year. The increase was driven by higher net legal costs, reflecting a lower level of recoveries and higher expense. In addition, expense increased due to the classification of certain private equity carried interest as compensation expense offset partially by business efficiencies.

Selected income statement and balance sheet data (in millions)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change	2007	2006	Change
Treasury						
Securities gains (losses) ^(a)	\$ 126	\$ 24	425%	\$ (109)	\$ (626)	83%
Investment securities portfolio (average)	85,470	68,619	25	86,552	57,545	50
Investment securities portfolio (ending)	86,495	77,116	12	86,495	77,116	12
Mortgage loans (average) ^(b)	29,854	—	NM	27,326	—	NM
Mortgage loans (ending) ^(b)	32,804	—	NM	32,804	—	NM
Private equity						
Realized gains	\$ 504	\$ 194	160	\$ 2,212	\$ 969	128
Unrealized gains (losses)	227	4	NM	1,038	(7)	NM
Total direct investments ^(c)	731	198	269	3,250	962	238
Third-party fund investments	35	28	25	122	50	144
Total private equity gains^(d)	\$ 766	\$ 226	239	\$ 3,372	\$ 1,012	233

Private equity portfolio information^(e)

	September 30, 2007	December 31, 2006	Change
Direct investments			
Publicly-held securities			
Carrying value	\$ 409	\$ 587	(30)%
Cost	291	451	(35)
Quoted public value	560	831	(33)
Privately-held direct securities			
Carrying value	5,336	4,692	14
Cost	5,003	5,795	(14)
Third-party fund investments^(f)			
Carrying value	839	802	5
Cost	1,078	1,080	—
Total private equity portfolio – Carrying value	\$ 6,584	\$ 6,081	8
Total private equity portfolio – Cost	\$ 6,372	\$ 7,326	(13)

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

(b) Held-for-investment prime mortgage loans were transferred from RFS and AM. The transfer has no material impact on the financial results of Corporate.

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

(d) Included in Principal transactions revenue.

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

(f) Unfunded commitments to third-party equity funds were \$883 million and \$589 million at September 30, 2007 and December 31, 2006, respectively.

The carrying value of the private equity portfolio at September 30, 2007, was \$6.6 billion, up \$503 million from December 31, 2006. The portfolio increase was due primarily to favorable valuation adjustments on nonpublic investments and new investments, partially offset by sales activity. The portfolio represented 8.8% of the Firm's stockholders' equity less goodwill at September 30, 2007, up from 8.6% at December 31, 2006.

BALANCE SHEET ANALYSIS

Selected balance sheet data (in millions)	September 30, 2007	December 31, 2006
Assets		
Cash and due from banks	\$ 32,766	\$ 40,412
Deposits with banks	26,714	13,547
Federal funds sold and securities purchased under resale agreements	135,589	140,524
Securities borrowed	84,697	73,688
Trading assets:		
Debt and equity instruments	389,119	310,137
Derivative receivables	64,592	55,601
Securities:		
Available-for-sale	97,659	91,917
Held-to-maturity	47	58
Loans, net of Allowance for loan losses	478,207	475,848
Other receivables	36,411	27,585
Goodwill	45,335	45,186
Other intangible assets	15,500	14,852
All other assets	72,939	62,165
Total assets	\$ 1,479,575	\$ 1,351,520
Liabilities		
Deposits	\$ 678,091	\$ 638,788
Federal funds purchased and securities sold under repurchase agreements	178,767	162,173
Commercial paper and other borrowed funds	65,132	36,902
Trading liabilities:		
Debt and equity instruments	80,748	90,488
Derivative payables	68,426	57,469
Long-term debt and trust preferred capital debt securities	188,626	145,630
Beneficial interests issued by consolidated variable interest entities	13,283	16,184
All other liabilities	86,524	88,096
Total liabilities	1,359,597	1,235,730
Stockholders' equity	119,978	115,790
Total liabilities and stockholders' equity	\$ 1,479,575	\$ 1,351,520

Consolidated balance sheets overview

At September 30, 2007, the Firm's total assets were \$1.5 trillion, an increase of \$128.1 billion, or 9%, from December 31, 2006. Total liabilities were \$1.4 trillion, an increase of \$123.9 billion, or 10%, from December 31, 2006. Stockholders' equity was \$120.0 billion, an increase of \$4.2 billion, or 4%, from December 31, 2006. The following is a discussion of the significant changes in balance sheet items from December 31, 2006.

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

The Firm utilizes Deposits with banks, Federal funds sold and securities purchased under resale agreements, Securities borrowed, and Federal funds purchased and securities sold under repurchase agreements as part of its liquidity management activities to manage the Firm's cash positions and risk-based capital requirements, and to support the Firm's trading activities, including its risk management activities. In particular, Federal funds purchased and securities sold under repurchase agreements are used to maximize liquidity access and minimize funding costs. The increases from December 31, 2006, in Deposits with banks and Securities borrowed reflected higher levels of funds that were available for short-term investment opportunities and a higher volume of securities needed for trading purposes, respectively. Securities sold under repurchase agreements increased primarily due to higher short-term requirements to fund trading positions. For additional information on the Firm's Liquidity risk management, see pages 49–51 of this Form 10-Q.

Trading assets and liabilities – debt and equity instruments

The Firm uses debt and equity trading instruments for both market-making and proprietary risk-taking activities. These instruments consist primarily of fixed income securities, including government and corporate debt; equity, including convertible securities; loans; and physical commodities. The increase in trading assets from December 31, 2006, was due primarily to the more active capital markets environment, with growth in client-driven market-making activities, particularly for debt securities. In addition, a total of \$31.0 billion of loans are now accounted for at fair value under SFAS 159 and classified as trading assets in the Consolidated balance sheet at September 30, 2007. The trading assets accounted for under SFAS 159 are primarily certain prime mortgage loans warehoused by RFS for sale or securitization purposes, and loans warehoused by IB. The decrease in trading liabilities reflects a lower volume of short positions on debt instruments, due to

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the difficult fixed income market environment that occurred during the third quarter of 2007. For additional information, refer to Note 4 and Note 5 on pages 80–83 and 83–85, respectively, of this Form 10-Q.

Trading assets and liabilities – derivative receivables and payables

The Firm utilizes various interest rate, foreign exchange, equity, credit and commodity derivatives for market-making, proprietary risk-taking and risk-management purposes. Derivative receivables increased \$9.0 billion from December 31, 2006, primarily due to higher equity, credit derivative and foreign exchange receivables as a result of higher equity market levels, widening credit spreads and the decline in the U.S. dollar, respectively. The increase in derivative payables from December 31, 2006, was due primarily to higher payables on equity-related and foreign exchange derivatives due to the strength of the equities markets and the decline in the value of the U.S. Dollar, respectively. For additional information, refer to Derivative contracts and Note 5 on pages 56–58 and 83–85, respectively, of this Form 10-Q.

Securities

Almost all of the Firm's securities portfolios are classified as AFS and are used primarily to manage the Firm's exposure to interest rate movements. The AFS portfolio increased from December 31, 2006, primarily due to net purchases of securities by Treasury associated with managing the Firm's exposure to interest rates. For additional information related to securities, refer to the Corporate segment discussion and to Note 11 on pages 40–41 and 89–90, respectively, of this Form 10-Q.

Loans

The Firm provides loans to customers of all sizes, from large corporate and institutional clients to individual consumers. The Firm manages the risk/reward relationship of each portfolio and discourages the retention of loan assets that do not generate a positive return above the cost of risk-adjusted capital. Loans, net of the Allowance for loan losses, rose slightly from December 31, 2006, primarily due to: business growth in wholesale lending activity, mainly in IB and CB; organic growth in the Home Equity portfolio; and the decision during the current quarter to retain rather than sell subprime mortgage loans. These increases were partly offset by a decline in consumer loans as certain prime mortgage loans originated after January 1, 2007, are classified as Trading assets and accounted for at fair value under SFAS 159. In addition, certain loans warehoused in IB were transferred to Trading assets on January 1, 2007, as part of the adoption of SFAS 159. Also contributing to the decrease were typical seasonal declines in credit card receivables, partially offset by organic growth. For a more detailed discussion of the loan portfolio and the Allowance for loan losses, refer to Credit risk management on pages 51–62 of this Form 10-Q.

Goodwill

Goodwill arises from business combinations and represents the excess of the cost of an acquired entity over the net fair value amounts assigned to assets acquired and liabilities assumed. The increase in Goodwill primarily resulted from certain acquisitions by TSS and CS, and currency-translation adjustments on the Sears Canada credit card acquisition. These factors were partially offset by a reduction in Goodwill from the adoption of FIN 48, as well as adjustments for tax-related purchase accounting adjustments associated with the Bank One merger. For additional information see Notes 17 and 20 on pages 101 and 105, respectively, of this Form 10-Q.

Other intangible assets

The Firm's other intangible assets consist of MSRs, purchased credit card relationships, other credit card-related intangibles, core deposit intangibles, and all other intangibles. The increase in Other intangible assets reflects higher MSRs of \$1.6 billion primarily due to MSR additions from loan sales and MSR purchases. Partially offsetting these increases were other changes in the fair value of MSRs, related primarily to modeled mortgage servicing portfolio runoff (or time decay), and the amortization of intangibles, in particular, credit card business-related intangibles and core deposit intangibles. For additional information on MSRs and other intangible assets, see Note 17 on pages 101–103 of this Form 10-Q.

Deposits

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

Commercial paper and other borrowed funds

The Firm utilizes Commercial paper and other borrowed funds as part of its liquidity management activities to cover short-term funding needs, as well as in connection with TSS's cash management product in which clients' excess funds, primarily in TSS, CB and RFS, are transferred into commercial paper overnight sweep accounts. The increases in Commercial paper and other borrowed funds were due primarily to growth in the volume of liability balances in sweep accounts, higher short-term requirements to fund trading positions and AFS securities inventory levels, and the Firm's ongoing efforts to further build liquidity by increasing the amounts held of liquid securities and overnight investments that may be readily converted to cash. For additional information on the Firm's Liquidity risk management, see pages 49–51 of this Form 10-Q.

Beneficial interests issued by consolidated variable interest entities ("VIEs")

Beneficial interests issued by consolidated VIEs declined from December 31, 2006, primarily as a result of the restructuring during the first quarter of 2007 of a Firm-administered multi-seller conduit. For additional information related to multi-seller conduits, refer to Off-balance sheet arrangements and contractual cash obligations on pages 47–48 and Note 16 on pages 100–101 of this Form 10-Q.

Long-term debt and trust preferred capital debt securities

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

Stockholders' equity

Total stockholders' equity increased from year-end 2006 to \$120.0 billion at September 30, 2007. The increase was primarily the result of Net income for the first nine months of 2007, net shares issued under the Firm's employee stock-based compensation plans, and the cumulative effect on Retained earnings of changes in accounting principles of \$915 million. These were offset partially by stock repurchases and the declaration of cash dividends. The \$915 million increase in Retained earnings resulting from the adoption of new accounting principles primarily reflected \$287 million related to SFAS 157, \$199 million related to SFAS 159 and \$436 million related to FIN 48 in the first quarter of 2007. For a further discussion of capital, see the Capital management section that follows; for a further discussion of the accounting changes, see Accounting and Reporting Developments on pages 66–67, Note 3 on pages 73–80, Note 4 on pages 80–83 and Note 20 on page 105 of this Form 10-Q.

CAPITAL MANAGEMENT

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

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

Line of business equity

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

In accordance with SFAS 142, the lines of business perform the required Goodwill impairment testing. For a further discussion of Goodwill and impairment testing, see Critical accounting estimates and Note 16 on pages 85 and 121, respectively, of JPMorgan Chase's 2006 Annual Report, and Note 17 on page 101 of this Form 10-Q.

Line of business equity (in billions)	Quarterly Averages	
	3Q07	3Q06
Investment Bank	\$ 21.0	\$ 21.0
Retail Financial Services	16.0	14.3
Card Services	14.1	14.1
Commercial Banking	6.7	5.5
Treasury & Securities Services	3.0	2.2
Asset Management	4.0	3.5
Corporate	54.2	51.2
Total common stockholders' equity	\$ 119.0	\$ 111.8

Economic risk capital

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

Economic risk capital (in billions)	Quarterly Averages	
	3Q07	3Q06
Credit risk	\$ 24.8	\$ 22.3
Market risk	9.7	9.6
Operational risk	5.6	5.7
Private equity risk	3.7	3.3
Economic risk capital	43.8	40.9
Goodwill	45.3	43.4
Other ^(a)	29.9	27.5
Total common stockholders' equity	\$ 119.0	\$ 111.8

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

Regulatory capital

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

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Tier 1 capital was \$86.1 billion at September 30, 2007, compared with \$81.1 billion at December 31, 2006, an increase of \$5.0 billion. The increase was due primarily to net income of \$12.4 billion; net issuances of common stock under the Firm's employee stock-based compensation plans of \$3.0 billion; net issuances of \$1.6 billion of qualifying trust preferred capital debt securities; and the effects of the adoption of new accounting principles reflecting increases of \$287 million for SFAS 157, \$199 million for SFAS 159 and \$436 million for FIN 48. These increases were partially offset by decreases in Stockholders' equity net of Accumulated other comprehensive income (loss) due to common stock repurchases of \$8.0 billion and dividends declared of \$3.8 billion. In addition, the change in capital reflects the exclusion of a \$651 million valuation adjustment to certain liabilities pursuant to SFAS 157 to reflect the credit quality of the Firm. Additional information regarding the Firm's capital ratios and the federal regulatory capital standards to which it is subject is presented in Note 26 on pages 129–130 of JPMorgan Chase's 2006 Annual Report.

The following table presents the risk-based capital ratios for JPMorgan Chase and its significant banking subsidiaries at September 30, 2007, and December 31, 2006.

(in millions, except ratios)	Tier 1 capital	Total capital	Risk-weighted assets ^(c)	Adjusted average assets ^(d)	Tier 1 capital ratio	Total capital ratio	Tier 1 leverage ratio
September 30, 2007^(a)							
JPMorgan Chase & Co.	\$ 86,096	\$ 128,543	\$ 1,028,551	\$ 1,423,171	8.4%	12.5%	6.0%
JPMorgan Chase Bank, N.A.	75,539	108,306	920,447	1,211,591	8.2	11.8	6.2
Chase Bank USA, N.A.	9,499	10,807	71,484	61,285	13.3	15.1	15.5
December 31, 2006^(a)							
JPMorgan Chase & Co.	\$ 81,055	\$ 115,265	\$ 935,909	\$ 1,308,699	8.7%	12.3%	6.2%
JPMorgan Chase Bank, N.A.	68,726	96,103	840,057	1,157,449	8.2	11.4	5.9
Chase Bank USA, N.A.	9,242	11,506	77,638	66,202	11.9	14.8	14.0
Well-capitalized ratios ^(b)					6.0%	10.0%	5.0% ^(e)
Minimum capital ratios ^(b)					4.0	8.0	3.0 ^(f)

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

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

(c) Includes off-balance sheet risk-weighted assets in the amounts of \$345.4 billion, \$329.3 billion and \$14.2 billion, respectively, at September 30, 2007, and \$305.3 billion, \$290.1 billion and \$12.7 billion, respectively, at December 31, 2006, for JPMorgan Chase and its significant banking subsidiaries.

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

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

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

Dividends

The Firm's common stock dividend policy reflects JPMorgan Chase's earnings outlook, desired dividend payout ratios, need to maintain an adequate capital level and alternative investment opportunities. The Firm continues to target a dividend payout ratio of approximately 30–40% of Net income over time. On September 18, 2007, the Board of Directors declared a quarterly dividend of \$0.38 per share on the outstanding shares of the corporation's common stock, payable on October 31, 2007, to stockholders of record at the close of business on October 5, 2007. On April 17, 2007, the Board of Directors increased the quarterly dividend \$0.04 per share, or 12%, to \$0.38 per share effective with the dividend that was paid on July 31, 2007.

Stock repurchases

During the quarter and nine months ended September 30, 2007, under the respective stock repurchase programs then in effect, the Firm repurchased a total of 47.0 million and 164.6 million shares for \$2.1 billion and \$8.0 billion at an average price per share of \$45.42 and \$48.67, respectively. During the quarter and nine months ended September 30, 2006, under the respective stock repurchase programs then in effect, the Firm repurchased a total of 20.0 million and 69.5 million shares for \$900 million and \$2.9 billion at an average price per share of \$44.88 and \$42.22, respectively.

On April 17, 2007, the Board of Directors authorized the repurchase of up to \$10.0 billion of the Firm's common shares. The new authorization commenced April 19, 2007, and replaced the Firm's previous \$8.0 billion repurchase program. The new \$10.0 billion authorization will be utilized at management's discretion, and the timing of purchases and the exact number of shares purchased will depend on market conditions and alternative investment opportunities. The new repurchase program does not include specific price targets or timetables; may be executed through open market purchases, privately negotiated transactions or utilizing Rule 10b5-1 programs; and may be suspended at any time. For additional information regarding repurchases of the Firm's equity securities, see Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds, on pages 121–122 of this Form 10-Q.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL CASH OBLIGATIONS

Special-purpose entities

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

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

For certain liquidity commitments to SPEs, the Firm could be required to provide funding if the short-term credit rating of JPMorgan Chase Bank, N.A., were downgraded below specific levels, primarily P-1, A-1 and F1 for Moody's, Standard & Poor's and Fitch, respectively. The amounts of these liquidity commitments were \$96.9 billion and \$74.4 billion at September 30, 2007, and December 31, 2006, respectively. These liquidity commitments are generally included in the Firm's other unfunded commitments to extend credit and asset purchase agreements, as shown in the table on the following page. Alternatively, if JPMorgan Chase Bank, N.A. were downgraded, the Firm could be replaced by another liquidity provider in lieu of providing funding under the liquidity commitment, or, in certain circumstances, could facilitate the sale or refinancing of the assets in the SPE in order to provide liquidity. For further information, refer to Note 15 on pages 118–120 of JPMorgan Chase's 2006 Annual Report.

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

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

Revenue from VIEs and QSPEs

(in millions)	Three months ended September 30,			Nine months ended September 30,		
	VIEs	QSPEs	Total	VIEs	QSPEs	Total
2007	\$ 56	\$ 865	\$ 921	\$ 158	\$ 2,552	\$ 2,710
2006	\$ 55	\$ 788	\$ 843	\$ 162	\$ 2,366	\$ 2,528

Off-balance sheet lending-related financial instruments and guarantees

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

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

By remaining maturity (in millions)	September 30, 2007				Dec. 31, 2006	
	< 1 year	1–3 years	3–5 years	> 5 years	Total	Total
Lending-related						
Consumer ^(a)	\$ 726,405	\$ 3,272	\$ 3,344	\$ 68,667	\$ 801,688	\$ 747,535
Wholesale:						
Unfunded commitments to extend credit ^{(b)(c)(d)}	109,348	67,478	66,535	18,514	261,875	229,204
Asset purchase agreements ^(e)	30,301	44,765	14,466	3,868	93,400	67,529
Standby letters of credit and guarantees ^{(c)(f)(g)}	27,071	23,770	47,496	8,466	106,803	89,132
Other letters of credit ^(c)	4,828	1,099	126	14	6,067	5,559
Total wholesale	171,548	137,112	128,623	30,862	468,145	391,424
Total lending-related	\$ 897,953	\$ 140,384	\$ 131,967	\$ 99,529	\$ 1,269,833	\$ 1,138,959
Other guarantees						
Securities lending guarantees ^(h)	\$ 384,462	\$ —	\$ —	\$ —	\$ 384,462	\$ 318,095
Derivatives qualifying as guarantees ⁽ⁱ⁾	25,802	10,472	27,553	24,608	88,435	71,531

(a) Includes Credit card lending-related commitments of \$700.2 billion at September 30, 2007, and \$657.1 billion at December 31, 2006, that represent the total available credit to the Firm's cardholders. The Firm has not experienced, and does not anticipate, that all of its cardholders will utilize their entire available lines of credit at the same time. The Firm can reduce or cancel a credit card commitment by providing the cardholder prior notice or, in some cases, without notice as permitted by law.

(b) Includes unused advised lines of credit totaling \$39.2 billion at September 30, 2007, and \$39.0 billion at December 31, 2006, which are not legally binding. In regulatory filings with the FRB, unused advised lines are not reportable.

(c) Represents contractual amount net of risk participations totaling \$25.6 billion at September 30, 2007, and \$32.8 billion at December 31, 2006.

(d) Excludes firmwide unfunded commitments to private third-party equity funds of \$936 million and \$686 million at September 30, 2007, and December 31, 2006, respectively.

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

(f) JPMorgan Chase held collateral relating to \$15.4 billion and \$13.5 billion of these arrangements at September 30, 2007, and December 31, 2006, respectively.

(g) Includes unused commitments to issue standby letters of credit of \$59.1 billion and \$45.7 billion at September 30, 2007, and December 31, 2006, respectively.

(h) Collateral held by the Firm in support of securities lending indemnification agreements was \$387.4 billion at September 30, 2007, and \$317.9 billion at December 31, 2006.

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

RISK MANAGEMENT

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

For further discussion of these risks see pages 61–82 of JPMorgan Chase's 2006 Annual Report.

LIQUIDITY RISK MANAGEMENT

The following discussion of JPMorgan Chase's liquidity management framework highlights developments since December 31, 2006, and should be read in conjunction with pages 62–63 of JPMorgan Chase's 2006 Annual Report.

Liquidity risk arises from the general funding needs of the Firm's activities and in the management of its assets and liabilities. JPMorgan Chase's liquidity management framework is intended to maximize liquidity access and minimize funding costs. Through active liquidity management, the Firm seeks to preserve stable, reliable and cost-effective sources of funding. This access enables the Firm to replace maturing obligations when due and fund assets at appropriate maturities and rates. To accomplish this, management uses a variety of methods to mitigate liquidity and related risks, taking into consideration market conditions, prevailing interest rates, liquidity needs and the desired maturity profile of liabilities, among other factors.

Funding

Sources of funds

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

Consistent with its liquidity management policy, the Firm has raised funds at the Parent company level in excess of its obligations and those of its nonbank subsidiaries that mature over the next 12 months.

The diversity of the Firm's funding sources enhances financial flexibility and limits dependence on any one source, thereby minimizing the cost of funds. The deposits held by the RFS, CB, TSS and AM lines of business are generally a consistent source of funding for JPMorgan Chase Bank, N.A. As of September 30, 2007, total deposits for the Firm were \$678.1 billion. A significant portion of the Firm's deposits are retail deposits, which are less sensitive to interest rate changes and therefore are considered more stable than market-based wholesale deposits. The Firm also benefits from stable wholesale liability balances originated by RFS, CB, TSS and AM through the normal course of business. Such liability balances include deposits that are swept to on-balance sheet liabilities (e.g., commercial paper, Federal funds purchased and securities sold under repurchase agreements). These liability balances are also a stable and consistent source of funding due to the nature of the businesses from which they are generated. For further discussions of deposit and liability balance trends, see the discussion of the results for the Firm's business segments and the Balance Sheet Analysis on pages 17–39 and 42–44, respectively, of this Form 10-Q.

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

Funding flexibility is also provided by the Firm's ability to access secured funding from the repurchase and asset securitization markets. These markets are evaluated on an ongoing basis to achieve an appropriate balance of secured and unsecured funding. The ability to securitize loans, and the associated gains on those securitizations, are principally dependent upon the credit quality and yields of the assets securitized and are generally not dependent upon the credit ratings of the issuing entity. Transactions between the Firm and its securitization structures are reflected in JPMorgan Chase's consolidated financial statements and notes to the consolidated financial statements. These relationships include retained interests in securitization trusts, liquidity facilities and derivative transactions. For further details, see Off-balance sheet arrangements and contractual cash obligations, Note 15 and Note 23 on pages 47–48, 94–99 and 106–107, respectively, of this Form 10-Q.

Issuance

During the third quarter and first nine months of 2007, JPMorgan Chase issued \$24.2 billion and \$77.1 billion, respectively, of long-term debt and trust preferred capital debt securities. These issuances included IB structured notes, the issuances of which are generally client-driven and not for funding or capital management purposes as the proceeds are generally used to fund securities which mitigate risk associated with structured note exposures. The issuances of long-term debt and trust preferred capital debt securities were offset partially by \$10.0 billion and \$40.4 billion, respectively, of debt and trust preferred securities that matured or were redeemed during the third quarter and first nine months of 2007, including IB structured notes. The increase in long-term debt and trust preferred capital securities was used primarily to fund certain illiquid assets held by the Parent company and to build liquidity. During the third quarter and first nine months of 2007, Commercial paper increased \$8.9 billion and \$15.1 billion, respectively, and Other borrowed funds increased \$1.9 billion and \$13.1 billion, respectively.

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The growth in both Commercial paper and Other borrowed funds was used to further build liquidity by increasing the amounts held of liquid securities and overnight investments that may be readily converted to cash. In addition, during the third quarter and first nine months of 2007, the Firm securitized \$3.8 billion and \$27.7 billion, respectively, of residential mortgage loans; \$3.5 billion and \$14.2 billion, respectively, of credit card loans; and \$1.2 billion of education loans in the third quarter of 2007. The Firm did not securitize any auto loans during the nine months ended September 30, 2007. For further discussion of loan securitizations, see Note 15 on pages 94–99 of this Form 10-Q.

In connection with the issuance of certain of its trust preferred capital debt securities, the Firm has entered into Replacement Capital Covenants (“RCCs”) granting certain rights to the holders of “covered debt,” as defined in the RCCs, that prohibit the repayment, redemption or purchase of the trust preferred capital debt securities except, with limited exceptions, to the extent that JPMorgan Chase has received specified amounts of proceeds from the sale of certain qualifying securities. Currently the Firm’s covered debt is its 5.875% Junior Subordinated Deferrable Interest Debentures, Series O, due in 2035. For more information regarding these covenants, reference is made to the respective RCCs entered into by the Firm in connection with the issuances of such trust preferred capital debt securities, which are filed with the Securities and Exchange Commission under cover of Forms 8-K.

Cash Flows

Cash and due from banks decreased \$7.6 billion in the first nine months of 2007 compared with a decrease of \$391 million in the first nine months of 2006. A discussion of the significant changes in Cash and due from banks during the nine months ended September 30, 2007 and 2006, follows:

Cash Flows from Operating Activities

For the nine months ended September 30, 2007 and 2006, net cash used in operating activities was \$81.3 billion and \$35.1 billion, respectively. JPMorgan Chase’s operating assets and liabilities support the Firm’s capital markets and lending activities, including the origination or purchase of loans held-for-sale. The amount and timing of cash flows related to the Firm’s operating activities may vary significantly in the normal course of business as a result of the level of client-driven activities, market conditions and trading strategies. Management believes cash flows from operations, available cash balances and short- and long-term borrowings will be sufficient to fund the Firm’s operating liquidity needs.

Cash Flows from Investing Activities

The Firm’s investing activities are primarily transactions involving loans initially designated as held-for-investment, other receivables, and AFS investment securities. For the nine months ended September 30, 2007, net cash of \$41.3 billion was used in investing activities, primarily for purchases of investment securities in Treasury’s AFS portfolio to manage the Firm’s exposure to interest rates; net additions to the wholesale and consumer (primarily home equity) loans held-for-investment; and to increase Deposits with banks as a result of the availability of cash for short-term investment opportunities. These uses of cash were partially offset by cash proceeds received from sales and maturities of AFS securities; credit card, residential mortgage, education and wholesale loan sales and securitization activities; and the typical seasonal decline in consumer credit card receivables as customer payments exceeded new loans generated from customer charges.

For the nine months ended September 30, 2006, net cash of \$105.6 billion was used in investing activities. Net cash was invested to fund: purchases of Treasury’s AFS securities in connection with repositioning the portfolio in response to changes in interest rates; net additions to the retained wholesale loan portfolio, mainly resulting from capital markets activity in IB (including leveraged financings associated with mergers and acquisitions and syndications activities); net additions in retail home equity loans; the acquisition in the second quarter of a private-label credit card portfolio; and the acquisition of Collegiate Funding Services, a leader in education loan servicing and consolidation, on March 1, 2006. These uses of cash were partially offset by cash proceeds provided from sales and maturities of AFS securities; credit card, residential mortgage, auto and wholesale loan sales and securitization activities; the net decline in auto loans and leases, which was caused partially by the de-emphasis of vehicle leasing and the sale of the insurance business on July 1, 2006.

Cash Flows from Financing Activities

The Firm’s financing activities are primarily transactions involving customer deposits and its debt, common stock and preferred stock. In the first nine months of 2007, net cash provided by financing activities was \$114.7 billion due to: a net increase in wholesale deposits from growth in business volumes, in particular, interest-bearing deposits at TSS and AM; net issuances of Long-term debt and trust preferred capital debt securities to fund certain liquid assets held by the Parent company and to build liquidity; growth in Commercial paper issuances and Other borrowed funds to further build liquidity; and an increase in securities sold under repurchase agreements in connection with the funding of trading and AFS securities positions. Cash was used to repurchase common stock and to pay dividends.

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In the first nine months of 2006, net cash provided by financing activities was \$140.1 billion due to: net cash received from growth in deposits reflecting, on the retail side, new account acquisitions and the ongoing expansion of the retail branch distribution network, and on the wholesale side, higher business volumes; increases in securities sold under repurchase agreements to fund trading positions and higher levels of AFS securities positions; and net issuances of Long-term debt and trust preferred capital debt securities. The net cash provided was partially offset by cash used for common stock repurchases and the payment of cash dividends on common and preferred stock.

Credit ratings

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

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

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

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

CREDIT RISK MANAGEMENT

The following discussion of JPMorgan Chase's credit portfolio as of September 30, 2007, highlights developments since December 31, 2006. This section should be read in conjunction with pages 64–76 and page 83, and Notes 12, 13, 29, and 30 of JPMorgan Chase's 2006 Annual Report, and Notes 13, 14, and 23 on pages 91–94 and 106–107, respectively, of this Form 10-Q.

The Firm assesses its consumer credit exposure on a managed basis, which includes credit card receivables that have been securitized. For a reconciliation of the Provision for credit losses on a reported basis to managed basis, see pages 13–16 of this Form 10-Q.

CREDIT PORTFOLIO

The following table presents JPMorgan Chase's credit portfolio as of September 30, 2007, and December 31, 2006. Total credit exposure at September 30, 2007, increased by \$145.8 billion from December 31, 2006, reflecting an increase of \$99.7 billion and \$46.1 billion in the wholesale and consumer credit portfolios, respectively. During the first nine months of 2007 lending-related commitments increased \$130.9 billion (\$76.7 billion and \$54.2 billion in the wholesale and consumer portfolios, respectively), derivatives increased \$9.0 billion and managed loans increased \$5.9 billion (\$14.0 billion increase in wholesale partially offset by an \$8.1 billion decrease in consumer). RFS loans accounted for at lower of cost or fair value declined, as prime mortgage loans originated with the intent to sell after January 1, 2007, are classified as Trading assets and accounted for at fair value under SFAS 159. In addition, certain loans warehoused in IB were transferred to Trading assets on January 1, 2007, as part of the adoption of SFAS 159. Also effective January 1, 2007, \$24.7 billion of prime mortgages held-for-investment purposes were transferred from RFS (\$19.4 billion) and AM (\$5.3 billion) to the Corporate sector for risk management purposes. While this transfer had no impact on the RFS, AM or Corporate financial results, the AM prime mortgages that were transferred are now reported in consumer mortgage loans.

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

(in millions, except ratios)	Credit exposure		Nonperforming assets(i)	
	September 30, 2007	December 31, 2006	September 30, 2007	December 31, 2006
Total credit portfolio				
Loans – reported(a)(b)	\$ 486,320	\$ 483,127	\$ 2,662(j)	\$ 2,077(j)
Loans – securitized(c)	69,643	66,950	—	—
Total managed loans(d)	555,963	550,077	2,662	2,077
Derivative receivables	64,592	55,601	34	36
Total managed credit-related assets	620,555	605,678	2,696	2,113
Lending-related commitments(e)	1,269,833	1,138,959	NA	NA
Assets acquired in loan satisfactions	NA	NA	485	228
Total credit portfolio	\$ 1,890,388	\$ 1,744,637	\$ 3,181	\$ 2,341
Net credit derivative hedges notional(f)	\$ (62,075)	\$ (50,733)	\$ —	\$ (16)
Collateral held against derivatives(g)	(7,423)	(6,591)	NA	NA
Memo:				
Total loans at fair value and loans held-for-sale	24,491	55,251	75	120
Nonperforming – purchased(h)	—	251	NA	NA

(in millions, except ratios)	Three months ended September 30,				Nine months ended September 30,			
	Net charge-offs		Average annual net charge-off rate		Net charge-offs		Average annual net charge-off rate	
	2007	2006	2007	2006	2007	2006	2007	2006
Total credit portfolio								
Loans – reported	\$ 1,221	\$ 790	1.07%	0.74%	\$ 3,109	\$ 2,112	0.94%	0.69%
Loans – securitized(c)	578	607	3.34	3.70	1,761	1,617	3.45	3.19
Total managed loans	\$ 1,799	\$ 1,397	1.37%	1.13%	\$ 4,870	\$ 3,729	1.28%	1.05%

- (a) Loans (other than those for which the SFAS 159 fair value option has been elected) are presented net of unearned income and net deferred loan fees of \$1.0 billion and \$1.3 billion at September 30, 2007, and December 31, 2006, respectively.
- (b) Includes loans at fair value and loans held-for-sale of \$6.1 billion and \$18.4 billion, respectively, at September 30, 2007 and loans held-for-sale of \$55.2 billion at December 31, 2006.
- (c) Represents securitized credit card receivables. For a further discussion of credit card securitizations, see Card Services on pages 29–32 of this Form 10-Q.
- (d) Loans past due 90 days and over and accruing includes credit card receivables – reported of \$1.3 billion at both September 30, 2007, and December 31, 2006, and related credit card securitizations of \$935 million and \$962 million at September 30, 2007, and December 31, 2006, respectively.
- (e) Includes wholesale unused advised lines of credit totaling \$39.2 billion and \$39.0 billion at September 30, 2007, and December 31, 2006, respectively, which are not legally binding. In regulatory filings with the Federal Reserve Board, unused advised lines are not reportable. Credit card lending-related commitments of \$700.2 billion and \$657.1 billion at September 30, 2007, and December 31, 2006, respectively, represent the total available credit to its cardholders. The Firm has not experienced, and does not anticipate, that all of its cardholders will utilize their entire available lines of credit at the same time. The Firm can reduce or cancel a credit card commitment by providing the cardholder prior notice or, in some cases, without notice as permitted by law.
- (f) Represents the net notional amount of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit exposures; these derivatives do not qualify for hedge accounting under SFAS 133. Includes \$22.7 billion at both September 30, 2007, and December 31, 2006, which represents the notional amount of structured portfolio protection; the Firm retains a minimal first risk of loss on this portfolio.
- (g) Represents other liquid securities collateral held by the Firm.
- (h) Represents distressed held-for-sale wholesale loans purchased as part of IB's proprietary activities, which are excluded from nonperforming assets. 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 September 30, 2007.
- (i) Includes nonperforming loans held-for-sale of \$75 million and \$120 million as of September 30, 2007, and December 31, 2006, respectively.
- (j) Excludes nonperforming assets related to (1) loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by U.S. government agencies of \$1.3 billion and \$1.2 billion September 30, 2007, and December 31, 2006, respectively; and (2) education loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program, of \$241 million and \$219 million as of September 30, 2007, and December 31, 2006, respectively. These amounts for GNMA and education loans are excluded, as reimbursement is proceeding normally.

WHOLESALE CREDIT PORTFOLIO

As of September 30, 2007, wholesale exposure (IB, CB, TSS and AM) had increased by \$99.7 billion, or 16%, from December 31, 2006, primarily due to a \$76.7 billion increase in lending-related commitments and a \$14.0 billion increase in loans. The increase in overall lending activity was partly due to growth in leveraged lending funded and unfunded exposures, mainly in IB. Partly offsetting these increases was the first quarter transfer of \$11.7 billion of loans warehoused in IB to Trading assets upon the adoption of SFAS 159. Derivative receivables increased \$9.0 billion primarily due to higher receivables on equity-related and credit derivatives.

(in millions, except ratios)	Credit exposure		Nonperforming assets(g)	
	September 30, 2007	December 31, 2006	September 30, 2007	December 31, 2006
Loans – reported(a)(b)	\$ 197,728	\$ 183,742	\$ 427	\$ 391
Derivative receivables	64,592	55,601	34	36
Total wholesale credit-related assets	262,320	239,343	461	427
Lending-related commitments(c)	468,145	391,424	NA	NA
Assets acquired in loan satisfactions	NA	NA	28	3
Total wholesale credit exposure	\$ 730,465	\$ 630,767	\$ 489	\$ 430
Net credit derivative hedges notional(d)	\$ (62,075)	\$ (50,733)	\$ —	\$ (16)
Collateral held against derivatives(e)	(7,423)	(6,591)	NA	NA
Memo:				
Total loans at fair value and loans held-for-sale	20,611	22,507	75	4
Nonperforming – purchased(f)	—	251	NA	NA

- (a) As a result of the adoption of SFAS 159 in the first quarter of 2007, certain loans of \$11.7 billion were reclassified to trading assets and were excluded from wholesale loans reported. Includes loans greater than or equal to 90 days past due that continue to accrue interest. The principal balance of these loans totaled \$37 million and \$29 million at September 30, 2007, and December 31, 2006, respectively. Also, see Note 4 on pages 80–83 and Note 13 on pages 91–93, respectively, of this Form 10-Q.
- (b) Includes loans at fair value and loans held-for-sale of \$6.1 billion and \$14.5 billion, respectively, at September 30, 2007, and loans held-for-sale of \$22.5 billion at December 31, 2006.
- (c) Includes unused advised lines of credit totaling \$39.2 billion and \$39.0 billion at September 30, 2007, and December 31, 2006, respectively, which are not legally binding. In regulatory filings with the Federal Reserve Board, unused advised lines are not reportable.
- (d) Represents the net notional amount of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit exposures; these derivatives do not qualify for hedge accounting under SFAS 133. Includes \$22.7 billion at both September 30, 2007, and December 31, 2006, which represents the notional amount of structured portfolio protection; the Firm retains a minimal first risk of loss on this portfolio.
- (e) Represents other liquid securities collateral held by the Firm.
- (f) Represents distressed loans held-for-sale purchased as part of IB's proprietary activities, which are excluded from nonperforming assets. 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 September 30, 2007.
- (g) Includes nonperforming loans held-for-sale of \$75 million and \$4 million at September 30, 2007, and December 31, 2006, respectively.

Net charge-offs/recoveries

Wholesale

(in millions, except ratios)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Loans – reported				
Net charge-offs/(recoveries)	\$ 82	\$ (11)	\$ 47	\$ (50)
Average annual net charge-off/(recovery) rate(a)	0.19%	(0.03)%	0.04%	(0.04)%

- (a) Excludes average wholesale loans at fair value and loans held-for-sale of \$17.8 billion and \$24.4 billion for the quarters ended September 30, 2007 and 2006, respectively; and \$15.8 billion and \$21.4 billion for year-to-date 2007 and 2006, respectively.

Net charge-offs of \$82 million in the third quarter of 2007 and \$47 million in the first nine months of 2007 do not include gains from sales of nonperforming loans that were sold from the credit portfolio (as shown in the following table). There were gains of \$2 million in the third quarter and \$1 million in the first nine months of 2007, compared with gains of \$31 million in the third quarter of 2006 and \$71 million for the first nine months of 2006. Gains are reflected in Noninterest revenue.

Nonperforming loan activity
Wholesale

Nine months ended September 30,
(in millions)

	2007	2006
Beginning balance, January 1	\$ 391	\$ 992
Additions	740	352
Reductions:		
Paydowns and other	(420)	(337)
Charge-offs	(131)	(110)
Returned to performing	(98)	(101)
Sales	(55)	(140)
Total (reductions)	(704)	(688)
Net increases (reductions)	36	(336)
Ending balance, September 30	\$ 427	\$ 656

The following table presents summaries of the maturity and ratings profiles of the wholesale portfolio as of September 30, 2007, and December 31, 2006. The ratings scale is based upon the Firm's internal risk ratings and is presented on an S&P-equivalent basis.

Wholesale exposure

At September 30, 2007 (in billions, except ratios)	Maturity profile ^(c)				Ratings profile			Total % of IG
	<1 year	1-5 years	> 5 years	Total	Investment- grade ("IG")	Noninvestment- grade	Total	
					AAA to BBB-	BB+ & below		
Loans	46%	43%	11%	100%	\$ 115	\$ 61	\$ 176	65%
Derivative receivables	21	30	49	100	54	11	65	84
Lending-related commitments	37	57	6	100	379	89	468	81
Total excluding loans at fair value and loans held-for-sale	38%	51%	11%	100%	\$ 548	\$ 161	709	77%
Loans at fair value and loans held- for-sale ^(a)							21	
Total exposure							\$ 730	
Net credit derivative hedges notional ^(b)	44%	49%	7%	100%	\$ (53)	\$ (9)	\$ (62)	85%

At December 31, 2006 (in billions, except ratios)	Maturity profile ^(c)				Ratings profile			Total % of IG
	<1 year	1-5 years	> 5 years	Total	Investment- grade ("IG")	Noninvestment- grade	Total	
					AAA to BBB-	BB+ & below		
Loans	44%	41%	15%	100%	\$ 104	\$ 57	\$ 161	65%
Derivative receivables	16	34	50	100	49	7	56	88
Lending-related commitments	36	58	6	100	338	53	391	86
Total excluding loans at fair value and loans held-for-sale	37%	51%	12%	100%	\$ 491	\$ 117	608	81%
Loans at fair value and loans held- for-sale ^(a)							23	
Total exposure							\$ 631	
Net credit derivative hedges notional ^(b)	16%	75%	9%	100%	\$ (45)	\$ (6)	\$ (51)	88%

(a) Loans held-for-sale relate primarily to syndication loans and loans transferred from the retained portfolio. During the first quarter of 2007, the Firm elected the fair value option of accounting for loans related to securitization activities, and these loans are classified as Trading assets.

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

(c) The maturity profile of Loans and lending-related commitments is based upon the remaining contractual maturity. The maturity profile of Derivative receivables is based upon the maturity profile of Average exposure. See page 70 of JPMorgan Chase's 2006 Annual Report for further discussion of Average exposure.

Wholesale credit exposure – selected industry concentration

The Firm continues to focus on the management and diversification of its industry concentrations, with particular attention paid to industries with actual or potential credit concerns. At September 30, 2007, the top 10 industries were the same as those at December 31, 2006. The increases in Asset managers, Utilities, Oil and gas, and Retail and consumer services were primarily due to portfolio growth. In addition, Asset managers also increased by \$4.3 billion during the third quarter of 2007 as the Firm revised its industry classification to better reflect risk correlations and enhance the Firm's management of industry risk. Below is a summary of the Top 10 industry concentrations as of September 30, 2007, and December 31, 2006.

Top 10 industries ^(a) (in millions, except ratios)	September 30, 2007		December 31, 2006	
	Credit exposure ^(d)	% of portfolio	Credit exposure ^(d)	% of portfolio
Banks and finance companies	\$ 61,851	9%	\$ 61,792	10%
Asset managers	40,138	6	24,570	4
Real estate	38,191	5	32,102	5
Healthcare	33,664	5	28,998	5
Utilities	33,544	5	24,938	4
Consumer products	30,332	4	27,114	4
State and municipal governments	29,276	4	27,485	5
Retail and consumer services	26,621	4	22,122	4
Securities firms and exchanges	23,807	3	23,127	4
Oil and gas	23,246	3	18,544	3
All other ^(b)	369,184	52	317,468	52
Subtotal	709,854	100%	608,260	100%
Loans at fair value and loans held-for-sale ^(c)	20,611		22,507	
Total	\$ 730,465		\$ 630,767	

(a) Rankings are based upon exposure at September 30, 2007.

(b) For more information on exposures to SPEs, see Note 16 on pages 100–101 of this Form 10-Q.

(c) Loans held-for-sale relate primarily to syndication loans and loans transferred from the retained portfolio. During the first quarter of 2007 the Firm elected the fair value option of accounting for loans related to securitization activities; these loans are classified as Trading assets at September 30, 2007.

(d) Credit exposure is net of risk participations and excludes the benefit of credit derivative hedges and collateral held against Derivative receivables or Loans.

Wholesale criticized exposure

Exposures deemed criticized generally represent a ratings profile similar to a rating of CCC+/Caa1 and lower, as defined by Standard & Poor's/Moody's. The total criticized component of the portfolio, excluding Loans at fair value and loans held-for-sale, increased by \$993 million, or 20%, when compared with year-end 2006.

Wholesale criticized exposure – industry concentrations

Top 10 industries ^(a) (in millions, except ratios)	September 30, 2007		December 31, 2006	
	Amount	% of portfolio	Amount	% of portfolio
Automotive	\$ 1,825	30%	\$ 1,442	29%
Real estate	628	11	243	5
Retail and consumer services	475	8	278	5
Banks and finance companies	301	5	74	1
Consumer products	295	5	383	7
Media	258	4	392	8
Healthcare	243	4	284	6
Business services	231	4	222	4
Utilities	205	3	183	4
Building materials/construction	189	3	113	2
All other ^(b)	1,369	23	1,412	29
Subtotal	6,019	100%	5,026	100%
Loans at fair value and loans held-for-sale ^(b)	276		624	
Total	\$ 6,295		\$ 5,650	

(a) Rankings are based upon exposure at September 30, 2007.

(b) Loans held-for-sale relate primarily to syndication loans and loans transferred from the retained portfolio. During the first quarter of 2007 the Firm elected the fair value option of accounting for loans related to securitization activities; these loans are classified as Trading assets at September 30, 2007. Loans held-for-sale exclude purchased nonperforming loans held-for-sale.

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Derivative contracts

In the normal course of business, the Firm uses derivative instruments to meet the needs of customers; to generate revenues through trading activities; to manage exposure to fluctuations in interest rates, currencies and other markets; and to manage the Firm's credit exposure. For further discussion of these contracts, see Note 22 on page 106 of this Form 10-Q, and Derivative contracts on pages 69–72 of JPMorgan Chase's 2006 Annual Report.

The following table summarizes the aggregate notional amounts and the net derivative receivables MTM for the periods presented.

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

(in billions)	Notional amounts ^{(b)(c)}		Derivative receivables MTM	
	September 30, 2007	December 31, 2006	September 30, 2007	December 31, 2006
Interest rate	\$ 70,846	\$ 50,201	\$ 29	\$ 29
Foreign exchange	3,886	2,520	6	4
Equity	1,010	809	11	6
Credit derivatives	7,775	4,619	11	6
Commodity	544	507	8	11
Total, net of cash collateral^(a)	\$ 84,061	\$ 58,656	65	56
Liquid securities collateral held against derivative receivables	NA	NA	(8)	(7)
Total, net of all collateral	NA	NA	\$ 57	\$ 49

(a) Collateral is only applicable to Derivative receivables MTM amounts.

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

(c) The notional amount of the Firm's derivative contracts outstanding significantly exceeded, in the Firm's view, the possible credit losses that could arise from such transactions. For most derivative transactions, the notional amount does not change hands: it is used simply as a reference to calculate payments. The appropriate measure of current credit risk is, in the Firm's view, the mark-to-market value of the contract.

The amount of Derivative receivables reported on the Consolidated balance sheets of \$64.6 billion and \$55.6 billion at September 30, 2007, and December 31, 2006, respectively, is the amount of the mark-to-market ("MTM") or fair value of the derivative contracts after giving effect to legally enforceable master netting agreements and cash collateral held by the Firm and represents the cost to the Firm to replace the contracts at current market rates should the counterparty default. However, in management's view, the appropriate measure of current credit risk should also reflect additional liquid securities held as collateral by the Firm of \$7.4 billion and \$6.6 billion at September 30, 2007, and December 31, 2006, respectively, resulting in total exposure, net of all collateral, of \$57.2 billion and \$49.0 billion at September 30, 2007, and December 31, 2006, respectively. Derivative receivables increased \$9.0 billion from December 31, 2006, primarily due to higher equity, credit derivative and foreign exchange receivables as a result of higher equity market levels, widening credit spreads and the decline in the U.S. dollar, respectively.

The Firm also holds additional collateral delivered by clients at the initiation of transactions, but this collateral does not reduce the credit risk of the Derivative receivables in the table above. This additional collateral secures potential exposure that could arise in the derivatives portfolio should the MTM of the client's transactions move in the Firm's favor. As of September 30, 2007, and December 31, 2006, the Firm held \$14.5 billion and \$12.3 billion of this additional collateral, respectively. The derivative receivables MTM, net of all collateral, also does not include other credit enhancements in the forms of letters of credit and surety receivables.

The following table summarizes the ratings profile of the Firm's derivative receivables MTM, net of other liquid securities collateral, for the dates indicated.

Ratings profile of derivative receivables MTM

Rating equivalent (in millions, except ratios)	September 30, 2007		December 31, 2006	
	Net MTM	% of Net MTM	Net MTM	% of Net MTM
AAA to AA-	\$ 31,648	55%	\$ 28,150	58%
A+ to A-	7,708	14	7,588	15
BBB+ to BBB-	9,208	16	8,044	16
BB+ to B-	8,496	15	5,150	11
CCC+ and below	109	—	78	—
Total	\$ 57,169	100%	\$ 49,010	100%

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The Firm actively pursues the use of collateral agreements to mitigate counterparty credit risk in derivatives. The percentage of the Firm's derivatives transactions subject to collateral agreements decreased slightly to 79%, as of September 30, 2007, from 80% at December 31, 2006.

The Firm posted \$32.8 billion and \$26.6 billion of collateral at September 30, 2007, and December 31, 2006, respectively. Certain derivative and collateral agreements include provisions that require the counterparty and/or the Firm, upon specified downgrades in their respective credit ratings, to post collateral for the benefit of the other party. The impact of a single-notch ratings downgrade to JPMorgan Chase Bank, N.A., from its rating of AA to AA- at September 30, 2007, would have required \$308 million of additional collateral to be posted by the Firm. The impact of a six-notch ratings downgrade (from AA to BBB) would have required \$3.2 billion of additional collateral. Certain derivative contracts also provide for termination of the contract, generally upon a downgrade of either the Firm or the counterparty, at the then-existing MTM value of the derivative contracts.

Credit derivatives

The following table presents the Firm's notional amounts of credit derivatives protection purchased and sold as of September 30, 2007, and December 31, 2006.

Credit derivatives positions

(in billions)	Notional amount				Total
	Credit portfolio		Dealer/client		
	Protection purchased(a)	Protection sold	Protection purchased	Protection sold	
September 30, 2007	\$ 63	\$ 1	\$ 3,889	\$ 3,822	\$ 7,775
December 31, 2006	52	1	2,277	2,289	4,619

(a) Included \$22.7 billion at both September 30, 2007, and December 31, 2006, that represented the notional amount for structured portfolio protection; the Firm retains a minimal first risk of loss on this portfolio.

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

JPMorgan Chase has counterparty exposure as a result of credit derivatives transactions. Of the \$64.6 billion of total Derivative receivables MTM at September 30, 2007, \$10.7 billion, or 17%, was associated with credit derivatives, before the benefit of liquid securities collateral.

Dealer/client

At September 30, 2007, the total notional amount of protection purchased and sold in the dealer/client business increased \$3.1 trillion from year-end 2006 as a result of increased trade volume in the market. The risk positions are largely matched when securities used to risk-manage certain derivative positions are taken into consideration and the notional amounts are adjusted to a duration-based equivalent or to reflect different degrees of subordination in tranching structures.

Credit portfolio management activities

Use of single-name and portfolio credit derivatives

(in millions)	Notional amount of protection purchased	
	September 30, 2007	December 31, 2006
Credit derivatives used to manage:		
Loans and lending-related commitments	\$ 54,474	\$ 40,755
Derivative receivables	8,073	11,229
Total(a)	\$ 62,547	\$ 51,984

(a) Included \$22.7 billion at both September 30, 2007, and December 31, 2006, that represented the notional amount of structured portfolio protection; the Firm retains a minimal first risk of loss on this portfolio.

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

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the Firm's overall credit exposure. The MTM related to the Firm's credit derivatives used for managing credit exposure, as well as the MTM related to the credit valuation adjustment ("CVA"), which reflects the credit quality of derivatives counterparty exposure, are included in the table below. These results can vary from period to period due to market conditions that impact specific positions in the portfolio.

(in millions)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Hedges of lending-related commitments ^(a)	\$ 135	\$ (52)	\$ 112	\$ (175)
CVA and hedges of CVA ^(a)	(138)	52	(186)	87
Net gains (losses)^(b)	\$ (3)	\$ —	\$ (74)	\$ (88)

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

(b) Excludes gains of \$101 million and \$16 million for the quarters ended September 30, 2007, and 2006, respectively; and \$312 million and \$19 million of gains year-to-date 2007 and 2006, respectively, of other Principal transaction revenue that are not associated with hedging activities. The Firm adopted SFAS 157 on January 1, 2007, which incorporated adjusting the valuation of the Firm's derivative liabilities.

The Firm also actively manages wholesale credit exposure primarily through IB loan and commitment sales. During the third quarter of 2007 and 2006, these sales of \$727 million and \$805 million of loans and commitments, respectively, resulted in losses of \$2 million and gains of \$27 million, respectively. During the first nine months of 2007 and 2006, these sales of \$3.8 billion and \$2.4 billion of loans and commitments, respectively, resulted in losses of \$14 million and gains of \$67 million, respectively. These results include gains on sales of nonperforming loans, as discussed on page 53 of this Form 10-Q. These activities are not related to the Firm's securitization activities, which are undertaken for liquidity and balance sheet management purposes. For further discussion of securitization activity, see Liquidity Risk Management and Note 15 on pages 49–51, and 94–99, respectively, of this Form 10-Q.

Lending-related commitments

Wholesale lending-related commitments were \$468.1 billion at September 30, 2007, compared with \$391.4 billion at December 31, 2006. The increase reflected greater overall lending activity including growth in unfunded leveraged lending exposures. In the Firm's view, the total amount of these instruments is not representative of the Firm's actual credit risk exposure or funding requirements. In determining the amount of credit risk exposure the Firm has to wholesale lending-related commitments, which is used as the basis for allocating credit risk capital to these instruments, the Firm has established a "loan-equivalent" amount for each commitment; this amount represents the portion of the unused commitment or other contingent exposure that is expected, based upon average portfolio historical experience, to become outstanding in the event of a default by an obligor. The loan-equivalent amount of the Firm's lending-related commitments was \$256.6 billion and \$212.3 billion as of September 30, 2007, and December 31, 2006, respectively.

Emerging markets country exposure

The Firm has a comprehensive internal process for measuring and managing exposures and risk in emerging markets countries – defined as those countries potentially vulnerable to sovereign events. As of September 30, 2007, based upon its internal methodology, the Firm's exposure to any individual emerging-markets country was not significant, in that total exposure to any such country did not exceed 0.75% of the Firm's total assets. In evaluating and managing its exposures to emerging markets countries, the Firm takes into consideration all credit-related lending, trading, and investment activities, whether cross-border or locally funded. Exposure amounts are then adjusted for credit enhancements (e.g., guarantees and letters of credit) provided by third parties located outside the country, if the enhancements fully cover the country risk as well as the credit risk. For information regarding the Firm's cross-border exposure based upon guidelines of the Federal Financial Institutions Examination Council ("FFIEC"), see Part 1, Item 1, "Loan portfolio, Cross-border outstandings," on page 155, of the Firm's 2006 Annual Report.

CONSUMER CREDIT PORTFOLIO

JPMorgan Chase's consumer portfolio consists primarily of residential mortgages, home equity loans, credit cards, auto loans and leases, education loans and business banking loans, and reflects the benefit of diversification from both a product and a geographic perspective. The primary focus is serving the prime consumer credit market. RFS offers home equity lines of credit and mortgage loans with interest-only payment options to predominantly prime borrowers; there are no products in the real estate portfolios that result in negative amortization. The Firm actively manages its consumer credit operation. Ongoing efforts include continual review and enhancement of credit underwriting criteria and refinement of pricing and risk management models.

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

(in millions, except ratios)	Credit exposure		Nonperforming assets (f)(h)	
	September 30, 2007	December 31, 2006	September 30, 2007	December 31, 2006
Consumer loans – reported^(a)				
Home equity	\$ 93,026	\$ 85,730	\$ 576	\$ 454
Mortgage	47,730	59,668	1,224	769
Auto loans and leases ^(b)	40,871	41,009	92	132
Credit card – reported ^(c)	79,409	85,881	7	9
All other loans	27,556	27,097	336	322
Total consumer loans – reported	288,592	299,385	2,235	1,686
Credit card – securitizations ^{(c)(d)}	69,643	66,950	—	—
Total consumer loans – managed^(c)	358,235	366,335	2,235	1,686
Assets acquired in loan satisfactions	NA	NA	457	225
Total consumer related assets – managed	358,235	366,335	2,692	1,911
Consumer lending-related commitments:				
Home equity ^(e)	74,212	69,559	NA	NA
Mortgage	7,883	6,618	NA	NA
Auto loans and leases	8,327	7,874	NA	NA
Credit card ^(e)	700,232	657,109	NA	NA
All other loans	11,034	6,375	NA	NA
Total lending-related commitments	801,688	747,535	NA	NA
Total consumer credit portfolio	\$ 1,159,923	\$ 1,113,870	\$ 2,692	\$ 1,911
Total loans held-for-sale	\$ 3,880	\$ 32,744	\$ —	\$ 116
Memo: Credit card – managed	149,052	152,831	7	9

(in millions, except ratios)	Three months ended September 30,				Nine months ended September 30,			
	Net charge-offs		Average annual net charge-off rate ^(g)		Net charge-offs		Average annual net charge-off rate ^(g)	
	2007	2006	2007	2006	2007	2006	2007	2006
Consumer loans – reported^(a)								
Home equity	\$ 150	\$ 29	0.65%	0.15%	\$ 316	\$ 92	0.47%	0.16%
Mortgage	49	14	0.46	0.12	102	35	0.35	0.10
Auto loans and leases	99	65	0.97	0.64	221	161	0.72	0.51
Credit card – reported	785	673	3.89	3.48	2,247	1,800	3.74	3.38
All other loans	56	20	0.93	0.37	176	74	0.99	0.48
Total consumer loans – reported	1,139	801	1.62	1.19	3,062	2,162	1.50	1.12
Credit card – securitizations ^(d)	578	607	3.34	3.70	1,761	1,617	3.45	3.19
Total consumer loans – managed	\$ 1,717	\$ 1,408	1.96%	1.69%	\$ 4,823	\$ 3,779	1.89%	1.55%
Memo: Credit card – managed	\$ 1,363	\$ 1,280	3.64%	3.58%	\$ 4,008	\$ 3,417	3.61%	3.29%

(a) Includes RFS, CS and residential mortgage loans reported in the Corporate segment.

(b) Excludes operating lease-related assets of \$1.8 billion and \$1.6 billion for September 30, 2007, and December 31, 2006, respectively.

(c) Loans past-due 90 days and over and accruing includes credit card receivables – reported of \$1.3 billion for both September 30, 2007, and December 31, 2006, and related credit card securitizations of \$935 million and \$962 million for September 30, 2007, and December 31, 2006, respectively.

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

(e) The credit card and home equity lending-related commitments represent the total available lines of credit for these products. The Firm has not experienced, and does not anticipate, that all available lines of credit will be utilized at the same time. The Firm can reduce or cancel these lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law.

(f) Excludes nonperforming assets related to (1) loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by U.S. government agencies of \$1.3 billion for September 30, 2007, and \$1.2 billion for December 31, 2006, and (2) education loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of \$241 million and \$219 million as of September 30, 2007, and December 31, 2006, respectively. These amounts for GNMA and education loans are excluded, as reimbursement is proceeding normally.

(g) Net charge-off rates exclude average loans held-for-sale of \$5.4 billion and \$14.0 billion for the quarters ended September 30, 2007, and 2006, respectively, and \$12.9 billion and \$14.4 billion year-to-date 2007 and 2006, respectively.

(h) Includes nonperforming loans held-for-sale of \$116 million at December 31, 2006.

Total managed consumer loans as of September 30, 2007, were \$358.2 billion, down from \$366.3 billion at year-end 2006, reflecting the classification of a portion of mortgage loans as Trading Assets as a result of adopting SFAS 159, and the seasonal decrease of credit card loans. These decreases were offset partially by organic growth in the home equity loan portfolio and the decision to retain rather than sell subprime mortgage loans and new originations of prime mortgage loans that cannot be sold to

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U.S. government agencies and U.S. government-sponsored enterprises. Consumer lending-related commitments increased 7%, to \$801.7 billion at September 30, 2007, primarily reflecting growth in credit cards and home equity lines of credit.

The Firm regularly evaluates market conditions and overall economic returns and makes an initial determination of whether new originations will be held-for-investment or sold within the foreseeable future. The Firm also periodically evaluates the overall economic returns of its held-for-investment loan portfolio under prevailing market conditions to determine whether to retain or sell loans in the portfolio. When it is determined that a loan that was previously classified as held-for-investment will be sold, it is transferred to held-for-sale. During the current quarter, due to changes in market conditions and the economic returns of certain mortgage loans, the Firm designated as held-for-investment new originations of subprime mortgage loans and previously designated held-for-sale subprime mortgage loans. In addition, all new prime mortgage originations that cannot be sold to U.S. government agencies and U.S. government-sponsored enterprises have been designated as held-for-investment. Prime mortgage loans originated with the intent to sell are accounted for at fair value under SFAS 159 and are classified as Trading assets in the Consolidated Balance Sheets.

The following discussion relates to the specific loan and lending-related categories within the consumer portfolio.

Home equity: Home equity loans at September 30, 2007, were \$93.0 billion, an increase of \$7.3 billion from year-end 2006. The change in the portfolio from December 31, 2006, reflected organic growth. The Allowance for loan losses for the Home equity portfolio was increased during the three and nine months ended September 30, 2007, as continued weak housing prices have resulted in an increase in estimated losses for high loan-to-value loans. During the third quarter, the origination of subprime home equity loans was discontinued and loss mitigation activities continued to be intensified to actively manage risks in this portfolio. In addition, underwriting standards have been tightened and pricing actions have been implemented to reflect elevated risks related to new originations in the prime home equity portfolio.

Mortgage: Prior to the third quarter, subprime mortgage loans and substantially all of the Firm's prime and low documentation mortgages, both fixed-rate and adjustable-rate, were originated with the intent to sell. Prime mortgage loans originated into the held-for-investment portfolio consisted primarily of adjustable rate products. As a result of the decision to retain rather than sell subprime mortgage loans and new originations of prime mortgage loans that cannot be sold to U.S. government agencies and U.S. government-sponsored enterprises, both fixed-rate and adjustable-rate products are now being originated into the held-for-investment portfolio. Subprime mortgages have been designated as held-for-investment. Mortgages, irrespective of whether they are originated with the intent to sell or hold-for-investment, are underwritten to the same standards applicable to the respective type of mortgage.

Mortgage loans at September 30, 2007, were \$47.7 billion, reflecting an \$11.9 billion decrease from year-end 2006, primarily due to the change in classification to Trading assets for prime mortgages originated with the intent to sell and elected to be fair valued under SFAS 159. As of September 30, 2007, approximately 75% of the outstanding mortgage loans on the Consolidated balance sheet related to the prime market segment. As a result, the Firm deems its exposure to subprime mortgages manageable. During the first quarter of 2007, the Provision for credit losses was increased and underwriting standards were tightened to reflect management's expectation of elevated credit losses in the subprime market segment. The subprime mortgage portfolio's credit performance during the second and third quarters was consistent with the first-quarter expectations. However, during the third quarter of 2007, the provision for subprime mortgage loans was increased as a result of the decision to retain rather than sell subprime mortgage loans.

Auto loans and leases: As of September 30, 2007, Auto loans and leases of \$40.9 billion were down slightly from year-end 2006. The Allowance for loan losses for the Auto loan portfolio was increased during the nine months ended September 30, 2007, reflecting an increase in estimated losses from low prior-year levels. During the three months ended September 30, 2007, the Allowance for loan losses for this loan portfolio did not change significantly.

Credit card: JPMorgan Chase analyzes its credit card portfolio on a managed basis, which includes credit card receivables on the Consolidated balance sheets and those receivables sold to investors through securitization. Managed credit card receivables were \$149.1 billion at September 30, 2007, a decrease of \$3.8 billion from year-end 2006, reflecting the typical seasonal pattern of outstanding loans, partially offset by organic growth.

The managed credit card net charge-off rate increased to 3.64% and 3.61% in the third quarter of 2007 and first nine months of 2007, respectively, from 3.58% and 3.29% in the comparable prior periods. This increase was due primarily to lower bankruptcy-related net charge-offs in 2006. The 30-day delinquency rate increased slightly to 3.25% at September 30, 2007, from 3.17% at September 30, 2006. During the first nine months of 2007, the delinquency rate was lower than the rate prior to bankruptcy reform. The managed credit card portfolio continues to reflect a well-seasoned portfolio that has good U.S. geographic diversification.

All other loans: All other loans primarily include Business Banking loans (which are highly collateralized loans, often with personal loan guarantees), Education loans, Community Development loans and other secured and unsecured consumer loans. As of September 30, 2007, Other loans of \$27.6 billion were up slightly from year-end 2006.

ALLOWANCE FOR CREDIT LOSSES

For a further discussion of the components of the Allowance for credit losses, see Critical accounting estimates used by the Firm on page 83 and Note 13 on pages 113–114 of JPMorgan Chase's 2006 Annual Report. At September 30, 2007, management deemed the Allowance for credit losses to be appropriate (i.e., sufficient to absorb losses that are inherent in the portfolio, including losses that are not specifically identified or for which the size of the loss has not yet been fully determined).

Summary of changes in the Allowance for credit losses

Nine months ended September 30, (in millions)	2007			2006		
	Wholesale	Consumer	Total	Wholesale	Consumer	Total
Loans:						
Beginning balance at January 1	\$ 2,711	\$ 4,568	\$ 7,279	\$ 2,453	\$ 4,637	\$ 7,090
Cumulative effect of changes in accounting principles ^(a)	(56)	—	(56)	—	—	—
Beginning balance at January 1, adjusted	2,655	4,568	7,223	2,453	4,637	7,090
Gross charge-offs	(131)	(3,600)	(3,731)	(110)	(2,631)	(2,741)
Gross recoveries	84	538	622	160	469	629
Net (charge-offs) recoveries	(47)	(3,062)	(3,109)	50	(2,162)	(2,112)
Provision for loan losses	282	3,706	3,988	69	1,999	2,068
Other	(27) ^(b)	38 ^(b)	11	2	8	10
Ending balance at September 30	\$ 2,863^(c)	\$ 5,250^(d)	\$ 8,113	\$ 2,574^(c)	\$ 4,482^(d)	\$ 7,056
Components:						
Asset-specific	\$ 53	\$ 70	\$ 123	\$ 101	\$ 61 ^(e)	\$ 162
Formula-based	2,810	5,180	7,990	2,473	4,421 ^(e)	6,894
Total Allowance for loan losses	\$ 2,863	\$ 5,250	\$ 8,113	\$ 2,574	\$ 4,482	\$ 7,056
Lending-related commitments:						
Beginning balance at January 1	\$ 499	\$ 25	\$ 524	\$ 385	\$ 15	\$ 400
Provision for lending-related commitments	344	(10)	334	68	—	68
Ending balance at September 30	\$ 843	\$ 15	\$ 858	\$ 453	\$ 15	\$ 468
Components:						
Asset-specific	\$ 27	\$ —	\$ 27	\$ 40	\$ —	\$ 40
Formula-based	816	15	831	413	15	428
Total Allowance for lending-related commitments	\$ 843	\$ 15	\$ 858	\$ 453	\$ 15	\$ 468
Total Allowance for credit losses	\$ 3,706	\$ 5,265	\$ 8,971	\$ 3,027	\$ 4,497	\$ 7,524

(a) Reflects the effect of the adoption of SFAS 159 at January 1, 2007. For a further discussion of SFAS 159, see Note 4 on pages 80–83 of this Form 10-Q.

(b) Partially related to the transfer of allowance between wholesale and consumer in conjunction with prime mortgages transferred to the Corporate sector.

(c) The ratio of the wholesale allowance for loan losses to total wholesale loans was 1.62% and 1.61%, excluding wholesale loans held-for-sale and loans accounted for at fair value at September 30, 2007 and 2006, respectively.

(d) The ratio of the consumer allowance for loan losses to total consumer loans was 1.84% and 1.68%, excluding consumer loans held-for-sale and loans accounted for at fair value at September 30, 2007 and 2006, respectively.

(e) Prior periods have been revised to reflect the current presentation.

The Firm's overall Allowance for credit losses of \$9.0 billion, increased by \$1.2 billion, when compared with December 31, 2006.

The Allowance for loan losses at September 30, 2007, increased \$834 million, or 11%, when compared with December 31, 2006, largely due to higher estimated losses relating to home equity and subprime mortgage loans. Excluding Loans held-for-sale and loans carried at fair value, the Allowance for loan losses represented 1.76% of loans at September 30, 2007, compared with 1.70% at December 31, 2006.

The Allowance for lending-related commitments of \$858 million, increased by \$334 million, when compared with December 31, 2006, largely due to portfolio activities and growth, mainly in IB.

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Provision for credit losses

For a discussion of the reported Provision for credit losses, see page 11 of this Form 10-Q. The Managed provision for credit losses includes credit card securitizations. The increase in the Provision for credit losses was due to an increase in the Allowance for credit losses largely related to home equity loans, higher net charge-offs in the consumer businesses and portfolio growth in the wholesale businesses. The prior-year quarter and year-to-date periods benefited from a lower level of credit card net charge-offs, which reflected a lower level of losses following the change in bankruptcy legislation in the fourth quarter of 2005.

Three months ended September 30, (in millions)	Provision for loan losses		Provision for ending-related commitments		Total provision for credit losses	
	2007	2006	2007	2006	2007	2006
Investment Bank	\$ 146	\$ (36)	\$ 81	\$ 43	\$ 227	\$ 7
Commercial Banking	98	55	14	(1)	112	54
Treasury & Securities Services	3	1	6	—	9	1
Asset Management	4	(29)	(1)	1	3	(28)
Corporate	—	1	—	—	—	1
Total Wholesale	251	(8)	100	43	351	35
Retail Financial Services	688	113	(8)	1	680	114
Card Services	785	663	—	—	785	663
Corporate ^(a)	(31)	—	—	—	(31)	—
Total Consumer	1,442	776	(8)	1	1,434	777
Total provision for credit losses	1,693	768	92	44	1,785	812
Credit card securitizations	578	607	—	—	578	607
Total managed provision for credit losses	\$ 2,271	\$ 1,375	\$ 92	\$ 44	\$ 2,363	\$ 1,419

Nine months ended September 30, (in millions)	Provision for loan losses		Provision for lending-related commitments		Total provision for credit losses	
	2007	2006	2007	2006	2007	2006
Investment Bank	\$ 168	\$ 62	\$ 286	\$ 66	\$ 454	\$ 128
Commercial Banking	125	47	49	2	174	49
Treasury & Securities Services	6	1	9	—	15	1
Asset Management	(17)	(42)	—	—	(17)	(42)
Corporate	—	1	—	—	—	1
Total Wholesale	282	69	344	68	626	137
Retail Financial Services	1,569	299	(10)	—	1,559	299
Card Services	2,162	1,700	—	—	2,162	1,700
Corporate ^(a)	(25)	—	—	—	(25)	—
Total Consumer	3,706	1,999	(10)	—	3,696	1,999
Total provision for credit losses	3,988	2,068	334	68	4,322	2,136
Credit card securitizations	1,761	1,617	—	—	1,761	1,617
Total managed provision for credit losses	\$ 5,749	\$ 3,685	\$ 334	\$ 68	\$ 6,083	\$ 3,753

(a) Includes amounts related to held-for-investment prime mortgages transferred from RFS and AM to the Corporate segment.

MARKET RISK MANAGEMENT

For discussion of the Firm's market risk management organization, see pages 77–80 of JPMorgan Chase's 2006 Annual Report.

Value-at-risk ("VAR")

JPMorgan Chase's primary statistical risk measure, VAR, estimates the potential loss from adverse market moves in an ordinary market environment and provides a consistent cross-business measure of risk profiles and levels of diversification. VAR is used for comparing risks across businesses, monitoring limits, one-off approvals, and as an input to economic capital calculations. VAR provides risk transparency in a normal trading environment. Each business day the Firm undertakes a comprehensive VAR calculation that includes both its trading and its nontrading risks. VAR for nontrading risk measures the amount of potential change in the fair values of the exposures related to these risks; however, for such risks, VAR is not a measure of reported revenue since nontrading activities are generally not marked to market through Net income.

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To calculate VAR, the Firm uses historical simulation, which measures risk across instruments and portfolios in a consistent and comparable way. This approach assumes that historical changes in market values are representative of future changes. The simulation is based upon data for the previous twelve months. The Firm calculates VAR using a one-day time horizon and an expected tail-loss methodology, which approximates a 99% confidence level. This means the Firm would expect to incur losses greater than that predicted by VAR estimates only once in every 100 trading days, or about two to three times a year. For a further discussion of the Firm's VAR methodology, see Market Risk management – Value-at-risk, on pages 77–80 of JPMorgan Chase's 2006 Annual Report.

IB trading VAR by risk type and credit portfolio VAR

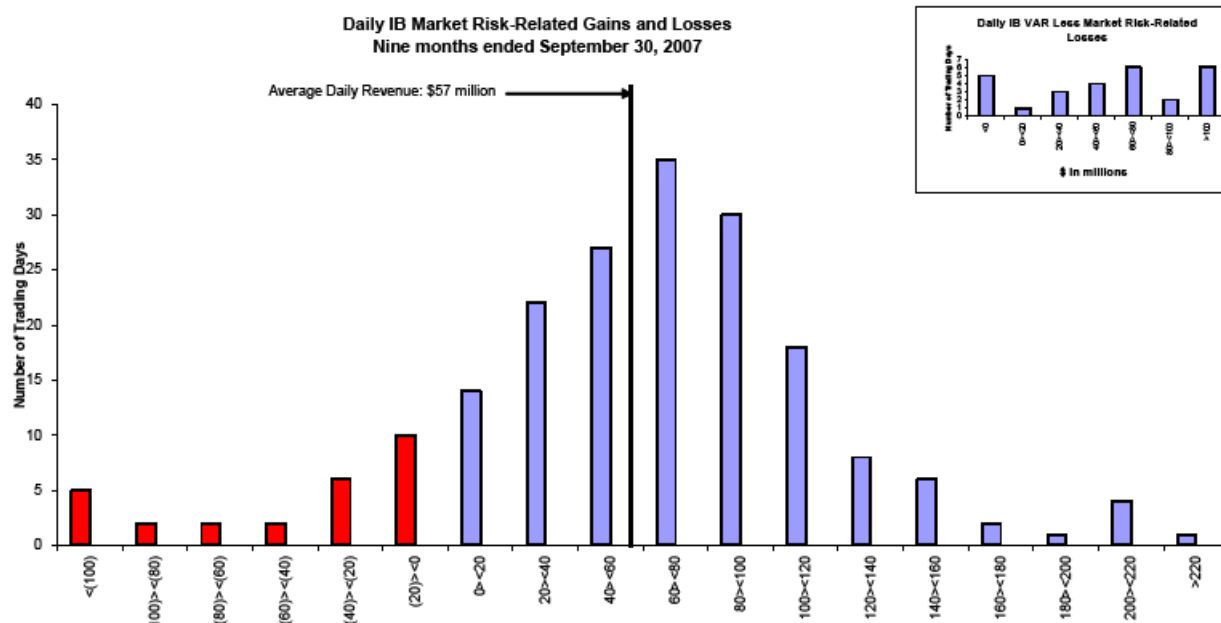
(in millions)	Three months ended September 30,						At September 30,		Nine months ended September 30,	
	2007			2006			2007	2006	Avg	
	Avg	Min	Max	Avg	Min	Max			2007	2006
By risk type:										
Fixed income	\$ 98	\$ 55	\$ 135	\$ 63	\$ 35	\$ 90	\$ 104	\$ 65	\$ 72	\$ 58
Foreign exchange	23	17	36	24	14	42	36	22	21	23
Equities	35	22	56	32	21	45	27	37	43	29
Commodities and other	28	21	38	46	27	128	35	39	34	48
Less: portfolio diversification	(72) ^(c)	NM ^(d)	NM ^(d)	(82) ^(c)	NM ^(d)	NM ^(d)	(111) ^(c)	(76) ^(c)	(68) ^(c)	(74) ^(c)
Trading VAR^(a)	\$ 112	\$ 85	\$ 149	\$ 83	\$ 55	\$ 137	\$ 91	\$ 87	\$ 102	\$ 84
Credit portfolio VAR ^(b)	17	8	25	14	14	15	23	15	14	14
Less: portfolio diversification	(22) ^(c)	NM ^(d)	NM ^(d)	(8) ^(c)	NM ^(d)	NM ^(d)	(16) ^(c)	(8) ^(c)	(16) ^(c)	(9) ^(c)
Total trading and credit portfolio VAR	\$ 107	\$ 76	\$ 149	\$ 89	\$ 61	\$ 138	\$ 98	\$ 94	\$ 100	\$ 89

- (a) Trading VAR includes substantially all trading activities in IB. Trading VAR does not include VAR related to the DVA taken on derivative and structured liabilities to reflect the credit quality of the Firm. See the DVA Sensitivity table on page 64 of this Form 10-Q for further details. Trading VAR also does not include the MSR portfolio or VAR related to other corporate functions, such as Treasury and Private Equity. For a discussion of MSRs and the corporate functions, see Note 17 on pages 101–102, Note 3 on page 76 and Corporate on pages 40–41 of this Form 10-Q.
- (b) Includes VAR on derivative credit 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 revenue. For a discussion of credit valuation adjustments, see Note 3 on pages 73–80 of this Form 10-Q. This VAR does not include the retained loan portfolio.
- (c) Average and period-end VARs were less than the sum of the VARs of their market risk components, which was due to risk offsets resulting from portfolio diversification. The diversification effect reflected the fact that the risks were not perfectly correlated. The risk of a portfolio of positions is therefore usually less than the sum of the risks of the positions themselves.
- (d) Designated as not meaningful ("NM") because the minimum and maximum may occur on different days for different risk components, and hence it is not meaningful to compute a portfolio diversification effect.

IB's average Total trading and credit portfolio VAR for the third quarter and nine months ended September 30, 2007 was \$107 million and \$100 million, respectively, compared with \$89 million for both the three and nine months ended September 30, 2006. Average VAR was higher for the third quarter and nine months ended September 30, 2007 than the same periods of the prior year reflecting an increase in market volatility, most notably in fixed income and equity markets. The reduction in Commodities and other risks reflects reduced positions and was a key driver of the changes in portfolio diversification. In general, over the course of the year VAR exposures can vary significantly as positions change, market volatility fluctuates and diversification benefits change.

VAR backtesting

To evaluate the soundness of its VAR model, the Firm conducts daily back-testing of VAR against daily IB market risk-related revenue, which is defined as Principal transactions revenue less private equity gains/losses plus any trading-related net interest income, brokerage commissions, underwriting fees or other revenue. The daily IB market risk-related revenue excludes gains and losses on held-for-sale funded loans and unfunded commitments and from debit valuation adjustments ("DVA"). The following histogram illustrates the daily market risk-related gains and losses for IB trading businesses for the nine months ended September 30, 2007. The chart shows that IB posted market risk-related gains on 168 out of 195 days in this period. The inset graph looks at those days on which IB experienced losses and depicts the amount by which VAR exceeded the actual loss on each of those days. Losses were sustained on 27 days during the nine months ended September 30, 2007. For the third quarter of 2007, losses exceed the VAR measure on 5 days due to the high market volatility experienced during the period. No losses exceeded the VAR measure during the first or second quarters of 2007.



The Firm does not include the impact of DVA taken on derivative and structured liabilities to reflect the credit quality of the Firm in its Trading VAR. The following table provides information about the sensitivity of DVA to a one basis point increase in JPMorgan Chase credit spreads.

Debit Valuation Adjustment Sensitivity

(in millions)	1 Basis Point Increase in JPMorgan Chase Credit Spread
September 30, 2007	\$ 37

Economic value stress testing

While VAR reflects the risk of loss due to adverse changes in normal markets, stress testing captures the Firm's exposure to unlikely but plausible events in abnormal markets. The Firm conducts economic-value stress tests for both its trading and its nontrading activities at least once a month using multiple scenarios that assume credit spreads widen significantly, equity prices decline and interest rates rise in the major currencies. Additional scenarios focus on the risks predominant in individual business segments and include scenarios that focus on the potential for adverse moves in complex portfolios. Periodically, scenarios are reviewed and updated to reflect changes in the Firm's risk profile and economic events. Along with VAR, stress testing is important in measuring and controlling risk. Stress testing enhances the understanding of the Firm's risk profile and loss potential, and stress losses are monitored against limits. Stress testing is also utilized in one-off approvals and cross-business risk measurement, as well as an input to economic capital allocation. Stress-test results, trends and explanations are provided each month to the Firm's senior management and to the lines of business to help them better measure and manage risks and to understand positions sensitive to event risk.

Earnings-at-risk stress testing

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

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

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

JPMorgan Chase's 12-month pretax earnings sensitivity profiles as of September 30, 2007, and December 31, 2006, were as follows.

(in millions)	Immediate change in rates			
	+200bp	+100bp	-100bp	-200bp
September 30, 2007	\$ (290)	\$ (176)	\$ (108)	\$ (432)
December 31, 2006	(101)	28	(21)	(182)

The primary change in earnings-at-risk from December 31, 2006, reflects a change in market interest rates. The Firm is exposed to both rising and falling rates. The Firm's risk to rising rates is largely the result of increased funding costs. In contrast, the exposure to falling rates is the result of higher anticipated levels of loan and securities prepayments.

PRIVATE EQUITY RISK MANAGEMENT

For a discussion of Private Equity Risk Management, see page 81 of JPMorgan Chase's 2006 Annual Report. At September 30, 2007, the carrying value of the Private Equity portfolio was \$6.6 billion, of which \$409 million represented positions traded in the public markets.

OPERATIONAL RISK MANAGEMENT

For a discussion of JPMorgan Chase's operational risk management, refer to page 81 of JPMorgan Chase's 2006 Annual Report.

REPUTATION AND FIDUCIARY RISK MANAGEMENT

For a discussion of the Firm's Reputation and Fiduciary Risk Management, see page 82 of JPMorgan Chase's 2006 Annual Report.

SUPERVISION AND REGULATION

The following discussion should be read in conjunction with the Supervision and Regulation section on pages 1–4 of JPMorgan Chase's 2006 Annual Report.

Dividends

At September 30, 2007, JPMorgan Chase's bank subsidiaries could pay, in the aggregate, \$18.7 billion in dividends to their respective bank holding companies without prior approval of their relevant banking regulators.

CRITICAL ACCOUNTING ESTIMATES USED BY THE FIRM

JPMorgan Chase's accounting policies and use of estimates are integral to understanding its reported results. The Firm's most complex accounting estimates require management's judgment to ascertain the valuation of assets and liabilities. The Firm has established detailed policies and control procedures intended to ensure that valuation methods, including any judgments made as part of such methods, are well controlled, independently reviewed and applied consistently from period to period. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. The Firm believes its estimates for determining the valuation of its assets and liabilities are appropriate.

Allowance for credit losses

JPMorgan Chase's Allowance for credit losses covers the held-for-investment wholesale and consumer loan portfolios as well as the Firm's portfolio of wholesale lending-related commitments. The Allowance for loan losses is intended to adjust the value of the Firm's loan assets for probable credit losses as of the balance sheet date. For a further discussion of the methodologies used in establishing the Firm's Allowance for credit losses, see Note 13 on pages 113–114 of JPMorgan Chase's 2006 Annual Report. The methodology for calculating the Allowance for loan losses and the Allowance for lending-related commitments involves significant judgment. For a further description of these judgments, see Allowance for credit losses on page 83 of JPMorgan Chase's 2006 Annual Report; for amounts recorded as of September 30, 2007 and 2006, see Allowance for credit losses on page 61 and Note 14 on pages 93–94 of this Form 10-Q.

As noted on page 83 of the JPMorgan Chase's 2006 Annual Report, the Firm's wholesale allowance is sensitive to the risk rating assigned to a loan. Assuming a one-notch downgrade in the Firm's internal risk ratings for its entire Wholesale portfolio, the Allowance for loan losses for the Wholesale portfolio would increase by approximately \$1.4 billion as of September 30, 2007. This sensitivity analysis is hypothetical. In the Firm's view, the likelihood of a one-notch downgrade for all wholesale loans within a short timeframe is remote. The purpose of this analysis is to provide an indication of the impact of risk ratings on the estimate of the Allowance for loan losses for wholesale loans. It is not intended to imply management's expectation of future deterioration in risk ratings. Given the process the Firm follows in determining the risk ratings of its loans, management believes the risk ratings currently assigned to wholesale loans are appropriate.

Fair value of financial instruments, MSRs and commodities inventory

A portion of JPMorgan Chase's assets and liabilities are carried at fair value, including trading assets and liabilities, AFS securities, Private equity investments, MSRs, structured liabilities and certain loans. Certain Loans held-for-sale and physical commodities are carried at the lower of cost or fair value. At September 30, 2007, \$605.2 billion of the Firm's assets and \$244.9 billion of its liabilities were recorded at fair value.

On January 1, 2007, the Firm chose early adoption of SFAS 157 and SFAS 159. For further information, see Accounting and Reporting Developments on page 67, Note 3 on pages 73–80 and Note 4 on pages 80–83 of this Form 10-Q.

Goodwill impairment

For a description of the significant valuation judgments associated with goodwill impairment, see Goodwill impairment on page 85 of JPMorgan Chase's 2006 Annual Report.

ACCOUNTING AND REPORTING DEVELOPMENTS

Accounting for uncertainty in income taxes

In July 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty regarding income taxes recognized under SFAS 109. FIN 48 addresses the recognition and measurement of tax positions taken or expected to be taken, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosure. The Firm adopted and applied FIN 48 under the transition provisions to all of its income tax positions at the required effective date of January 1, 2007, resulting in a \$436 million cumulative effect increase to Retained earnings, a reduction in Goodwill of \$113 million and a \$549 million decrease in the liability for income taxes. For additional information related to the Firm's adoption of FIN 48, see Note 20 on page 105 of this Form 10-Q.

Changes in timing of cash flows related to income taxes generated by a leveraged lease

In July 2006, the FASB issued FSP FAS 13-2. FSP FAS 13-2 requires the recalculation of returns on leveraged leases if there is a change or projected change in the timing of cash flows relating to income taxes generated by a leveraged lease. The Firm adopted FSP FAS 13-2 at the required effective date of January 1, 2007. Implementation of FSP FAS 13-2 did not have a significant impact on the Firm's Consolidated balance sheet and results of operations.

Fair value measurements – adoption of SFAS 157

In September 2006, the FASB issued SFAS 157, which is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about

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assets and liabilities measured at fair value. The new standard provides a consistent definition of fair value which focuses on exit price and prioritizes, within a measurement of fair value, the use of market-based inputs over entity-specific inputs. The standard also establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. SFAS 157 nullifies the guidance in EITF 02-3 which required deferral of profit at inception of a derivative transaction in the absence of observable data supporting the valuation technique. The standard also eliminates large position discounts for financial instruments quoted in active markets and requires consideration of JPMorgan Chase's own credit quality when valuing liabilities.

JPMorgan Chase chose early adoption for SFAS 157 effective January 1, 2007, and recorded a cumulative effect increase to Retained earnings of \$287 million primarily related to the release of profit previously deferred in accordance with EITF 02-3. In order to determine the amount of this transition adjustment and to confirm that JPMorgan Chase's valuation policies are consistent with exit price as prescribed by SFAS 157, JPMorgan Chase reviewed its derivative valuations using all available evidence including recent transactions in the marketplace, indicative pricing services and the results of back-testing similar types of transactions. As a result of the adoption of SFAS 157, JPMorgan Chase also recognized \$391 million of additional Net income in the 2007 first quarter, comprised of a \$103 million benefit relating to the incorporation of an adjustment to the valuation of JPMorgan Chase's derivative liabilities and other liabilities measured at fair value that reflects the credit quality of JPMorgan Chase, and a \$288 million benefit relating to the valuation of nonpublic private equity investments. The adoption of SFAS 157 primarily affected IB and the Private Equity business within Corporate. For additional information related to the Firm's adoption of SFAS 157, see Note 3 on pages 73–80 of this Form 10-Q.

Fair value option for financial assets and financial liabilities – adoption of SFAS 159

In February 2007, the FASB issued SFAS 159, which is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. SFAS 159 provides the option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments, and written loan commitments. Under SFAS 159, fair value is used for both the initial and subsequent measurement of the designated assets, liabilities and commitments, with the changes in fair value recognized in Net income. JPMorgan Chase chose early adoption for SFAS 159 effective January 1, 2007, and as a result, it recorded a cumulative effect increase to Retained earnings of \$199 million. For additional information related to the Firm's adoption of SFAS 159, see Note 4 on pages 80–83 of this Form 10-Q.

Derivatives netting – amendment of FASB Interpretation No. 39

In April 2007, the FASB issued FSP FIN 39-1, which permits offsetting of cash collateral receivables or payables with net derivative positions under certain circumstances. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007. The FSP will not have a material impact on the Firm's Consolidated balance sheet.

Investment companies

In June 2007, the AICPA issued SOP 07-1. SOP 07-1 provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide *Investment Companies* (the "Guide"), and therefore qualifies to use the Guide's specialized accounting principles (referred to as "investment company accounting"). Additionally, SOP 07-1 provides guidelines for determining whether investment company accounting should be retained by a parent company in consolidation or by an equity method investor in an investment. In May 2007, the FASB issued FSP FIN 46(R)-7, which amends FIN 46R to permanently exempt entities within the scope of the Guide from applying the provisions of FIN 46R to their investments. In October 2007, the FASB agreed to propose an indefinite delay of the effective dates of SOP 07-1 and FSP FIN 46(R)-7 in order to address implementation issues.

Accounting for income tax benefits of dividends on share-based payment awards

In June 2007, the FASB ratified EITF 06-11, which must be applied prospectively for dividends declared in fiscal years beginning after December 15, 2007. EITF 06-11 requires that realized tax benefits from dividends or dividend equivalents paid on equity-classified share-based payment awards that are charged to retained earnings should be recorded as an increase to additional paid-in capital and included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards. Prior to the issuance of EITF 06-11, the Firm did not include these tax benefits as part of this pool of excess tax benefits. It will begin to do so effective January 1, 2008, when it implements EITF 06-11. The adoption of this consensus will not have an impact on the Firm's Consolidated balance sheet or results of operations.

Fair value measurements – written loan commitments

On November 5, 2007, the SEC issued SAB 109, which revises and rescinds portions of SAB 105, "Application of Accounting Principles to Loan Commitments." Specifically, SAB 109 states that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The provisions of SAB 109 are applicable to written loan commitments issued or modified beginning on January 1, 2008. JPMorgan Chase is currently evaluating the impact that SAB 109 will have on its consolidated financial statements.

JPMORGAN CHASE & CO.
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in millions, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Revenue				
Investment banking fees	\$ 1,336	\$ 1,416	\$ 4,973	\$ 3,955
Principal transactions	237	2,737	8,274	8,187
Lending & deposit-related fees	1,026	867	2,872	2,573
Asset management, administration and commissions	3,663	2,842	10,460	8,682
Securities gains (losses)	237	40	16	(578)
Mortgage fees and related income	221	62	1,220	516
Credit card income	1,777	1,567	5,054	5,268
Other income	289	635	1,360	1,653
Noninterest revenue	8,786	10,166	34,229	30,256
Interest income	19,219	15,157	53,344	43,010
Interest expense	11,893	9,778	33,585	27,460
Net interest income	7,326	5,379	19,759	15,550
Total net revenue	16,112	15,545	53,988	45,806
Provision for credit losses	1,785	812	4,322	2,136
Noninterest expense				
Compensation expense	4,677	5,390	17,220	16,206
Occupancy expense	657	563	1,949	1,710
Technology, communications and equipment expense	950	911	2,793	2,656
Professional & outside services	1,260	1,111	3,719	3,204
Marketing	561	550	1,500	1,595
Other expense	812	877	2,560	2,324
Amortization of intangibles	349	346	1,055	1,058
Merger costs	61	48	187	205
Total noninterest expense	9,327	9,796	30,983	28,958
Income from continuing operations before income tax expense	5,000	4,937	18,683	14,712
Income tax expense	1,627	1,705	6,289	4,969
Income from continuing operations	3,373	3,232	12,394	9,743
Income from discontinued operations	—	65	—	175
Net income	\$ 3,373	\$ 3,297	\$ 12,394	\$ 9,918
Net income applicable to common stock	\$ 3,373	\$ 3,297	\$ 12,394	\$ 9,914
Per common share data				
Basic earnings per share				
Income from continuing operations	\$ 1.00	\$ 0.93	\$ 3.63	\$ 2.81
Net income	1.00	0.95	3.63	2.86
Diluted earnings per share				
Income from continuing operations	\$ 0.97	\$ 0.90	\$ 3.52	\$ 2.73
Net income	0.97	0.92	3.52	2.78
Average basic shares	3,375.9#	3,468.6#	3,415.8#	3,471.7#
Average diluted shares	3,477.7	3,574.0	3,519.6	3,572.3
Cash dividends per common share	\$ 0.38	\$ 0.34	\$ 1.10	\$ 1.02

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

JPMORGAN CHASE & CO.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share data)	September 30, 2007	December 31, 2006
Assets		
Cash and due from banks	\$ 32,766	\$ 40,412
Deposits with banks	26,714	13,547
Federal funds sold and securities purchased under resale agreements (included \$17,591 at fair value at September 30, 2007)	135,589	140,524
Securities borrowed	84,697	73,688
Trading assets (included assets pledged of \$83,618 at September 30, 2007, and \$82,474 at December 31, 2006)	453,711	365,738
Securities:		
Available-for-sale (included assets pledged of \$11,342 at September 30, 2007, and \$39,571 at December 31, 2006)	97,659	91,917
Held-to-maturity (fair value: \$48 at September 30, 2007, and \$60 at December 31, 2006)	47	58
Loans (included \$6,128 at fair value at September 30, 2007)	486,320	483,127
Allowance for loan losses	(8,113)	(7,279)
Loans, net of Allowance for loan losses	478,207	475,848
Private equity investments (included \$6,834 at fair value at September 30, 2007)	6,929	6,359
Accrued interest and accounts receivable	26,401	22,891
Premises and equipment	8,892	8,735
Goodwill	45,335	45,186
Other intangible assets:		
Mortgage servicing rights	9,114	7,546
Purchased credit card relationships	2,427	2,935
All other intangibles	3,959	4,371
Other assets (included \$14,158 at fair value at September 30, 2007)	67,128	51,765
Total assets	\$ 1,479,575	\$ 1,351,520
Liabilities		
Deposits:		
U.S. offices:		
Noninterest-bearing	\$ 115,036	\$ 132,781
Interest-bearing (included \$1,903 at fair value at September 30, 2007)	354,459	337,812
Non-U.S. offices:		
Noninterest-bearing	6,559	7,662
Interest-bearing (included \$4,200 at fair value at September 30, 2007)	202,037	160,533
Total deposits	678,091	638,788
Federal funds purchased and securities sold under repurchase agreements (included \$6,421 at fair value at September 30, 2007)	178,767	162,173
Commercial paper	33,978	18,849
Other borrowed funds (included \$12,111 at fair value at September 30, 2007)	31,154	18,053
Trading liabilities	149,174	147,957
Accounts payable, accrued expenses and other liabilities (included the Allowance for lending-related commitments of \$858 at September 30, 2007, and \$524 at December 31, 2006; and \$449 at fair value at September 30, 2007)	86,524	88,096
Beneficial interests issued by consolidated variable interest entities (included \$2,927 at fair value at September 30, 2007)	13,283	16,184
Long-term debt (included \$67,761 at fair value at September 30, 2007, and \$25,370 at December 31, 2006)	173,696	133,421
Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities	14,930	12,209
Total liabilities	1,359,597	1,235,730
Commitments and contingencies (see Note 21 of this Form 10-Q)		
Stockholders' equity		
Preferred stock (\$1 par value; authorized 200,000,000 shares; no shares issued)	—	—
Common stock (\$1 par value; authorized 9,000,000,000 shares at September 30, 2007, and December 31, 2006; issued 3,657,730,356 shares and 3,657,786,282 shares at September 30, 2007, and December 31, 2006, respectively)	3,658	3,658
Capital surplus	78,295	77,807
Retained earnings	53,064	43,600
Accumulated other comprehensive income (loss)	(1,830)	(1,557)
Treasury stock, at cost (298,919,756 shares at September 30, 2007, and 196,102,381 shares at December 31, 2006)	(13,209)	(7,718)
Total stockholders' equity	119,978	115,790
Total liabilities and stockholders' equity	\$ 1,479,575	\$ 1,351,520

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

JPMORGAN CHASE & CO.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME (UNAUDITED)

Nine months ended September 30,
(in millions, except per share data)

	2007	2006
Preferred stock		
Balance at January 1	\$ —	\$ 139
Redemption of preferred stock	—	(139)
Balance at September 30	—	—
Common stock		
Balance at January 1	3,658	3,618
Issuance of common stock	—	40
Balance at September 30	3,658	3,658
Capital surplus		
Balance at January 1	77,807	74,994
Shares issued and commitments to issue common stock for employee stock-based compensation awards and related tax effects	488	2,463
Balance at September 30	78,295	77,457
Retained earnings		
Balance at January 1	43,600	33,848
Cumulative effect of change in accounting principles	915	172
Balance at January 1, adjusted	44,515	34,020
Net income	12,394	9,918
Cash dividends declared:		
Preferred stock	—	(4)
Common stock (\$1.10 and \$1.02 per share for the nine months ended September 30, 2007 and 2006, respectively)	(3,845)	(3,651)
Balance at September 30	53,064	40,283
Accumulated other comprehensive income (loss)		
Balance at January 1	(1,557)	(626)
Cumulative effect of change in accounting principles	(1)	—
Balance at January 1, adjusted	(1,558)	(626)
Other comprehensive income (loss)	(272)	100
Balance at September 30	(1,830)	(526)
Treasury stock, at cost		
Balance at January 1	(7,718)	(4,762)
Purchase of treasury stock	(8,015)	(2,937)
Reissuance from treasury stock	2,659	741
Share repurchases related to employee stock-based compensation awards	(135)	(353)
Balance at September 30	(13,209)	(7,311)
Total stockholders' equity	\$ 119,978	\$ 113,561
Comprehensive income		
Net income	\$ 12,394	\$ 9,918
Other comprehensive income (loss)	(272)	100
Comprehensive income	\$ 12,122	\$ 10,018

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

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

Nine months ended September 30,
(in millions)

	2007	2006
Operating activities		
Net income	\$ 12,394	\$ 9,918
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for credit losses	4,322	2,136
Depreciation and amortization	1,705	1,522
Amortization of intangibles	1,055	1,058
Deferred tax (benefit) expense	(518)	1,803
Investment securities (gains) losses	(16)	578
Stock-based compensation	1,509	1,923
Originations and purchases of loans held-for-sale	(87,446)	(116,925)
Proceeds from sales and securitizations of loans held-for-sale	87,279	117,931
Net change in:		
Trading assets	(74,405)	(45,866)
Securities borrowed	(11,009)	(14,618)
Private equity investments	(570)	469
Accrued interest and accounts receivable	(3,510)	175
Other assets	(21,022)	(7,933)
Trading liabilities	5,785	11,086
Accounts payable, accrued expenses and other liabilities	(2,732)	246
Other operating adjustments	5,866	1,434
Net cash used in operating activities	(81,313)	(35,063)
Investing activities		
Net change in:		
Deposits with banks	(13,167)	4,585
Federal funds sold and securities purchased under resale agreements	4,914	(22,760)
Held-to-maturity securities:		
Proceeds	11	14
Available-for-sale securities:		
Proceeds from maturities	20,515	18,370
Proceeds from sales	54,288	92,281
Purchases	(81,131)	(157,725)
Proceeds from sales and securitization of loans held-for-investment	26,582	11,998
Other changes in loans, net	(49,979)	(56,515)
Net cash (used) received in business acquisitions	(70)	652
All other investing activities, net	(3,284)	3,478
Net cash used in investing activities	(41,321)	(105,622)
Financing activities		
Net change in:		
Deposits	42,245	48,409
Federal funds purchased and securities sold under repurchase agreements	16,614	63,017
Commercial paper and other borrowed funds	28,226	9,746
Proceeds from the issuance of long-term debt and trust preferred capital debt securities	77,120	43,360
Repayments of long-term debt and trust preferred capital debt securities	(40,442)	(25,163)
Net proceeds from the issuance of stock and stock-related awards	1,523	1,195
Excess tax benefits related to stock-based compensation	327	232
Redemption of preferred stock	—	(139)
Treasury stock purchased	(8,015)	(2,937)
Cash dividends paid	(3,735)	(3,637)
All other financing activities, net	818	6,043
Net cash provided by financing activities	114,681	140,126
Effect of exchange rate changes on cash and due from banks	307	168
Net (decrease) increase in cash and due from banks	(7,646)	(391)
Cash and due from banks at the beginning of the year	40,412	36,670
Cash and due from banks at the end of the period	\$ 32,766	\$ 36,279
Cash interest paid	\$ 33,781	\$ 26,499
Cash income taxes paid	4,202	1,949

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1 – BASIS OF PRESENTATION

JPMorgan Chase & Co. (“JPMorgan Chase” or the “Firm”), a financial holding company incorporated under Delaware law in 1968, is a leading global financial services firm and one of the largest banking institutions in the United States, with operations worldwide. The Firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing and asset management. For a discussion of the Firm’s business segment information, see Note 24 on pages 108–111 of this Form 10-Q.

The accounting and financial reporting policies of JPMorgan Chase and its subsidiaries conform to accounting principles generally accepted in the United States of America (“U.S. GAAP”). Additionally, where applicable, the policies conform to the accounting and reporting guidelines prescribed by bank regulatory authorities. The unaudited consolidated financial statements prepared in conformity with U.S. GAAP require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and disclosures of contingent assets and liabilities. Actual results could be different from these estimates. In the opinion of management, all normal recurring adjustments have been included for a fair statement of this interim financial information. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes thereto included in JPMorgan Chase’s Annual Report on Form 10-K for the year ended December 31, 2006, as amended (the “2006 Annual Report”).

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

Consolidation

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

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

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

There are two different accounting frameworks applicable to SPEs: the qualifying SPE (“QSPE”) framework under SFAS 140; and the variable interest entity (“VIE”) framework under FIN 46R. The applicable framework depends on the nature of the entity and the Firm’s relation to that entity. The QSPE framework is applicable when an entity transfers (sells) financial assets to an SPE meeting certain criteria defined in SFAS 140. These criteria are designed to ensure that the activities of the entity are essentially predetermined at the inception of the vehicle and that the transferor of the financial assets cannot exercise control over the entity and the assets therein. Entities meeting these criteria are not consolidated by the transferor or other counterparties as long as they do not have the unilateral ability to liquidate or to cause the entity to no longer meet the QSPE criteria. The Firm primarily follows the QSPE model for securitizations of its residential and commercial mortgages, credit card loans and automobile loans. For further details, see Note 15 on pages 94–99 of this Form 10-Q.

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

FIN 46R requires a variable interest holder (i.e., a counterparty to a VIE) to consolidate the VIE if that party will absorb a majority of the expected losses of the VIE, receive the majority of the expected residual returns of the VIE, or both. This party is considered the primary beneficiary. In making this determination, the Firm thoroughly evaluates the VIE's design, capital structure and relationships among variable interest holders. When the primary beneficiary cannot be identified through a qualitative analysis, the Firm performs a quantitative analysis, which computes and allocates expected losses or residual returns to variable interest holders. The allocation of expected cash flows in this analysis is based upon the relative contractual rights and preferences of each variable interest holder in the VIE's capital structure. For further details, see Note 16 on pages 100–101 of this Form 10-Q.

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

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

For a discussion of the accounting for Private equity investments, see Note 5 on pages 83–85 of this Form 10-Q.

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

NOTE 2 – DISCONTINUED OPERATIONS

On October 1, 2006, JPMorgan Chase completed the acquisition of The Bank of New York's consumer, small-business and middle-market banking businesses in exchange for selected corporate trust businesses plus a cash payment of \$150 million. The Firm may also make a future payment to The Bank of New York of up to \$50 million depending on certain new account openings. There was no income from discontinued operations during the first nine months of 2007. During the quarter and nine months ended September 30, 2006, Income from discontinued operations was \$65 million and \$175 million, respectively.

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

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

NOTE 3 – FAIR VALUE MEASUREMENT

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

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

The Firm chose early adoption for SFAS 157 effective January 1, 2007.

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The Firm also chose early adoption for SFAS 159 effective January 1, 2007. SFAS 159 provides an option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments and written loan commitments not previously recorded at fair value. As a result of adopting SFAS 159, the Firm elected fair value accounting for certain assets and liabilities not previously carried at fair value. For more information, see Note 4 on pages 80–83 of this Form 10-Q

Determination of fair value

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

The Firm has an established and well-documented process for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon internally developed models that use primarily market-based or independently-sourced market parameters, including interest rate yield curves, option volatilities and currency rates. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments include amounts to reflect counterparty credit quality, the Firm's creditworthiness, liquidity and unobservable parameters that are applied consistently over time.

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

To ensure that the valuations are appropriate, the Firm has various controls in place. These include: an independent review and approval of valuation models; detailed review and explanation for profit and loss analyzed daily and over time; deconstruction of the model valuations for certain structured instruments into their components and benchmarking valuations, where possible, to similar products; and validating valuation estimates through actual cash settlement. Valuation adjustments are determined based upon established policies and are controlled by a price verification group, which is independent of the risk-taking function. Any changes to the valuation methodology are reviewed by management to ensure the changes are justified. As markets and products develop and the pricing for certain products becomes more transparent, the Firm continues to refine its valuation methodologies.

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

Valuation Hierarchy

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

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

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

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

Assets

Securities purchased under resale agreements ("resale agreements")

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

Loans and unfunded lending-related commitments

Where quoted market prices are not available, the fair value of loans and unfunded lending-related commitments is generally based upon observable market prices of similar instruments, including bonds, credit derivatives and loans with similar characteristics. If observable market prices are not available, fair value is based upon estimated cash flows adjusted for credit risk which are discounted using an interest rate appropriate for the maturity of the applicable loans or the unfunded commitments.

For loans that are expected to be securitized, fair value is estimated based upon observable pricing of asset-backed securities with similar collateral and incorporates adjustments (i.e., reductions) to these prices to account for securitization uncertainties including portfolio composition, market conditions and liquidity.

The Firm's loans carried at fair value and included in Loans and Trading assets on the balance sheet are generally classified within level 2 of the valuation hierarchy; however, certain of the Firm's loans, including purchased nonperforming loans, leveraged lending funded loans and unfunded commitments, and subprime loans are classified within level 3 due to the lack of observable pricing data.

Securities

Where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. Level 1 securities include highly liquid government bonds, certain mortgage products and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Examples of such instruments, which would generally be classified within level 2 of the valuation hierarchy, include certain collateralized mortgage and debt obligations and certain high-yield debt securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within level 3 of the valuation hierarchy. Securities classified within level 3 include certain residual interests in securitizations and other less liquid securities.

Commodities

Commodities inventory is carried at the lower of cost or fair value. The fair value for commodities inventory is determined primarily using pricing and data derived from the markets on which the underlying commodities are traded. Market prices may be adjusted for liquidity. The majority of commodities contracts are classified within level 2 of the valuation hierarchy.

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Derivatives

Exchange-traded derivatives valued using quoted prices are classified within level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the majority of the Firm's derivative positions are valued using internally developed models that use as their basis readily observable market parameters and are classified within level 2 of the valuation hierarchy. Such derivatives include basic interest rate swaps and options and credit default swaps. Derivatives that are valued based upon models with significant unobservable market parameters and that are normally traded less actively or have trade activity that is one way are classified within level 3 of the valuation hierarchy. Examples include long-dated interest rate or currency swaps, where swap rates may be unobservable for longer maturities; and certain credit products, where correlation and recovery rates are unobservable.

Mortgage servicing rights and certain other retained interests in securitizations

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

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

For both MSRs and certain other retained interests in securitizations, the Firm compares its fair value estimates and assumptions to observable market data where available and to recent market activity and actual portfolio experience. For further discussion of the most significant assumptions used to value retained interests in securitizations and MSRs, as well as the applicable stress tests for those assumptions, see Note 15 on pages 94–99 and Note 17 on pages 101–103 of this Form 10-Q.

Private equity investments

The valuation of nonpublic Private equity investments, held primarily by the Private Equity business within Corporate, requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity and the long-term nature of such assets. Private equity investments are valued initially based upon transaction price. The carrying values of private equity investments are adjusted either upwards or downwards from the transaction price to reflect expected exit values as evidenced by financing and sale transactions with third parties, or when determination of a valuation adjustment is confirmed through ongoing reviews by senior investment managers. A variety of factors are reviewed and monitored to assess positive and negative changes in valuation including, but not limited to, current operating performance and future expectations of the particular investment, industry valuations of comparable public companies, changes in market outlook and the third-party financing environment. In determining valuation adjustments resulting from the investment review process, emphasis is placed on current company performance and market conditions. Nonpublic Private equity investments are included in level 3 of the valuation hierarchy.

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

Liabilities

Deposits and Securities sold under repurchase agreements ("repurchase agreements")

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

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Beneficial interests issued by consolidated VIEs

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

Deposits, Other borrowed funds and Long-term debt

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

The following table presents the financial instruments carried at fair value as of September 30, 2007, by caption on the Consolidated balance sheet and by SFAS 157 valuation hierarchy (as described above).

Assets and liabilities measured at fair value on a recurring basis

	Quoted market prices in active markets (Level 1)	Internal models with significant observable market parameters (Level 2)	Internal models with significant unobservable market parameters (Level 3)	FIN 39 netting ^(e)	Total carrying value in the Consolidated balance sheet
September 30, 2007 (in millions)					
Federal funds sold and securities purchased under resale agreements	\$ —	\$ 17,591	\$ —	\$ —	\$ 17,591
Trading assets:					
Debt and equity instruments ^{(a)(b)}	200,136	173,753	15,230	—	389,119
Derivative receivables	10,074	722,294	14,519	(682,295)	64,592
Total trading assets	210,210	896,047	29,749	(682,295)	453,711
Available-for-sale securities	85,850	11,712	97	—	97,659
Loans	—	9	6,119	—	6,128
Private equity investments ^(c)	94	486	6,254	—	6,834
Mortgage servicing rights	—	—	9,114	—	9,114
Other assets	10,812	804	2,542	—	14,158
Total assets at fair value	\$ 306,966	\$ 926,649	\$ 53,875	\$ (682,295)	\$ 605,195
Deposits	\$ —	\$ 5,008	\$ 1,095	\$ —	\$ 6,103
Federal funds purchased and securities sold under repurchase agreements	—	6,421	—	—	6,421
Other borrowed funds	—	12,002	109	—	12,111
Trading liabilities:					
Debt and equity instruments	64,097	16,175	476	—	80,748
Derivative payables	14,227	719,131	15,889	(680,821)	68,426
Total trading liabilities	78,324	735,306	16,365	(680,821)	149,174
Accounts payable, accrued expenses and other liabilities ^(d)	—	—	449	—	449
Beneficial interests issued by consolidated VIEs	—	2,903	24	—	2,927
Long-term debt	160	45,818	21,783	—	67,761
Total liabilities at fair value	\$ 78,484	\$ 807,458	\$ 39,825	\$ (680,821)	\$ 244,946

^(a) Included loans classified as Trading assets. For additional detail, see Note 6 on pages 85–86.

^(b) Included physical commodities inventories that are accounted for at the lower of cost or fair value.

^(c) Included within Private equity investments are public equity securities held within the Private Equity business.

^(d) Included within Accounts payable, accrued expenses and other liabilities is the fair value adjustment for unfunded lending-related commitments.

^(e) FIN 39 permits the netting of Derivative receivables and Derivative payables when a legally enforceable master netting agreement exists between the Firm and a derivative counterparty. A master netting agreement is an agreement between two counterparties who have multiple derivative contracts with each other that provide for the net settlement of all contracts, as well as cash collateral, through a single payment, in a single currency, in the event of default on or termination of any one contract.

Changes in level three (3) fair value measurements

The tables below include a rollforward of the balance sheet amounts for the three and nine months ended September 30, 2007, (including the change in fair value), for financial instruments classified by the Firm within level 3 of the valuation hierarchy. When a determination is made to classify a financial instrument within level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, level 3 financial instruments typically include, in addition to the unobservable or level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources); accordingly, the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology. Also, the Firm risk manages the observable components of level 3 financial instruments using securities and derivative positions that are classified within level 1 or 2 of the valuation hierarchy; as these level 1 and level 2 risk management instruments are not included below, the gains or losses in the tables do not reflect the effect of the Firm's risk management activities related to such level 3 instruments.

	Fair value measurements using significant unobservable inputs ^(a)						Change in unrealized gains and (losses) related to financial instruments held at September 30, 2007
	Fair value, June 30, 2007	Total realized/unrealized gains/(losses)	Purchases, issuances and settlements, net	Transfers in and/or out of Level 3	Fair value, September 30, 2007		
Three months ended September 30, 2007 (in millions)							
Assets:							
Trading assets:							
Debt and equity instruments	\$ 10,951	\$ (60) ^{(b)(c)}	\$ 2,020	\$ 2,319	\$ 15,230	\$	(89) ^{(b)(c)}
Available-for-sale securities	107	(5) ^(d)	(5)	—	97		(5) ^(d)
Loans	1,544	(81) ^(b)	4,368	288	6,119		(88) ^(b)
Private equity investments	6,143	876 ^(b)	(765)	—	6,254		294 ^(b)
Other assets	2,057	(12) ^(e)	357	140	2,542		(6) ^(e)
Liabilities:							
Deposits	\$ (926)	\$ (31) ^(b)	\$ (138)	\$ —	\$ (1,095)	\$	(38) ^(b)
Other borrowed funds	—	(76)	(33)	—	(109)		(128)
Trading liabilities:							
Debt and equity instruments	(243)	148 ^(b)	13	(394) ^(f)	(476)		120 ^(b)
Net derivative payables	(1,677)	(729) ^(b)	161	875	(1,370)		(166) ^(b)
Accounts payable, accrued expenses and other liabilities	—	(449) ^(b)	—	—	(449)		(449) ^(b)
Beneficial interests issued by consolidated VIEs	(25)	—	1	—	(24)		—
Long-term debt	(20,307)	(512) ^(b)	(955)	(9) ^(f)	(21,783)		(735) ^(b)

^(a) MSRs are classified within level 3 of the valuation hierarchy. For a rollforward of balance sheet amounts related to MSRs, see Note 17 on pages 101–103 of this Form 10-Q.

^(b) Reported in Principal transactions revenue.

^(c) Changes in fair value for Retail Financial Services mortgage loans originated with the intent to sell are measured at fair value under SFAS 159 and reported in Mortgage fees and related income.

^(d) Realized gains (losses) are reported in Securities gains (losses). Unrealized gains (losses) are reported in Accumulated other comprehensive income (loss).

^(e) Reported in Other income.

^(f) Represents a net transfer in of a liability balance.

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Fair value measurements using significant unobservable inputs^(a)

Nine months ended September 30, 2007 (in millions)	Fair value, January 1, 2007	Total realized/unrealized gains/(losses)	Purchases, issuances and settlements, net	Transfers in and/or out of Level 3	Fair value, September 30, 2007	Change in unrealized gains and (losses) related to financial instruments held at September 30, 2007
Assets:						
Trading assets:						
Debt and equity instruments	\$ 9,320	\$ (233) ^{(b)(c)}	\$ 3,280	\$ 2,863	\$ 15,230	\$ (420) ^{(b)(c)}
Available-for-sale securities	177	35 ^(d)	(22)	(93)	97	(8) ^(d)
Loans	643	(55) ^(b)	5,243	288	6,119	(68) ^(b)
Private equity investments	5,536	3,312 ^(b)	(2,601)	7	6,254	1,118 ^(b)
Other assets	1,548	57 ^(e)	490	447	2,542	(4) ^(e)
Liabilities:						
Deposits	\$ (385)	\$ (12) ^(b)	\$ (551)	\$ (147) ^(f)	\$ (1,095)	\$ (10) ^(b)
Other borrowed funds	—	(76)	(33)	—	(109)	(128)
Trading liabilities:						
Debt and equity instruments	(32)	96 ^(b)	43	(583) ^(f)	(476)	121 ^(b)
Net derivative payables	(2,800)	51 ^(b)	(371)	1,750	(1,370)	614 ^(b)
Accounts payable, accrued expenses and other liabilities	—	(449) ^(b)	—	—	(449)	(449) ^(b)
Beneficial interests issued by consolidated VIEs	(8)	6	1	(23) ^(f)	(24)	—
Long-term debt	(11,386)	(1,205) ^(b)	(6,441)	(2,751) ^(f)	(21,783)	(667) ^(b)

(a) MSRs are classified within level 3 of the valuation hierarchy. For a rollforward of balance sheet amounts related to MSRs, see Note 17 on pages 101–103 of this Form 10-Q.

(b) Reported in Principal transactions revenue.

(c) Changes in fair value for Retail Financial Services mortgage loans originated with the intent to sell are measured at fair value under SFAS 159 and reported in Mortgage fees and related income.

(d) Realized gains (losses) are reported in Securities gains (losses). Unrealized gains (losses) are reported in Accumulated other comprehensive income (loss).

(e) Reported in Other income.

(f) Represents a net transfer in of a liability balance.

Assets and liabilities measured at fair value on a nonrecurring basis

Certain assets, liabilities and unfunded lending-related commitments are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the financial instruments carried on the Consolidated balance sheet by caption and by level within the SFAS 157 valuation hierarchy (as described above) as of September 30, 2007, for which a nonrecurring change in fair value has been recorded during the nine months ended September 30, 2007.

September 30, 2007 (in millions)	Quoted market prices in active markets (Level 1)	Internal models with significant observable market parameters (Level 2)	Internal models with significant unobservable market parameters (Level 3)	Total carrying value in the Consolidated balance sheet
Loans ^(a)	\$ —	\$ 2,445	\$ 15,142	\$ 17,587
Other assets	—	230	114	344
Total assets at fair value on a nonrecurring basis	\$ —	\$ 2,675	\$ 15,256	\$ 17,931
Accounts payable, accrued expenses and other liabilities	\$ —	\$ —	\$ 462	\$ 462 ^(b)
Total liabilities at fair value on a nonrecurring basis	\$ —	\$ —	\$ 462	\$ 462

(a) Includes debt financing and other loan warehouses held-for-sale.

(b) Represents the fair value adjustment associated with \$15.0 billion of unfunded held-for-sale lending-related commitments.

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Nonrecurring fair value changes

The following table presents the total change in value of financial instruments for which a fair value adjustment has been included in the Consolidated statements of income for the three and nine months ended September 30, 2007, related to financial instruments held at September 30, 2007.

September 30, 2007

(in millions)	Three months ended	Nine months ended
Loans	\$ (508)	\$ (565)
Other assets	(37)	(135)
Accounts payable, accrued expenses and other liabilities	(462)	(462)
Total nonrecurring fair value gains (losses)	\$ (1,007)	\$ (1,162)

Transition

In connection with the Firm's adoption of SFAS 157, the Firm recorded the following:

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

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

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

NOTE 4 – FAIR VALUE OPTION

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

The Firm's fair value elections were intended to eliminate volatility in Net income that had been caused by measuring assets and liabilities on a different basis and to align the accounting with the Firm's risk management practices for those financial instruments managed on a fair value basis. The following table provides detail regarding the Firm's elections by balance sheet line as of January 1, 2007.

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

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

Elections

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

Loans and unfunded lending-related commitments

The Firm elected to record, at fair value, certain loans and unfunded lending-related commitments that are extended as part of its principal investing activities. The transition amount related to the election to fair value these loans included a reversal of the Allowance for loan losses of \$56 million. During the third quarter of 2007, the Firm elected the fair value option for newly originated bridge loans and bridge financing commitments and plans to make an election for such instruments going forward. These elections are being made to further align the accounting basis of the funded bridge loans and unfunded bridge financing commitments with the related risk management practices. These loans continue to be classified within Loans on the Consolidated balance sheet. The fair value of unfunded commitments is classified within Accounts payable, accrued expenses and other liabilities.

The Firm also elected to record certain Loans held-for-sale at fair value. These loans were reclassified to Trading assets – Debt and equity instruments. This election enabled the Firm to record loans purchased as part of the Investment Bank's proprietary activities at fair value and discontinue SFAS 133 fair value hedge relationships for certain originated loans.

In addition, the Investment Bank ("IB") elected to record loan originations and purchases entered into after January 1, 2007, as part of its securitization warehousing activities at fair value. Similarly, Retail Financial Services ("RFS") elected to record prime mortgage loans originated with the intent to sell after January 1, 2007, at fair value. These elections were not made for loans existing on January 1, 2007, based upon the short holding period of the loans and/or the negligible impact of the elections. Warehouse loans elected to be reported at fair value are classified as Trading assets – Debt and equity instruments. For additional information regarding warehouse loans, see Note 15 on pages 94–99 of this Form 10-Q.

Resale and Repurchase Agreements

The Firm elected to record at fair value resale and repurchase agreements with an embedded derivative or a maturity greater than one year. The intent of this election was to mitigate volatility due to the differences in the measurement basis for the agreements (which were previously accounted for on an accrual basis) and the associated risk management arrangements (which are accounted for on a fair value basis). An election was not made for short-term agreements as the carrying value for such agreements generally approximates fair value. For additional information regarding these agreements, see Note 12 on page 91 of this Form 10-Q.

Structured Notes

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

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Changes in Fair Value under the Fair Value option election

The following tables present the changes in fair value included in the Consolidated statements of income for the three and nine months ended September 30, 2007, for items for which the fair value election was made.

Three months ended September 30, 2007 (in millions)	Principal transactions^(d)	Mortgage fees and related income	Other income	Total changes in fair value recorded
Federal funds sold and securities purchased under resale agreements	\$ 240	\$ —	\$ —	\$ 240
Trading assets:				
Debt and equity instruments, excluding loans	191	(11)	—	180
Loans reported as trading assets:				
Changes in instrument specific credit risk ^(a)	(724)	(103)	—	(827)
Other changes in fair value	131	418	—	549
Loans				
Changes in instrument-specific credit risk ^(a)	(100)	—	—	(100)
Other changes in fair value	15	—	—	15
Other assets	—	—	(40)	(40)
Deposits	(522)	—	—	(522)
Federal funds purchased and securities sold under repurchase agreements	(48)	—	—	(48)
Other borrowed funds	(159)	—	—	(159)
Trading liabilities	47	—	—	47
Accounts payable, accrued expenses and other liabilities	(449)	—	—	(449)
Beneficial interests issued by consolidated VIEs	(115)	—	—	(115)
Long-term debt:				
Changes in instrument-specific credit risk ^{(b)(c)}	429	—	—	429
Other changes in fair value	(1,065)	—	—	(1,065)

Nine months ended September 30, 2007 (in millions)	Principal transactions^(d)	Mortgage fees and related income	Other income	Total changes in fair value recorded
Federal funds sold and securities purchased under resale agreements	\$ 240	\$ —	\$ —	\$ 240
Trading assets:				
Debt and equity instruments, excluding loans	467	4	—	471
Loans reported as trading assets:				
Changes in instrument specific credit risk ^(a)	(150)	(104)	—	(254)
Other changes in fair value	147	601	—	748
Loans				
Changes in instrument-specific credit risk ^(a)	(91)	—	—	(91)
Other changes in fair value	24	—	—	24
Other assets	—	—	28	28
Deposits	(562)	—	—	(562)
Federal funds purchased and securities sold under repurchase agreements	(24)	—	—	(24)
Other borrowed funds	(317)	—	—	(317)
Trading liabilities	(2)	—	—	(2)
Accounts payable, accrued expenses and other liabilities	(449)	—	—	(449)
Beneficial interests issued by consolidated VIEs	(184)	—	—	(184)
Long-term debt:				
Changes in instrument-specific credit risk ^{(b)(c)}	562	—	—	562
Other changes in fair value	(2,313)	—	—	(2,313)

(a) For floating-rate instruments, changes in value are attributed to instrument-specific credit risk. For fixed-rate instruments, an allocation of the changes in value for the period is made between those changes in value that are interest rate-related and changes in value that are credit-related. Allocations are based upon an analysis of borrower-specific credit spread and recovery information, where available, or benchmarking to similar entities or industries.

(b) For Long-term debt, changes in value attributable to instrument-specific credit risk were derived principally from observable changes in the Firm's credit spread. The gain for the three and nine months ended September 30, 2007, was attributable to the widening of the Firm's credit spread.

(c) Total changes in instrument-specific credit risk related to structured notes was \$454 million and \$589 million for the three and nine months ended September 30, 2007, which includes adjustments for structured notes classified within Deposits and Other borrowed funds as well as Long-term debt.

(d) Included in the amounts are gains and losses related to certain financial instruments previously carried at fair value by the Firm such as structured liabilities elected pursuant to SFAS 155 and loans purchased as part of IB trading activities.

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The Firm's fair value elections were intended to mitigate the volatility in earnings that had been created by recording financial instruments and the related risk management instruments on a different basis of accounting or to eliminate the operational complexities of applying hedge accounting. However, the profit and loss information presented above only includes the financial instruments that were elected to be measured at fair value; related risk management instruments, which are required to be measured at fair value, are not included in the table.

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

The following tables reflect the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of September 30, 2007, for Loans and Long-term debt for which the SFAS 159 fair value option has been elected. The loans were classified in Loans or Trading assets – debt and equity instruments.

September 30, 2007 (in millions)	Remaining aggregate contractual principal amount outstanding	Fair value	Fair value over (under) remaining aggregate contractual principal amount outstanding
Loans			
Performing loans 90 days or more past due			
Loans	\$ —	\$ —	\$ —
Loans reported as Trading assets	—	—	—
Nonaccrual loans			
Loans	15	5	(10)
Loans reported as Trading assets	2,922	987	(1,935)
Subtotal	2,937	992	(1,945)
All other performing loans			
Loans	6,234	6,123	(111)
Loans reported as Trading assets	53,224	54,789	1,565
Total loans	\$ 62,395	\$ 61,904	\$ (491)
Long-term debt			
Principal protected debt	\$ (20,772)	\$ (22,052)	\$ 1,280
Nonprincipal protected debt ^(a)	NA	(45,709)	NA
Total Long-term debt	NA	\$ (67,761)	NA
FIN 46R long-term beneficial interests			
Principal protected debt	\$ (10)	\$ (7)	\$ (3)
Nonprincipal protected debt ^(a)	NA	(2,826)	NA
Total FIN 46R long-term beneficial interests	NA	\$ (2,833)	NA

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

At September 30, 2007, the fair value of unfunded lending-related commitments for which the fair value option was elected was a \$449 million liability, which is included in Accounts payable, accrued expenses and other liabilities. The contractual amount of such commitments was \$10.8 billion.

NOTE 5 – PRINCIPAL TRANSACTIONS

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

The following table presents Principal transactions revenue.

(in millions)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Trading revenue	\$ (548)	\$ 2,514	\$ 4,705	\$ 7,148
Private equity gains	785	223	3,569	1,039
Total Principal transactions revenue	\$ 237	\$ 2,737	\$ 8,274	\$ 8,187

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Trading assets and liabilities

Trading assets include debt and equity instruments held for trading purposes that JPMorgan Chase owns (“long” positions) and certain loans for which the Firm manages on a fair value basis and has elected the SFAS 159 fair value option. Trading liabilities include debt and equity instruments that the Firm has sold to other parties but does not own (“short” positions). The Firm is obligated to purchase instruments at a future date to cover the short positions. Included in Trading assets and Trading liabilities are the reported receivables (unrealized gains) and payables (unrealized losses) related to derivatives. Trading positions are carried at fair value on the Consolidated balance sheets. For a discussion of the valuation of Trading assets and Trading liabilities, see Note 3 on pages 73–80 of this Form 10-Q.

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

(in millions)	September 30, 2007	December 31, 2006
Trading assets		
Debt and equity instruments:		
U.S. government and federal agency obligations	\$ 25,175	\$ 17,358
U.S. government-sponsored enterprise obligations	29,537	28,544
Obligations of state and political subdivisions	12,392	9,569
Certificates of deposit, bankers’ acceptances and commercial paper	7,934	8,204
Debt securities issued by non-U.S. governments	70,713	58,387
Corporate debt securities	48,995	62,064
Equity securities	95,366	86,862
Loans ^(a)	55,776	16,595
Other	43,231	22,554
Total debt and equity instruments	389,119	310,137
Derivative receivables ^(b)		
Interest rate	28,714	28,932
Foreign exchange	6,052	4,260
Equity	10,752	6,246
Credit derivatives	10,664	5,732
Commodity	8,410	10,431
Total derivative receivables	64,592	55,601
Total trading assets	\$ 453,711	\$ 365,738
Trading liabilities		
Debt and equity instruments ^(c)	\$ 80,748	\$ 90,488
Derivative payables ^(b)		
Interest rate	20,792	22,738
Foreign exchange	8,956	4,820
Equity	23,168	16,579
Credit derivatives	9,538	6,003
Commodity	5,972	7,329
Total derivative payables	68,426	57,469
Total trading liabilities	\$ 149,174	\$ 147,957

(a) The increase from December 31, 2006, is primarily related to loans for which the SFAS 159 fair value option has been elected.

(b) Included in Trading assets and Trading liabilities are the reported receivables (unrealized gains) and payables (unrealized losses) related to derivatives. These amounts are reported net of cash received and paid of \$25.9 billion and \$24.4 billion, respectively, at September 30, 2007, and \$23.0 billion and \$18.8 billion, respectively, at December 31, 2006, under legally enforceable master netting agreements.

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

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

(in millions)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Trading assets – debt and equity instruments	\$ 396,622	\$ 288,530	\$ 374,603	\$ 273,307
Trading assets – derivative receivables	64,821	55,419	61,801	55,942
Trading liabilities – debt and equity instruments ^(a)	\$ 96,439	\$ 103,303	\$ 96,806	\$ 104,877
Trading liabilities – derivative payables	65,467	54,928	61,742	57,052

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

Private equity

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

(in millions)	September 30, 2007		December 31, 2006	
	Carrying value	Cost	Carrying value	Cost
Total private equity investments	\$ 6,929	\$ 6,594	\$ 6,359	\$ 7,560

Private equity investments are held primarily by the Private Equity business within Corporate. Private Equity includes investments in buyouts, growth equity and venture opportunities. These investments are accounted for under investment company guidelines. Accordingly, these investments, irrespective of the percentage of equity ownership interest held, are carried on the Consolidated balance sheets at fair value. Realized and unrealized gains and losses arising from changes in value are reported in Principal transactions revenue in the Consolidated statements of income in the period that the gains or losses occur. For a discussion of the valuation of Private equity investments, see Note 3 on pages 73–80 of this Form 10-Q.

NOTE 6 – OTHER NONINTEREST REVENUE

Investment banking fees

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

The following table presents the components of Investment banking fees.

(in millions)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Underwriting:				
Equity	\$ 267	\$ 274	\$ 1,169	\$ 851
Debt	475	712	2,178	1,928
Total underwriting	742	986	3,347	2,779
Advisory	594	430	1,626	1,176
Total	\$ 1,336	\$ 1,416	\$ 4,973	\$ 3,955

Lending & deposit-related fees

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

Asset management, administration and commissions

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

Mortgage fees and related income

This revenue category primarily reflects Retail Financial Services' mortgage banking revenue, including fees and income derived from mortgages originated with the intent to sell, mortgage sales and servicing; the impact of risk management activities associated with the mortgage pipeline, warehouse and MSRs; and revenues related to any residual interests held from mortgage securitizations. This revenue category also includes gains and losses on sales and lower of cost or fair value adjustments for mortgage loans held-for-sale, as well as changes in fair value for mortgage loans originated with the intent to sell and measured at fair value under SFAS 159. For loans measured at fair value under SFAS 159, origination costs are recognized in the associated expense category as incurred. Costs to originate Loans held-for-sale and accounted for at the lower of cost or fair value are deferred and recognized as a component of the gain or loss on sale. Net interest income from mortgage loans and securities gains and losses on AFS securities used in mortgage-related risk management activities are not included in Mortgage fees and related income. For a further discussion of MSRs, see Note 16 on pages 121–122 of the 2006 Annual Report and Note 17 on page 102 of this Form 10-Q.

Credit card income

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

Credit card revenue sharing agreements

The Firm has contractual agreements with numerous affinity organizations and co-brand partners, which grant to the Firm exclusive rights to market to their members or customers. These organizations and partners endorse the credit card programs and provide their mailing lists to the Firm, and they may also conduct marketing activities and provide awards under the various credit card programs. The terms of these agreements generally range from 3 to 10 years. The economic incentives the Firm pays to the endorsing organizations and partners typically include payments based upon new account originations, charge volumes, and the cost of the endorsing organizations' or partners' marketing activities and awards.

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

NOTE 7 – INTEREST INCOME AND INTEREST EXPENSE

Details of Interest income and Interest expense were as follows.

(in millions)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006 ^(b)	2007	2006 ^(b)
Interest income^(a)				
Loans	\$ 9,375	\$ 8,604	\$ 26,911	\$ 24,132
Securities	1,332	1,084	3,965	2,919
Trading assets	5,133	2,788	13,133	7,985
Federal funds sold and securities purchased under resale agreements	1,629	1,442	4,936	3,859
Securities borrowed	1,242	887	3,498	2,457
Deposits with banks	508	352	901	1,006
Interests in purchased receivables	—	—	—	652
Total interest income	19,219	15,157	53,344	43,010
Interest expense^(a)				
Interest-bearing deposits	5,638	4,471	15,975	12,140
Short-term and other liabilities	4,301	3,794	12,463	10,279
Long-term debt	1,789	1,370	4,722	3,964
Beneficial interests issued by consolidated VIEs	165	143	425	1,077
Total interest expense	11,893	9,778	33,585	27,460
Net interest income	7,326	5,379	19,759	15,550
Provision for credit losses	1,785	812	4,322	2,136
Net interest income after provision for credit losses	\$ 5,541	\$ 4,567	\$ 15,437	\$ 13,414

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

(b) Prior periods have been adjusted to reflect the reclassification of certain amounts to more appropriate interest income and interest expense lines.

NOTE 8 – PENSION AND OTHER POSTRETIREMENT EMPLOYEE BENEFIT PLANS

For a discussion of JPMorgan Chase's pension and other postretirement employee benefit ("OPEB") plans, see Note 7 on pages 100–105 of JPMorgan Chase's 2006 Annual Report. The Firm prospectively adopted SFAS 158 as required on December 31, 2006.

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

Three months ended September 30, (in millions)	Defined benefit pension plans				OPEB plans	
	U.S.		Non-U.S.		2007	2006
	2007	2006 ^(b)	2007	2006		
Components of net periodic benefit cost						
Benefits earned during the period	\$ 68	\$ 70	\$ 9	\$ 7	\$ 4	\$ 2
Interest cost on benefit obligations	117	113	35	29	16	21
Expected return on plan assets	(178)	(173)	(37)	(30)	(23)	(23)
Amortization:						
Net actuarial loss	—	3	14	11	—	9
Prior service cost (credit)	1	2	—	—	(4)	(5)
Curtailment loss	—	—	—	—	—	—
Settlement loss	—	—	—	—	—	—
Subtotal	8	15	21	17	(7)	4
Other defined benefit pension plans ^(a)	—	—	(6)	15	NA	NA
Total defined benefit pension and OPEB plans	8	15	15	32	(7)	4
Total defined contribution plans	63	60	47	48	NA	NA
Total pension and OPEB cost included in Compensation expense	\$ 71	\$ 75	\$ 62	\$ 80	\$ (7)	\$ 4

Nine months ended September 30, (in millions)	Defined benefit pension plans				OPEB plans	
	U.S.		Non-U.S.		2007	2006
	2007	2006 ^(b)	2007	2006		
Components of net periodic benefit cost						
Benefits earned during the period	\$ 198	\$ 211	\$ 27	\$ 21	\$ 7	\$ 6
Interest cost on benefit obligations	351	338	106	85	56	59
Expected return on plan assets	(534)	(519)	(112)	(89)	(69)	(70)
Amortization:						
Net actuarial loss	—	9	41	32	14	20
Prior service cost (credit)	3	4	—	—	(12)	(14)
Curtailment loss	—	—	—	1	—	—
Settlement loss	—	—	1	3	—	—
Subtotal	18	43	63	53	(4)	1
Other defined benefit pension plans ^(a)	1	2	25	42	NA	NA
Total defined benefit pension and OPEB plans	19	45	88	95	(4)	1
Total defined contribution plans	190	180	158	137	NA	NA
Total pension and OPEB cost included in Compensation expense	\$ 209	\$ 225	\$ 246	\$ 232	\$ (4)	\$ 1

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

(b) Revised primarily to incorporate amounts related to the U.S. defined benefit pension plans not subject to Title IV of the Employee Retirement Income Security Act of 1974 (e.g., Excess Retirement Plan).

The fair value of plan assets for the U.S. defined benefit pension and OPEB plans and material non-U.S. defined benefit pension plans was \$11.6 billion and \$2.9 billion, respectively, as of September 30, 2007, and \$11.3 billion and \$2.8 billion, respectively, as of December 31, 2006.

There will be no contributions in 2007 for the U.S. qualified defined benefit pension plan. The amount of 2007 potential contributions for U.S. non-qualified defined benefit pension plans is \$36 million. The amount of 2007 potential contributions for non-U.S. defined benefit pension plans is \$115 million and for OPEB plans is \$3 million.

NOTE 9 – EMPLOYEE STOCK-BASED INCENTIVES

For a discussion of the accounting policies and other information relating to employee stock-based compensation, see Note 8 on pages 105–107 of JPMorgan Chase's 2006 Annual Report.

Effective January 1, 2006, the Firm adopted SFAS 123R and all related interpretations using the modified prospective transition method. SFAS 123R requires that all share-based payments to employees, including employee stock options and stock-settled stock appreciation rights ("SARs"), be measured at their grant date fair values.

Upon adopting SFAS 123R, the Firm revised its accounting policies for share-based payments granted to retirement-eligible employees. Prior to the adoption, the Firm's accounting policy for share-based payment awards granted to retirement-eligible employees was to recognize compensation cost over the award's stated service period. Beginning with awards granted to retirement-eligible employees in 2006, JPMorgan Chase recognized compensation expense on the grant date without giving consideration to the impact of the postemployment restrictions. In the first quarter of 2006, the Firm also began to accrue the estimated cost of stock awards to be granted to retirement-eligible employees in the following year.

The Firm recognized noncash compensation expense related to its various employee stock-based incentives of \$490 million and \$545 million (including the total incremental impact of adopting SFAS 123R of \$105 million) for the quarters ended September 30, 2007 and 2006, respectively, and \$1.5 billion and \$1.9 billion (including the total incremental impact of adopting SFAS 123R of \$670 million) in the first nine months of 2007 and 2006, respectively, in its Consolidated statements of income. These amounts included an accrual for the estimated cost of stock awards to be granted to retirement-eligible employees of \$123 million and \$137 million for the quarters ended September 30, 2007 and 2006, respectively, and \$380 million and \$418 million in the first nine months of 2007 and 2006, respectively.

In the first quarter 2007, the Firm granted 44 million restricted stock units ("RSUs") with a grant date fair value of \$48.25 per RSU in connection with its annual incentive grant.

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NOTE 10 – NONINTEREST EXPENSE

Merger costs

Costs associated with the Bank One Merger and the transaction with The Bank of New York Company, Inc. (“The Bank of New York”) are reflected in the merger costs caption of the Consolidated statements of income. For a further discussion of the transaction with The Bank of New York, see Note 2 on page 73 of this Form 10-Q. A summary of such costs is shown in the following table.

(in millions)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Expense category				
Compensation	\$ —	\$ —	\$ 1	\$ 6
Occupancy	8	5	18	19
Technology and communications and other	51	40	149	177
Bank of New York transaction ^(a)	2	3	19	3
Total^(b)	\$ 61	\$ 48	\$ 187	\$ 205

(a) Represents Compensation and Technology and communications and other.

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

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

(in millions)	Nine months ended September 30,	
	2007	2006 ^(b)
Liability balance, beginning of period	\$ 155	\$ 311
Recorded as merger costs	168	202
Liability utilized	(196)	(338)
Liability balance, end of period	\$ 127^(a)	\$ 175

(a) Excludes \$23 million related to the Bank of New York transaction.

(b) Prior periods have been revised to reflect the current presentation.

NOTE 11 – SECURITIES

For a discussion of accounting policies relating to Securities, see Note 10 on pages 108-111 of JPMorgan Chase’s 2006 Annual Report. The following table presents realized gains and losses from AFS securities.

(in millions)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Realized gains	\$ 252	\$ 93	\$ 322	\$ 243
Realized losses	(15)	(53)	(306)	(821)
Net realized Securities gains (losses)^(a)	\$ 237	\$ 40	\$ 16	\$ (578)

(a) Proceeds from securities sold were within approximately 2% of amortized cost for the three and nine months ended September 30, 2007 and 2006.

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

(in millions)	September 30, 2007				December 31, 2006			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale securities								
U.S. government and federal agency obligations:								
U.S. treasuries	\$ 1,350	\$ —	\$ 5	\$ 1,345	\$ 2,398	\$ —	\$ 23	\$ 2,375
Mortgage-backed securities	9	1	—	10	32	2	1	33
Agency obligations	75	7	—	82	78	8	—	86
U.S. government-sponsored enterprise obligations	75,016	133	580	74,569	75,434	334	460	75,308
Obligations of state and political subdivisions	508	2	4	506	637	17	4	650
Debt securities issued by non-U.S. governments	8,359	10	38	8,331	6,150	7	52	6,105
Corporate debt securities	3,254	1	5	3,250	611	1	3	609
Equity securities	4,188	56	3	4,241	3,689	125	1	3,813
Other ^(a)	5,297	42	14	5,325	2,890	50	2	2,938
Total available-for-sale securities	\$ 98,056	\$ 252	\$ 649	\$ 97,659	\$ 91,919	\$ 544	\$ 546	\$ 91,917
Held-to-maturity securities^(b)								
Total held-to-maturity securities	\$ 47	\$ 1	\$ —	\$ 48	\$ 58	\$ 2	\$ —	\$ 60

(a) Primarily includes negotiable certificates of deposit.

(b) Consists primarily of mortgage-backed securities issued by U.S. government-sponsored entities.

Included in the \$649 million of gross unrealized losses on AFS securities at September 30, 2007, was \$303 million of unrealized losses that have existed for a period greater than 12 months. These securities are predominately rated AAA and the unrealized losses are primarily due to overall increases in market interest rates and not concerns regarding the underlying credit of the issuers. The majority of the securities with unrealized losses aged greater than 12 months are obligations of U.S. government-sponsored enterprises and have a fair value at September 30, 2007, that is within 4% of their amortized cost basis.

NOTE 12 – SECURITIES FINANCING ACTIVITIES

For a discussion of accounting policies relating to securities financing activities, see Note 11 on page 111 of JPMorgan Chase's 2006 Annual Report.

Resale agreements and repurchase agreements are generally treated as collateralized financing transactions carried on the Consolidated balance sheets at the amounts the securities will be subsequently sold or repurchased, plus accrued interest. On January 1, 2007, pursuant to the adoption of SFAS 159, the Firm elected fair value measurement for certain resale and repurchase agreements. For a further discussion of SFAS 159, see Note 4 on pages 80–83 of this Form 10-Q. These agreements continue to be reported within Securities purchased under resale agreements and Securities sold under repurchase agreements on the Consolidated balance sheets. Generally for agreements carried at fair value, current period interest accruals are recorded within Interest income and Interest expense with changes in fair value reported in Principal transactions revenue. However, for financial instruments containing embedded derivatives that would be separately accounted for in accordance with SFAS 133, all changes in fair value, including any interest elements, are reported in Principal transactions revenue. Where appropriate, resale and repurchase agreements with the same counterparty are reported on a net basis in accordance with FIN 41.

The following table details the components of securities financing activities at each of the dates indicated.

(in millions)	September 30, 2007	December 31, 2006
Securities purchased under resale agreements ^(a)	\$ 133,237	\$ 122,479
Securities borrowed	84,697	73,688
Securities sold under repurchase agreements ^(b)	\$ 153,665	\$ 143,253
Securities loaned	11,760	8,637

^(a) Includes resale agreements of \$17.6 billion accounted for at fair value at September 30, 2007.

^(b) Includes repurchase agreements of \$6.4 billion accounted for at fair value at September 30, 2007.

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

At September 30, 2007, the Firm had received securities as collateral that could be repledged, delivered or otherwise used with a fair value of approximately \$342.0 billion. This collateral was generally obtained under resale or securities borrowing agreements. Of these securities, approximately \$321.4 billion were repledged, delivered or otherwise used, generally as collateral under repurchase agreements, securities lending agreements or to cover short sales.

NOTE 13 – LOANS

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

- At the principal amount outstanding, net of the Allowance for loan losses, unearned income and any net deferred loan fees;
- At the lower of cost or fair value, with valuation changes recorded in Noninterest revenue; or
- At fair value, with changes in fair value recorded in Noninterest revenue.

For a detailed discussion of accounting policies relating to Loans, see Note 12 on pages 112–113 of JPMorgan Chase's 2006 Annual Report. See Note 4 on pages 80–83 of this Form 10-Q for further information on the Firm's elections of fair value accounting under SFAS 159. See Note 5 on pages 83–85 of this Form 10-Q for further information on loans carried at fair value and classified as trading assets.

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

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

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

(in millions)	September 30, 2007	December 31, 2006
U.S. wholesale loans:		
Commercial and industrial	\$ 89,608	\$ 77,788
Real estate	13,964	14,237
Financial institutions	16,310	14,103
Lease financing receivables	2,379	2,608
Other	4,082	9,950
Total U.S. wholesale loans	126,343	118,686
Non-U.S. wholesale loans:		
Commercial and industrial	52,224	43,428
Real estate	2,679	1,146
Financial institutions	15,109	19,163
Lease financing receivables	1,248	1,174
Other	125	145
Total non-U.S. wholesale loans	71,385	65,056
Total wholesale loans:(a)		
Commercial and industrial	141,832	121,216
Real estate(b)	16,643	15,383
Financial institutions	31,419	33,266
Lease financing receivables	3,627	3,782
Other	4,207	10,095
Total wholesale loans	197,728	183,742
Total consumer loans:(c)		
Home equity	93,026	85,730
Mortgage	47,730	59,668
Auto loans and leases	40,871	41,009
Credit card receivables(d)	79,409	85,881
All other loans	27,556	27,097
Total consumer loans	288,592	299,385
Total loans(e)(f)	\$ 486,320	\$ 483,127
Memo:		
Loans held-for-sale	\$ 18,363	\$ 55,251
Loans at fair value	6,128	NA
Total loans at fair value and loans held-for-sale	\$ 24,491	\$ 55,251

(a) Includes the Investment Bank, Commercial Banking, Treasury & Securities Services and Asset Management.

(b) Represents credits extended for real estate—related purposes to borrowers who are primarily in the real estate development or investment businesses and for which the primary repayment is from the sale, lease, management, operations or refinancing of the property.

(c) Includes Retail Financial Services, Card Services and the Corporate segment.

(d) Includes billed finance charges and fees net of an allowance for uncollectible amounts.

(e) Loans (other than those for which the SFAS 159 fair value option has been elected) are presented net of unearned income and net deferred loan fees of \$1.0 billion and \$1.3 billion at September 30, 2007, and December 31, 2006, respectively.

(f) As a result of the adoption of SFAS 159, \$23.3 billion of loans were transferred from loans held-for-sale to Trading assets and therefore, such loans are no longer included in loans at September 30, 2007.

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

(in millions)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006(b)	2007	2006(b)
Net (losses) gains on sales of loans (including lower of cost or fair value adjustments)(a)	\$ (403)	\$ 275	\$ (40)	\$ 504

(a) Excludes sales related to loans accounted for at fair value.

(b) Prior periods have been revised to reflect the current presentation.

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Impaired loans

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

The table below sets forth information about JPMorgan Chase's impaired loans (other than those included in Trading assets). The Firm primarily uses the discounted cash flow method for valuing impaired loans.

(in millions)	September 30, 2007	December 31, 2006
Impaired loans with an allowance	\$ 650	\$ 623
Impaired loans without an allowance ^(a)	16	66
Total impaired loans	\$ 666	\$ 689
Allowance for impaired loans under SFAS 114 ^(b)	160	153

(a) When the discounted cash flows, collateral value or market price equals or exceeds the carrying value of the loan, then the loan does not require an allowance under SFAS 114.

(b) The allowance for impaired loans under SFAS 114 is included in JPMorgan Chase's Allowance for loan losses.

(in millions)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Average balance of impaired loans during the period	\$ 674	\$ 1,008	\$ 622	\$ 1,036
Interest income recognized on impaired loans during the period	—	—	—	—

NOTE 14 – ALLOWANCE FOR CREDIT LOSSES

For a further discussion of the Allowance for credit losses and the related accounting policies, see Note 13 on pages 113–114 of JPMorgan Chase's 2006 Annual Report. The table below summarizes the changes in the Allowance for loan losses.

(in millions)	Nine months ended September 30,	
	2007	2006
Allowance for loan losses at January 1	\$ 7,279	\$ 7,090
Cumulative effect of change in accounting principles ^(a)	(56)	—
Allowance for loan losses at January 1, adjusted	7,223	7,090
Gross charge-offs	(3,731)	(2,741)
Gross recoveries	622	629
Net charge-offs	(3,109)	(2,112)
Provision for loan losses	3,988	2,068
Other	11	10
Allowance for loan losses at September 30	\$ 8,113	\$ 7,056
Components:		
Asset specific ^(b)	\$ 123	\$ 162
Formula-based ^(b)	7,990	6,894
Total Allowance for loan losses	\$ 8,113	\$ 7,056

(a) Reflects the effect of the adoption of SFAS 159 at January 1, 2007. For a further discussion of SFAS 159, see Note 4 on pages 80–83 of this Form 10-Q.

(b) Prior periods have been revised to reflect the current presentation.

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

(in millions)	Nine months ended September 30,	
	2007	2006
Allowance for lending-related commitments at January 1	\$ 524	\$ 400
Provision for lending-related commitments	334	68
Allowance for lending-related commitments at September 30^(a)	\$ 858	\$ 468

(a) At September 30, 2007, includes \$27 million of asset-specific and \$831 million of formula-based allowance. At September 30, 2006, includes \$40 million of asset-specific and \$428 million of formula-based allowance.

NOTE 15 – LOAN SECURITIZATIONS

For a discussion of the accounting policies relating to loan securitizations, see Note 14 on pages 114–118 of JPMorgan Chase’s 2006 Annual Report. JPMorgan Chase securitizes and sells a variety of its consumer and wholesale loans, including warehouse loans that are classified in Trading assets. Consumer activities include securitizations of residential real estate, credit card, automobile and education loans that are originated or purchased by RFS and Card Services (“CS”). Wholesale activities include securitizations of purchased residential real estate loans and commercial loans (primarily real estate-related) originated by IB.

JPMorgan Chase-sponsored securitizations utilize SPEs as part of the securitization process. These SPEs are structured to meet the definition of a QSPE (as discussed in Note 1 on pages 72–73 of this Form 10-Q); accordingly, the assets and liabilities of securitization-related QSPEs are not reflected in the Firm’s Consolidated balance sheets (except for retained interests, as described below) but are included on the balance sheet of the QSPE purchasing the assets. Assets held by JPMorgan Chase-sponsored securitization-related QSPEs as of September 30, 2007, and December 31, 2006, were as follows:

(in billions)	September 30, 2007	December 31, 2006
Consumer activities		
Credit card	\$ 90.3	\$ 86.4
Auto	2.7	4.9
Residential mortgage	62.0	40.7
Other loans ^(a)	1.2	—
Wholesale activities		
Residential mortgage	35.1	43.8
Commercial and other ^{(b)(c)}	104.6	87.1
Total	\$ 295.9	\$ 262.9

(a) Includes education loans securitized in the third quarter of 2007.

(b) Cosponsored securitizations include non-JPMorgan Chase originated assets.

(c) Commercial and other consists of commercial loans (primarily real estate) and non-mortgage consumer receivables purchased from third parties.

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The following table summarizes new securitization transactions that were completed during the three and nine months ended September 30, 2007 and 2006; the resulting gains or losses arising from such securitizations; certain cash flows received from such securitizations; and the key economic assumptions used in measuring the retained interests (if any) other than residential MSRs (for a discussion of residential MSRs, see Note 17 on page 102 of this Form 10-Q) as of the dates of such sales.

(in millions, except rates and where otherwise noted)	Three months ended September 30,										
	2007						2006				
	Consumer activities			Wholesale activities			Consumer activities			Wholesale activities	
	Credit card	Auto	Residential mortgage	Other loans	Residential mortgage	Commercial and other	Credit card	Auto	Residential mortgage	Residential mortgage	Commercial and other
Principal securitized	\$ 3,455	\$ —	\$ 3,787	\$ 1,168	\$ 2,850	\$ 3,868	\$ 1,100	\$ 1,182	\$ 4,212	\$ 8,352	\$ 3,147
Pretax gains (losses)	29	—	2 ^(a)	51	(5) ^(a)	— ^(a)	7	—	7	33	24
Cash flow											
information:											
Proceeds from securitizations	\$ 3,455	\$ —	\$ 3,762	\$ 1,168	\$ 2,775	\$ 3,987	\$ 1,100	\$ 912	\$ 4,206	\$ 8,424	\$ 3,253
Servicing fees collected	49	—	16	1	—	2	24	2	7	—	—
Other cash flows received	226	—	—	—	—	—	103	—	—	—	—
Proceeds from collections reinvested in revolving securitizations	37,588	—	—	—	—	—	38,270	—	—	—	—
Key assumptions (rates per annum):											
Prepayment rate ^(b)	20.4% PPR	—	—	1.0-8.0% CPR	24.5-30.5% CPR	—	22.2% PPR	1.4% ABS	23.8-24.6% CPR	27.0-45.0% CPR	1.8-8.3% CPR
Weighted-average life (in years)	0.4	—	—	9.1	1.3-5.2	—	0.4	1.9	3.6	1.5-2.8	1.5-2.2
Expected credit losses ^(c)	3.5%	—	—	—	0.8-2.0%	—	4.1%	0.3%	—	0.5-2.1%	0.1-9.0%
Discount rate	12.0%	—	—	9.0%	6.3-26.7%	—	12.0%	7.6%	8.4-11.2%	15.1-20.0%	1.3-5.2%

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Nine months ended September 30,

(in millions, except rates and where otherwise noted)	2007						2006					
	Consumer activities				Wholesale activities		Consumer activities			Wholesale activities		
	Credit card	Auto	Residential mortgage	Other loans	Residential mortgage	Commercial and other	Credit card	Auto	Residential mortgage	Residential mortgage	Commercial and other	
Principal securitized	\$ 14,160	\$ —	\$ 27,712	\$ 1,168	\$ 8,754	\$ 11,735	\$ 6,800	\$ 2,405	\$ 11,305	\$ 24,061	\$ 8,435	
Pretax gains (losses)	116	—	71 ^(a)	51	2 ^(a)	— ^(a)	45	—	8	54	87	
Cash flow information:												
Proceeds from securitizations	\$ 14,160	\$ —	\$ 27,604	\$ 1,168	\$ 8,621	\$ 11,958	\$ 6,800	\$ 1,745	\$ 11,225	\$ 24,236	\$ 8,591	
Servicing fees collected	100	—	34	1	—	5	56	3	11	—	—	
Other cash flows received	458	—	—	—	—	—	268	—	—	—	—	
Proceeds from collections reinvested in revolving securitizations	109,909	—	—	—	—	—	114,916	—	—	—	—	
Key assumptions (rates per annum):												
Prepayment rate ^(b)	20.4% PPR	—	14.8-24.2% CPR	1.0-8.0% CPR	13.7-48.0% CPR	0.0-8.0% CPR	22.2% PPR	1.4% ABS	23.8-24.6% CPR	27.0-45.0% CPR	1.8-8.3% CPR	
Weighted-average life (in years)	0.4	—	3.2-4.0	9.1	1.3-5.4	1.3-10.2	0.4	1.7	3.6	1.5-4.0	1.5-2.2	
Expected credit losses ^(c)	3.5-3.8%	—	—	—	0.6-2.2%	0.0-1.0%	3.3-4.2%	0.5%	—	0.5-3.3%	0.1-9.0%	
Discount rate	12.0%	—	5.8-13.8%	9.0%	6.3-26.7%	10.0-14.0%	12.0%	7.7%	8.4-11.2%	14.5-26.2%	1.3-5.2%	

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

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

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

In addition to the amounts reported for securitization activity on the previous page, the Firm sold residential mortgage loans totaling \$21.5 billion and \$13.3 billion during the three months ended September 30, 2007 and 2006, respectively, primarily for securitization by GNMA, FNMA and Freddie Mac. These sales resulted in pretax (losses) gains of \$(20) million and \$53 million, respectively. During the first nine months of 2007 and 2006, JPMorgan Chase sold residential mortgage loans totaling \$57.3 billion and \$40.4 billion, respectively, primarily for securitization by GNMA, FNMA and Freddie Mac. These sales resulted in pretax gains of \$67 million and \$223 million, respectively.

Retained securitization interests

At both September 30, 2007, and December 31, 2006, the Firm had, with respect to its credit card master trusts, \$17.7 billion and \$19.3 billion, respectively, related to undivided interests, and \$3.0 billion and \$2.5 billion, respectively, related to subordinated interests in accrued interest and fees on the securitized receivables, net of an allowance for uncollectible amounts. Credit card securitization trusts require the Firm to maintain a minimum undivided interest of 4% to 12% of the principal receivables in the trusts. The Firm maintained an average undivided interest in principal receivables in the trusts of approximately 18% for the nine months ended September 30, 2007, and 21% for the year ended December 31, 2006.

The Firm also maintains escrow accounts up to predetermined limits for some credit card, automobile and education securitizations to cover the unlikely event of deficiencies in cash flows owed to investors. The amounts available in such escrow accounts are recorded in Other assets and, as of September 30, 2007, amounted to \$108 million, \$29 million and \$3 million for credit card, automobile and education securitizations, respectively; as of December 31, 2006, these amounts were \$153 million and \$56 million for credit card and automobile securitizations, respectively.

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

(in millions)	September 30, 2007	December 31, 2006
Consumer activities		
Credit card ^{(a)(b)}	\$ 867	\$ 833
Auto ^{(a)(c)}	100	168
Residential mortgage ^(a)	155	155
Other loans	54	—
Wholesale activities ^{(d)(e)}		
Residential mortgages	724	1,032
Commercial and other	46	117
Total^(f)	\$ 1,946	\$ 2,305

(a) Pretax unrealized gains/(losses) recorded in Stockholders' equity that relate to retained securitization interests on consumer activities totaled \$(7) million and \$3 million for credit card; \$3 million and \$4 million for automobile and \$41 million and \$51 million for residential mortgage at September 30, 2007, and December 31, 2006, respectively.

(b) The credit card retained interest amount noted above includes subordinated securities retained by the Firm totaling \$291 million and \$301 million at September 30, 2007, and December 31, 2006, respectively that are classified as AFS securities. The securities are valued using quoted market prices and therefore are not included in the key economic assumptions and sensitivities table that follows.

(c) In addition to the automobile retained interest amounts noted above, the Firm did not have any retained senior securities at September 30, 2007, but did have \$188 million at December 31, 2006, that are classified as AFS securities. These securities are valued using quoted market prices and therefore are not included in the key economic assumption and sensitivities table that follows.

(d) In addition to the wholesale retained interest amounts noted above, the Firm also retained subordinated securities totaling \$25 million at September 30, 2007, and \$23 million at December 31, 2006, respectively, predominately from resecuritizations activities that are classified as Trading assets. These securities are valued using quoted market prices and therefore are not included in the key assumptions and sensitivities table that follows.

(e) Some consumer activities securitization interests are retained by the Investment Bank and reported under Wholesale activities.

(f) In addition to the retained interests described above, the Firm also held investment-grade interests of \$9.9 billion and \$3.1 billion at September 30, 2007, and December 31, 2006, respectively, that the Firm expected to sell to investors in the normal course of its underwriting activity or that were purchased in connection with secondary market-making activities.

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The table below outlines the key economic assumptions used to determine the fair value of the Firm's retained interests other than residential MSRs (for a discussion of residential MSRs, see Note 17 on page 102 of this Form 10-Q) in its securitizations at September 30, 2007, and December 31, 2006, respectively; and it outlines the sensitivities of those fair values to immediate 10% and 20% adverse changes in those assumptions.

September 30, 2007 (in millions, except rates and where otherwise noted)	Consumer activities				Wholesale activities	
	Credit card	Auto	Residential mortgage	Other loans	Residential mortgage	Commercial and other
Weighted-average life (in years)	0.4-0.5	0.9	1.2-3.6	9.1	2.9-28.4	0.4-5.3
Prepayment rate ^(a)	16.4-20.4% PPR	1.3% ABS	19.4-38.8% CPR	1.0-8.0% CPR	22.0-30.2% CPR	10.5-50.0% ^(d) CPR
Impact of 10% adverse change	\$ (56)	\$ (1)	\$ (5)	\$ (1)	\$ (75)	\$ (1)
Impact of 20% adverse change	(113)	(1)	(10)	(2)	(137)	(2)
Loss assumption ^(b)	3.3-4.2%	0.6%	0.0-1.2%	—	0.6-7.1%	0.8%
Impact of 10% adverse change	\$ (96)	\$ (2)	\$ (3)	\$ —	\$ (92)	\$ (1)
Impact of 20% adverse change	(191)	(4)	(6)	—	(169)	(2)
Discount rate	12.0%	7.3%	13.4-30.0% ^(c)	9.0%	15.5-21.0%	1.0-15.7%
Impact of 10% adverse change	\$ (2)	\$ (1)	\$ (4)	\$ (2)	\$ (39)	\$ —
Impact of 20% adverse change	(3)	(1)	(8)	(5)	(75)	(1)

December 31, 2006 (in millions, except rates and where otherwise noted)	Consumer activities			Wholesale activities	
	Credit card	Auto	Residential mortgage	Residential mortgage	Commercial and other
Weighted-average life (in years)	0.4-0.5	1.1	0.2-3.4	1.9-2.5	0.2-5.9
Prepayment rate ^(a)	17.5-20.4% PPR	1.4% ABS	19.3-41.8% CPR	10.0-42.9% CPR	0.0-50.0% ^(d) CPR
Impact of 10% adverse change	\$ (52)	\$ (1)	\$ (4)	\$ (44)	\$ (1)
Impact of 20% adverse change	(104)	(3)	(7)	(62)	(2)
Loss assumption	3.5-4.1%	0.7%	0.0-5.1% ^(b)	0.1-2.2%	0.0-1.3%
Impact of 10% adverse change	\$ (87)	\$ (4)	\$ (4)	\$ (45)	\$ (1)
Impact of 20% adverse change	(175)	(7)	(8)	(89)	(1)
Discount rate	12.0%	7.6%	8.4-30.0% ^(c)	16.0-20.0%	0.5-14.0%
Impact of 10% adverse change	\$ (2)	\$ (1)	\$ (3)	\$ (25)	\$ (1)
Impact of 20% adverse change	(3)	(2)	(7)	(48)	(2)

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

(b) Expected credit losses for prime residential mortgage and other consumer are minimal and are incorporated into other assumptions.

(c) Residual interests retained from subprime mortgage Net Interest Margin ("NIM") securitizations are valued using a 30% discount rate.

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

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

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The table below presents information about delinquencies, net charge-offs (recoveries) and components of reported and securitized financial assets at September 30, 2007, and December 31, 2006 (see footnote (c) below).

(in millions)	Total Loans		Nonaccrual and 90 days or more past due ^(d)		Net loan charge-offs			
	Sept. 30, 2007	Dec. 31, 2006	Sept. 30, 2007	Dec. 31, 2006	Three months ended Sept. 30, 2007	Sept. 30, 2006	Nine months ended Sept. 30, 2007	Sept. 30, 2006
Home equity	\$ 93,026	\$ 85,730	\$ 576	\$ 454	\$ 150	\$ 29	\$ 316	\$ 92
Mortgage	47,730	59,668	1,224	769	49	14	102	35
Auto loans and leases	40,871	41,009	92	132	99	65	221	161
Credit card receivables	79,409	85,881	1,305	1,344	785	673	2,247	1,800
All other loans	27,556	27,097	336	322	56	20	176	74
Total consumer loans	288,592	299,385	3,533^(e)	3,021^(e)	1,139	801	3,062	2,162
Total wholesale loans	197,728	183,742	464	420	82	(11)	47	(50)
Total loans reported	486,320	483,127	3,997	3,441	1,221	790	3,109	2,112
Securitized consumer loans:								
Residential mortgage ^(a)	10,599	7,995	193	191	10	12	35	43
Auto	2,688	4,878	6	10	3	4	10	11
Credit card	69,643	66,950	935	962	578	607	1,761	1,617
Other loans	1,158	—	—	—	—	—	—	—
Total consumer loans securitized	84,088	79,823	1,134	1,163	591	623	1,806	1,671
Securitized wholesale activities:								
Residential mortgage ^(a)	22,000	27,275	2,303	544	117	3	228	3
Commercial and other	3,468	13,756	49	6	2	—	9	—
Total securitized wholesale activities	25,468	41,031	2,352	550	119	3	237	3
Total loans securitized^(b)	109,556	120,854	3,486	1,713	710	626	2,043	1,674
Total loans reported and securitized^(c)	\$ 595,876	\$ 603,981	\$ 7,483	\$ 5,154	\$ 1,931	\$ 1,416	\$ 5,152	\$ 3,786

(a) Includes \$15.8 billion and \$18.6 billion of outstanding principal balances on securitized subprime 1–4 family residential mortgage loans as of September 30, 2007, and December 31, 2006, respectively.

(b) Total assets held in securitization-related SPEs were \$295.9 billion and \$262.9 billion at September 30, 2007, and December 31, 2006, respectively. The \$109.6 billion and \$120.9 billion of loans securitized at September 30, 2007, and December 31, 2006, respectively, excludes \$165.5 billion and \$122.5 billion of securitized loans, respectively, in which the Firm's only continuing involvement is the servicing of the assets; \$17.7 billion and \$19.3 billion of seller's interests in credit card master trusts, respectively; and \$3.1 billion and \$256 million of escrow accounts and other assets, respectively.

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

(d) Includes nonperforming loans held-for-sale of \$75 million and \$120 million at September 30, 2007, and December 31, 2006, respectively.

(e) Excludes nonperforming assets related to (i) loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by U.S. government agencies of \$1.3 billion at September 30, 2007, and \$1.2 billion at December 31, 2006; and (ii) education loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of \$241 million and \$219 million at September 30, 2007, and December 31, 2006, respectively. These amounts for GNMA and education loans are excluded, as reimbursement is proceeding normally.

NOTE 16 – VARIABLE INTEREST ENTITIES

Refer to Note 1 on page 94 and Note 15 on pages 118–120 of JPMorgan Chase's 2006 Annual Report for a further description of JPMorgan Chase's policies regarding consolidation of VIEs as well as the utilization of VIEs by the Firm.

Multi-seller conduits

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

(in billions)	Consolidated		Nonconsolidated		Total	
	Sept. 30, 2007	Dec. 31, 2006	Sept. 30, 2007	Dec. 31, 2006	Sept. 30, 2007	Dec. 31, 2006
Total commercial paper issued by conduits	\$ —	\$ 3.4	\$ 65.9	\$ 44.1	\$ 65.9	\$ 47.5
Commitments						
Asset-purchase agreements	\$ —	\$ 0.5	\$ 90.9	\$ 66.0	\$ 90.9	\$ 66.5
Program-wide liquidity commitments	—	1.0	4.0	4.0	4.0	5.0
Program-wide limited credit enhancements	—	—	2.6	1.6	2.6	1.6
Maximum exposure to loss^(a)	\$ —	\$ 1.0	\$ 96.1	\$ 67.0	\$ 96.1	\$ 68.0

(a) The Firm's maximum exposure to loss is limited to the amount of drawn commitments (i.e., sellers' assets held by the multi-seller conduits for which the Firm provides liquidity support) of \$65.0 billion and \$43.9 billion at September 30, 2007, and December 31, 2006, respectively, plus contractual but undrawn commitments of \$31.1 billion and \$24.1 billion at September 30, 2007, and December 31, 2006, respectively. Since the Firm provides credit enhancement and liquidity to Firm-administered multi-seller conduits, the maximum exposure is not adjusted to exclude exposure that would be absorbed by third-party liquidity providers.

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

Client intermediation

Assets held by credit-linked and municipal bond vehicles at September 30, 2007, and December 31, 2006, were as follows.

(in billions)	September 30, 2007	December 31, 2006
Credit-linked note vehicles ^(a)	\$ 22.9	\$ 20.2
Municipal bond vehicles ^(b)	25.1	16.9

(a) Assets of \$2.1 billion and \$1.8 billion reported in the table above were recorded on the Firm's Consolidated balance sheets at September 30, 2007, and December 31, 2006, respectively, due to contractual relationships held by the Firm that relate to collateral held by the VIE.

(b) Total amounts consolidated due to the Firm owning residual interests were \$6.8 billion and \$4.7 billion at September 30, 2007, and December 31, 2006, respectively, and are reported in the table. Total liquidity commitments were \$17.5 billion and \$10.2 billion at September 30, 2007, and December 31, 2006, respectively. The Firm's maximum credit exposure to all municipal bond vehicles was \$24.3 billion and \$14.9 billion at September 30, 2007, and December 31, 2006, respectively.

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

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Consolidated VIE assets

The following table summarizes the Firm's total consolidated VIE assets, by classification, on the Consolidated balance sheets, as of September 30, 2007, and December 31, 2006.

(in billions)	September 30, 2007	December 31, 2006
Consolidated VIE assets ^(a)		
Securities purchased under resale agreements ^(b)	\$ 0.1	\$ 8.0
Trading assets ^(c)	14.8	9.8
Investment securities	—	0.2
Loans	7.3	15.9
Other assets	3.3	2.9
Total consolidated assets	\$ 25.5	\$ 36.8

(a) The Firm held \$3.5 billion of assets at December 31, 2006, primarily as a seller's interest, in certain consumer securitizations in a segregated entity, as part of a two-step securitization transaction. The segregated entity was terminated in the beginning of 2007. This interest is included in the securitization activities disclosed in Note 15 on pages 94–99 of this Form 10-Q.

(b) Includes activity conducted by the Firm in a principal capacity, primarily in IB.

(c) Includes the fair value of securities and derivative receivables.

The interest-bearing beneficial interest liabilities issued by consolidated VIEs are classified in the line item titled, "Beneficial interests issued by consolidated variable interest entities" on the Consolidated balance sheets. The holders of these beneficial interests do not have recourse to the general credit of JPMorgan Chase. See Note 19 on page 124 of JPMorgan Chase's 2006 Annual Report for the maturity profile of FIN 46R long-term beneficial interests.

NOTE 17 – GOODWILL AND OTHER INTANGIBLE ASSETS

For a discussion of accounting policies related to Goodwill and Other intangible assets, see Note 16 on pages 121–123 of JPMorgan Chase's 2006 Annual Report.

Goodwill and other intangible assets consist of the following.

(in millions)	September 30, 2007	December 31, 2006
Goodwill	\$ 45,335	\$ 45,186
Mortgage servicing rights	9,114	7,546
Purchased credit card relationships	2,427	2,935
All other intangibles:		
Other credit card-related intangibles	\$ 349	\$ 302
Core deposit intangibles	2,202	2,623
Other intangibles	1,408	1,446
Total All other intangible assets	\$ 3,959	\$ 4,371

Goodwill

Goodwill arises from business combinations and represents the excess of the cost of an acquired entity over the net fair value amounts assigned to assets acquired and liabilities assumed. The increase in Goodwill primarily resulted from certain acquisitions by Treasury & Securities Services ("TSS") and CS, and currency-translation adjustments on the Sears Canada credit card acquisition. These factors were partially offset by a reduction in Goodwill from the adoption of FIN 48, as well as adjustments for tax-related purchase accounting adjustments associated with the Bank One merger. For a discussion of the impact from adopting FIN 48, see Note 20 on page 105 of this Form 10-Q.

Goodwill was not impaired at September 30, 2007, or December 31, 2006, nor was any goodwill written off due to impairment during the nine months ended September 30, 2007 and 2006.

Goodwill attributed to the business segments was as follows:

(in millions)	September 30, 2007	December 31, 2006
Investment Bank	\$ 3,585	\$ 3,526
Retail Financial Services	16,878	16,955
Card Services	12,819	12,712
Commercial Banking	2,880	2,901
Treasury & Securities Services	1,674	1,605
Asset Management	7,122	7,110
Corporate (Private Equity)	377	377
Total Goodwill	\$ 45,335	\$ 45,186

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Mortgage servicing rights

For a further description of the MSR asset, interest rate risk management, and valuation methodology of MSRs, see Note 16 on pages 121–122 of JPMorgan Chase's 2006 Annual Report. For a discussion of the valuation of MSRs, see Note 3 on page 76 of this Form 10-Q. The fair value of MSRs is sensitive to changes in interest rates, including their effect on prepayment speeds. JPMorgan Chase uses a combination of derivatives and trading instruments to manage changes in the fair value of MSRs. The intent is to offset any changes in the fair value of MSRs with changes in the fair value of the related risk management instruments. MSRs decrease in value when interest rates decline. Conversely, securities (such as mortgage-backed securities), principal-only certificates and certain derivatives (when the Firm receives fixed-rate interest payments) increase in value when interest rates decline.

The following table summarizes MSR activity, for the three and nine months ended September 30, 2007 and 2006.

(in millions)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Balance at beginning of period after valuation allowance	\$ 9,499	\$ 8,247	\$ 7,546	\$ 6,452
Cumulative effect of change in accounting principle	—	—	—	230
Fair value at beginning of period	9,499	8,247	7,546	6,682
Originations of MSRs	512	359	1,780	1,113
Purchase of MSRs	290	174	676	524
Total additions	802	533	2,456	1,637
Change in valuation due to inputs and assumptions ^(a)	(810)	(1,075)	250	127
Other changes in fair value ^(b)	(377)	(327)	(1,138)	(1,068)
Total change in fair value	(1,187)	(1,402)	(888)	(941)
Fair value at September 30	\$ 9,114	\$ 7,378	\$ 9,114	\$ 7,378
Change in unrealized (losses) gains included in income related to MSRs held at September 30, 2007	\$ (810)	NA	\$ 250	NA
Contractual service fees, late fees and other ancillary fees included in Mortgage fees and related income	\$ 579	\$ 513	\$ 1,694	\$ 1,497

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

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

The table below outlines the key economic assumptions used to determine the fair value of the Firm's MSRs at September 30, 2007 and December 31, 2006, respectively; and it outlines the sensitivities of those fair values to immediate 10% and 20% adverse changes in those assumptions.

(in millions, except rates and where otherwise noted)	September 30, 2007	December 31, 2006
Weighted-average prepayment speed assumption (CPR)	12.18%	17.02%
Impact on fair value of 10% adverse change	\$ (460)	\$ (381)
Impact on fair value of 20% adverse change	(882)	(726)
Weighted-average discount rate	9.85%	9.32%
Impact on fair value of 10% adverse change	\$ (342)	\$ (254)
Impact on fair value of 20% adverse change	(660)	(491)
Third-party Mortgage loans serviced (in billions)	\$ 600.0	\$ 526.7

CPR: Constant prepayment rate

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

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Purchased credit card relationships and All other intangible assets

For the nine months ended September 30, 2007, Purchased credit card relationships and All other intangibles decreased by \$508 million and \$412 million, respectively, primarily as a result of amortization expense.

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

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

(in millions)	September 30, 2007			December 31, 2006		
	Gross amount	Accumulated amortization	Net carrying value	Gross amount	Accumulated amortization	Net carrying value
Purchased credit card relationships	\$ 5,749	\$ 3,322	\$ 2,427	\$ 5,716	\$ 2,781	\$ 2,935
All other intangibles:						
Other credit card-related intangibles	\$ 421	\$ 72	\$ 349	\$ 367	\$ 65	\$ 302
Core deposit intangibles	4,280	2,078	2,202	4,283	1,660	2,623
Other intangibles	2,019	611 ^(a)	1,408	1,961	515 ^(a)	1,446

(a) Includes amortization expense related to servicing assets on securitized automobile loans, which is recorded in Lending & deposit-related fees, of \$2 million and \$3 million for the three months ended September 30, 2007 and 2006, respectively, and \$7 million and \$8 million for the nine months ended September 30, 2007 and 2006, respectively.

Amortization expense (in millions)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Purchased credit card relationships	\$ 177	\$ 178	\$ 541	\$ 549
All other intangibles:				
Other credit card-related intangibles	2	2	7	4
Core deposit intangibles	138	136	418	411
Other intangibles	32	30	89	94
Total amortization expense	\$ 349	\$ 346	\$ 1,055	\$ 1,058

Future amortization expense

The following table presents estimated amortization expenses related to credit card relationships, core deposits and All other intangible assets at September 30, 2007.

For the year: (in millions)	Purchased credit card relationships	Other credit card-related intangibles	Core deposit intangibles	Other intangibles	Total
2007 ^(a)	\$ 709	\$ 11	\$ 555	\$ 116	\$ 1,391
2008	597	22	479	109	1,207
2009	427	27	397	101	952
2010	347	34	336	86	803
2011	287	38	293	76	694

(a) Includes \$541 million, \$7 million, \$418 million and \$89 million of amortization expense related to purchased credit card relationships, other credit card-related intangibles, core deposit intangibles and other intangibles, respectively, recognized during the first nine months of 2007.

NOTE 18 – EARNINGS PER SHARE

For a discussion of the computation of basic and diluted earnings per share (“EPS”), see Note 22 on page 126 of JPMorgan Chase’s 2006 Annual Report. The following table presents the calculation of basic and diluted EPS for the three and nine months ended September 30, 2007 and 2006.

(in millions, except per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Basic earnings per share				
Income from continuing operations	\$ 3,373	\$ 3,232	\$ 12,394	\$ 9,743
Discontinued operations	—	65	—	175
Net income	\$ 3,373	3,297	\$ 12,394	9,918
Less: preferred stock dividends	—	—	—	4
Net income applicable to common stock	\$ 3,373	\$ 3,297	\$ 12,394	\$ 9,914
Weighted-average basic shares outstanding	3,376#	3,469#	3,416#	3,472#
Income from continuing operations per share	\$ 1.00	\$ 0.93	\$ 3.63	\$ 2.81
Discontinued operations per share	—	0.02	—	0.05
Net income per share	\$ 1.00	\$ 0.95	\$ 3.63	\$ 2.86
Diluted earnings per share				
Net income applicable to common stock	\$ 3,373	\$ 3,297	\$ 12,394	\$ 9,914
Weighted-average basic shares outstanding	3,376#	3,469#	3,416#	3,472#
Add: Employee restricted stock, RSUs, stock options and SARs	102	105	104	100
Weighted-average diluted shares outstanding^(a)	3,478	3,574	3,520	3,572
Income from continuing operations per share	\$ 0.97	\$ 0.90	\$ 3.52	\$ 2.73
Discontinued operations per share	—	0.02	—	0.05
Net income per share	\$ 0.97	\$ 0.92	\$ 3.52	\$ 2.78

(a) Options issued under employee benefit plans to purchase 147 million and 143 million shares of common stock were outstanding for the three months ended September 30, 2007 and 2006, respectively, and 119 million and 151 million year-to-date 2007 and 2006, respectively, but were not included in the computation of diluted EPS because the options were antidilutive.

NOTE 19 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss) includes the after-tax change in unrealized gains and losses on AFS securities, foreign currency translation adjustments (including the impact of related derivatives), cash flow hedging activities and for 2007, the net actuarial loss and prior service cost related to the Firm’s defined benefit pension and OPEB plans.

Nine months ended September 30, 2007 (in millions)	Unrealized gains (losses) on AFS securities ^(a)	Translation adjustments, net of hedges	Cash flow hedges	Net actuarial loss and prior service costs (credit) of defined benefit pension and OPEB plans ^(e)	Accumulated other comprehensive income (loss)
Balance at January 1, 2007	\$ 29	\$ 5	\$ (489)	\$ (1,102)	\$ (1,557)
Cumulative effect of changes in accounting principles (SFAS 159)	(1)	—	—	—	(1)
Balance at January 1, 2007, adjusted	28	5	(489)	(1,102)	(1,558)
Net change	(246) ^(b)	25 ^(c)	(173) ^(d)	122 ^(f)	(272)
Balance at September 30, 2007	\$ (218)	\$ 30	\$ (662)	\$ (980)	\$ (1,830)

Nine months ended September 30, 2006 (in millions)	Unrealized gains (losses) on AFS securities ^(a)	Translation adjustments, net of hedges	Cash flow hedges	Net actuarial loss and prior service costs (credit) of defined benefit pension and OPEB plans ^(e)	Accumulated other comprehensive income (loss)
Balance at January 1, 2006	\$ (224)	\$ (8)	\$ (394)	\$ NA	\$ (626)
Net change	166 ^(b)	(2) ^(c)	(64) ^(d)	NA	100
Balance at September 30, 2006	\$ (58)	\$ (10)	\$ (458)	\$ NA	\$ (526)

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

^(b) The net change, for the nine months ended September 30, 2007, was due primarily to higher interest rates. The net change, for the nine months ended September 30, 2006, was due primarily to sales of investment securities, partially offset by higher interest rates.

^(c) September 30, 2007 and 2006, included \$402 million and \$190 million, respectively, of after-tax gains (losses) on foreign currency translation from operations for which the functional currency is other than the U.S. dollar, partially offset by \$(377) million and \$(192) million, respectively, of after-tax gains (losses) on hedges.

^(d) The net change, for the nine months ended September 30, 2007, included \$147 million of after-tax losses recognized in income and \$320 million of after-tax losses representing the net change in derivative fair value that was reported in Comprehensive income. The net change for the nine months ended September 30, 2006, included \$26 million of after-tax losses recognized in income and \$90 million of after-tax losses representing the net change in derivative fair value that was reported in Comprehensive income.

^(e) For further discussion of SFAS 158, see Note 7 on pages 100–105 of JPMorgan Chase's 2006 Annual Report.

^(f) The net change for the nine months ended September 30, 2007, represents the true-up adjustments, net of tax, based upon the final 2006 actuarial valuation for the U.S. defined benefit pension plan, the January 1, 2007, actuarial valuation for the U.S. OPEB plan, and the amortization of net actuarial loss and prior service cost (credit), net of tax, into net periodic benefit cost.

NOTE 20 – INCOME TAXES

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

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

The Firm recognizes interest expense and penalties related to income tax liabilities in Income tax expense. Included in Accounts payable, accrued expenses and other liabilities at January 1, 2007, in addition to the Firm's liability for unrecognized tax benefits, was \$1.3 billion for income tax-related interest and penalties, of which the penalty component was not material. Accrued income tax-related interest and penalties increased to \$1.6 billion at September 30, 2007, due to the continuing outstanding status of the unrecognized tax benefit liability, the penalty component of which remains immaterial.

JPMorgan Chase is subject to ongoing tax examinations by the tax authorities of the various jurisdictions in which it operates, including U.S. federal, state and non-U.S. jurisdictions. The Firm's consolidated federal income tax returns are presently under examination by the Internal Revenue Service (IRS) for the years 2003, 2004 and 2005. In addition, the consolidated federal income tax returns of heritage Bank One Corporation, which merged with and into JPMorgan Chase on July 1, 2004, are under examination for the years 2000 through 2003, and for the period January 1, 2004, through July 1, 2004. Both examinations are expected to conclude in 2008. Certain administrative appeals are pending with the IRS relating to prior examination periods, for JPMorgan Chase for the years 2001 and 2002, and for Bank One and its predecessor entities for various periods from 1996 through 1999. For years prior to 2001, refund claims relating to income and credit adjustments, and to tax attribute carrybacks, for JPMorgan Chase and its predecessor entities, including Bank One, either have been or will be filed. Also, interest rate swap valuations by a Bank One predecessor entity for the years 1990 through 1993 are, and have been, the subject of litigation in both the Tax Court and the U.S. Court of Appeals.

NOTE 21 – COMMITMENTS AND CONTINGENCIES**Litigation reserve**

The Firm maintains litigation reserves for certain of its outstanding litigation. In accordance with the provisions of SFAS 5, JPMorgan Chase accrues for a litigation-related liability when it is probable that such a liability has been incurred and the amount of the loss can be reasonably estimated. While the outcome of litigation is inherently uncertain, management believes, in light of all information known to it at September 30, 2007, the Firm's litigation reserves were adequate at such date. Management reviews litigation reserves periodically, and the reserves may be increased or decreased in the future to reflect further litigation developments. The Firm believes it has meritorious defenses to claims asserted against it in its currently outstanding litigation and, with respect to such litigation, intends to continue to defend itself vigorously, litigating or settling cases according to management's judgment as to what is in the best interests of stockholders.

NOTE 22 – ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The majority of JPMorgan Chase's derivatives are entered into for trading purposes. Derivatives are also utilized by the Firm as an end-user to hedge market exposures, to modify the interest rate characteristics of related balance sheet instruments or to meet longer-term investment objectives. Both trading and end-user derivatives are recorded in Trading assets and Trading liabilities. For a further discussion of the Firm's use of and accounting policies regarding derivative instruments, see Note 28 on pages 131-132 of JPMorgan Chase's 2006 Annual Report. The following table presents derivative instrument hedging-related activities for the periods indicated.

(in millions)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Fair value hedge ineffective net gains ^(a)	\$ 5	\$ 91	\$ 49	\$ 32
Cash flow hedge ineffective net gains ^(a)	7	—	12	4
Cash flow hedging net gains on forecasted transactions that failed to occur ^(b)	2	—	2	—

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

^(b) In the third quarter of 2007, the Firm did not issue short-term fixed rate Canadian Dollar denominated notes due to the weak credit market for Canadian short-term debt.

Over the next 12 months, it is expected that \$147 million (after-tax) of net losses recorded in Accumulated other comprehensive income (loss) at September 30, 2007, will be recognized in earnings. The maximum length of time over which forecasted transactions are hedged is 10 years, and such transactions primarily relate to core lending and borrowing activities.

NOTE 23 – OFF-BALANCE SHEET LENDING-RELATED FINANCIAL INSTRUMENTS AND GUARANTEES

For a discussion of off-balance sheet lending-related financial instruments and guarantees, and the Firm's related accounting policies, see Note 29 on pages 132-134 of JPMorgan Chase's 2006 Annual Report. To provide for the risk of loss inherent in wholesale-related contracts, an allowance for credit losses on lending-related commitments is maintained. See Note 14 on pages 93-94 of this Form 10-Q for a further discussion regarding the Allowance for credit losses on lending-related commitments.

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The following table summarizes the contractual amounts of off-balance sheet lending-related financial instruments and guarantees and the related Allowance for credit losses on lending-related commitments at September 30, 2007, and December 31, 2006.

Off-balance sheet lending-related financial instruments and guarantees

(in millions)	Contractual amount		Allowance for lending-related commitments	
	September 30, 2007	December 31, 2006	September 30, 2007	December 31, 2006
Lending-related				
Consumer ^(a)	\$ 801,688	\$ 747,535	\$ 15	\$ 25
Wholesale:				
Other unfunded commitments to extend credit ^{(b)(c)(d)}	261,875	229,204	568	305
Asset purchase agreements ^(e)	93,400	67,529	12	6
Standby letters of credit and guarantees ^{(c)(f)(g)}	106,803	89,132	262	187
Other letters of credit ^(c)	6,067	5,559	1	1
Total wholesale	468,145	391,424	843	499
Total lending-related	\$ 1,269,833	\$ 1,138,959	\$ 858	\$ 524
Other guarantees				
Securities lending guarantees ^(h)	\$ 384,462	\$ 318,095	NA	NA
Derivatives qualifying as guarantees ⁽ⁱ⁾	88,435	71,531	NA	NA

- (a) Includes credit card and home equity lending-related commitments of \$700.2 billion and \$74.2 billion, respectively, at September 30, 2007; and \$657.1 billion and \$69.6 billion, respectively, at December 31, 2006. The credit card and home equity lending-related commitments represent the total available credit for credit cards and home equity lines of credit. The Firm has not experienced, and does not anticipate, that all available lines of credit will be utilized at the same time. The Firm can reduce or cancel credit cards and home equity lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law.
- (b) Includes unused advised lines of credit totaling \$39.2 billion at September 30, 2007, and \$39.0 billion at December 31, 2006, which are not legally binding. In regulatory filings with the Federal Reserve Board, unused advised lines are not reportable.
- (c) Represents contractual amount net of risk participations totaling \$25.6 billion at September 30, 2007, and \$32.8 billion at December 31, 2006.
- (d) Excludes firmwide unfunded commitments to private third-party equity funds of \$936 million and \$686 million at September 30, 2007, and December 31, 2006, respectively.
- (e) Largely represents asset purchase agreements to the Firm's administered multi-seller asset-backed commercial paper conduits. It also includes \$1.4 billion of asset purchase agreements to other third party entities at September 30, 2007 and December 31, 2006.
- (f) JPMorgan Chase held collateral relating to \$15.4 billion and \$13.5 billion of these arrangements at September 30, 2007, and December 31, 2006, respectively.
- (g) Includes unused commitments to issue standby letters of credit of \$59.1 billion and \$45.7 billion at September 30, 2007, and December 31, 2006, respectively.
- (h) Collateral held by the Firm in support of securities lending indemnification agreements was \$387.4 billion at September 30, 2007, and \$317.9 billion at December 31, 2006.
- (i) Represents notional amounts of derivatives qualifying as guarantees. For further discussion of guarantees, see Note 29 on pages 132–134 of JPMorgan Chase's 2006 Annual Report.

Included in Other unfunded commitments to extend credit are commitments to investment and non-investment grade counterparties in connection with leveraged acquisitions. These commitments are dependent on whether the acquisition by the borrower is successful, tend to be short-term in nature and, in most cases, are subject to certain conditions based on the borrower's financial condition or other factors. Additionally, the Firm often syndicates portions of the initial position to other investors, depending on market conditions. These commitments generally contain flexible pricing features to adjust for changing market conditions prior to closing. Alternatively, the borrower may turn to the capital markets for required funding instead of drawing on the commitment provided by the Firm, and the commitment may expire unused. As such, these commitments are not necessarily indicative of the Firm's actual risk and the total commitment amount may not reflect actual future cash flow requirements. The amount of these commitments at September 30, 2007, was \$27.5 billion.

For a discussion of the off-balance sheet lending-related arrangements the Firm considers to be guarantees under FIN 45, and the related accounting policies, see Note 29 on pages 132–134 of JPMorgan Chase's 2006 Annual Report. The amount of the liability related to FIN 45 guarantees recorded at September 30, 2007, and December 31, 2006, excluding the Allowance for credit losses on lending-related commitments and derivative contracts discussed above, was \$324 million and \$297 million, respectively.

In addition to the contracts described above, there are certain derivative contracts to which the Firm is a counterparty that meet the characteristics of a guarantee under FIN 45. For a discussion of the derivatives the Firm considers to be guarantees, and the related accounting policies, see Note 29 on pages 132–134 of JPMorgan Chase's 2006 Annual Report. The total notional value of the derivatives that the Firm deems to be guarantees was \$88 billion and \$72 billion at September 30, 2007, and December 31, 2006, respectively. The fair value of these contracts was a derivative receivable of \$228 million and \$230 million, and a derivative payable of \$1.8 billion and \$987 million at September 30, 2007, and December 31, 2006, respectively.

NOTE 24 – BUSINESS SEGMENTS

JPMorgan Chase is organized into six major reportable business segments: IB, RFS, CS, Commercial Banking (“CB”), TSS and Asset Management (“AM”), as well as a Corporate segment. The segments are based upon the products and services provided or the type of customer served, and they reflect the manner in which financial information is currently evaluated by management. Results of these lines of business are presented on a managed basis. For a definition of managed basis, see the footnotes to the tables below. For a further discussion concerning JPMorgan Chase’s business segments, see Business segment results on page 16 of this Form 10-Q, and pages 34–35 and Note 33 on pages 139–141 of JPMorgan Chase’s 2006 Annual Report.

Business segment financial disclosures

During the year, \$19.4 billion and \$6.5 billion held-for-investment residential mortgage loans were transferred to the Corporate segment from RFS and AM, respectively. 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 RFS, AM or Corporate.

Segment results

The following tables provide a summary of the Firm’s segment results for the three and nine months ended September 30, 2007 and 2006, on a managed basis. The impact of credit card securitization adjustments have been included in Reconciling items so that the total Firm results are on a reported basis. Finally, Total net revenue (Noninterest revenue and Net interest income) for each of the segments is presented on a tax-equivalent basis. Accordingly, revenue from tax-exempt securities and investments that receive tax credits are presented in the managed results on a basis comparable to taxable securities and investments. This approach allows management to assess the comparability of revenues arising from both taxable and tax-exempt sources. The corresponding income tax impact related to these items is recorded within Income tax expense (benefit). The following tables summarize the business segment results and reconciliation to reported U.S. GAAP results.

Segment results and reconciliation(a)
Three months ended September 30, 2007
(in millions, except ratios)

	Investment Bank	Retail Financial Services	Card Services (d)	Commercial Banking
Noninterest revenue	\$ 1,236	\$ 1,520	\$ 759	\$ 290
Net interest income	1,710	2,681	3,108	719
Total net revenue	2,946	4,201	3,867	1,009
Provision for credit losses	227	680	1,363	112
Credit reimbursement (to)/from TSS(b)	31	—	—	—
Total noninterest expense(c)	2,378	2,469	1,262	473
Income from continuing operations before income tax expense	372	1,052	1,242	424
Income tax expense	76	413	456	166
Income from continuing operations	296	639	786	258
Income from discontinued operations	—	—	—	—
Net income	\$ 296	\$ 639	\$ 786	\$ 258
Average equity	\$ 21,000	\$ 16,000	\$ 14,100	\$ 6,700
Average assets	710,665	214,852	154,956	86,652
Return on average equity	6%	16%	22%	15%
Overhead ratio	81	59	33	47

Three months ended September 30, 2007
(in millions, except ratios)

	Treasury & Securities Services	Asset Management	Corporate	Reconciling Items (d)(e)	Total
Noninterest revenue	\$ 1,145	\$ 1,912	\$ 1,280	\$ 644	\$ 8,786
Net interest income	603	293	(279)	(1,509)	7,326
Total net revenue	1,748	2,205	1,001	(865)	16,112
Provision for credit losses	9	3	(31)	(578)	1,785
Credit reimbursement (to)/from TSS(b)	(31)	—	—	—	—
Total noninterest expense(c)	1,134	1,366	245	—	9,327
Income (loss) from continuing operations before income tax expense	574	836	787	(287)	5,000
Income tax expense (benefit)	214	315	274	(287)	1,627
Income from continuing operations	360	521	513	—	3,373
Income from discontinued operations	—	—	—	—	—
Net income	\$ 360	\$ 521	\$ 513	\$ —	\$ 3,373
Average equity	\$ 3,000	\$ 4,000	\$ 54,176	\$ —	\$ 118,976
Average assets	55,688	53,879	266,742	(66,100)	1,477,334
Return on average equity	48%	52%	NM	NM	11%
Overhead ratio	65	62	NM	NM	58

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Three months ended September 30, 2006 (in millions, except ratios)	Investment Bank	Retail Financial Services	Card Services(d)	Commercial Banking
Noninterest revenue	\$ 4,765	\$ 1,098	\$ 762	\$ 256
Net interest income	51	2,457	2,884	677
Total net revenue	4,816	3,555	3,646	933
Provision for credit losses	7	114	1,270	54
Credit reimbursement (to)/from TSS(b)	30	—	—	—
Total noninterest expense(c)	3,244	2,139	1,253	500
Income from continuing operations before income tax expense	1,595	1,302	1,123	379
Income tax expense	619	556	412	148
Income from continuing operations	976	746	711	231
Income from discontinued operations	—	—	—	—
Net income	\$ 976	\$ 746	\$ 711	\$ 231
Average equity	\$ 21,000	\$ 14,300	\$ 14,100	\$ 5,500
Average assets	626,245	225,307	148,272	57,378
Return on average equity	18%	21%	20%	17%
Overhead ratio	67	60	34	54

Three months ended September 30, 2006 (in millions, except ratios)	Treasury & Securities Services	Asset Management	Corporate	Reconciling Items(d)(e)	Total
Noninterest revenue	\$ 980	\$ 1,405	\$ 344	\$ 556	\$ 10,166
Net interest income	519	231	(55)	(1,385)	5,379
Total net revenue	1,499	1,636	289	(829)	15,545
Provision for credit losses	1	(28)	1	(607)	812
Credit reimbursement (to)/from TSS(b)	(30)	—	—	—	—
Total noninterest expense(c)	1,064	1,115	481	—	9,796
Income (loss) from continuing operations before income tax expense	404	549	(193)	(222)	4,937
Income tax expense (benefit)	148	203	(159)	(222)	1,705
Income (loss) from continuing operations	256	346	(34)	—	3,232
Income from discontinued operations	—	—	65	—	65
Net income	\$ 256	\$ 346	\$ 31	\$ —	\$ 3,297
Average equity	\$ 2,200	\$ 3,500	\$ 51,206	\$ —	\$ 111,806
Average assets	30,558	43,524	240,826	(62,971)	1,309,139
Return on average equity	46%	39%	NM	NM	12%
Overhead ratio	71	68	NM	NM	63

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Nine months ended September 30, 2007

(in millions, except ratios)	Investment Bank	Retail Financial Services	Card Services(d)	Commercial Banking
Noninterest revenue	\$ 11,803	\$ 4,693	\$ 2,212	\$ 937
Net interest income	3,195	7,971	9,052	2,082
Total net revenue	14,998	12,664	11,264	3,019
Provision for credit losses	454	1,559	3,923	174
Credit reimbursement (to)/from TSS(b)	91	—	—	—
Noninterest expense(c)	10,063	7,360	3,691	1,454
Income from continuing operations before income tax expense	4,572	3,745	3,650	1,391
Income tax expense	1,557	1,462	1,340	545
Income from continuing operations	3,015	2,283	2,310	846
Income from discontinued operations	—	—	—	—
Net income	\$ 3,015	\$ 2,283	\$ 2,310	\$ 846
Average equity	\$ 21,000	\$ 16,000	\$ 14,100	\$ 6,435
Average assets	688,730	216,218	155,206	84,643
Return on average equity	19%	19%	22%	18%
Overhead ratio	67	58	33	48

Nine months ended September 30, 2007

(in millions, except ratios)	Treasury & Securities Services	Asset Management	Corporate	Reconciling Items(d)(e)	Total
Noninterest revenue	\$ 3,400	\$ 5,415	\$ 3,900	\$ 1,869	\$ 34,229
Net interest income	1,615	831	(569)	(4,418)	19,759
Total net revenue	5,015	6,246	3,331	(2,549)	53,988
Provision for credit losses	15	(17)	(25)	(1,761)	4,322
Credit reimbursement (to)/from TSS(b)	(91)	—	—	—	—
Noninterest expense(c)	3,358	3,956	1,101	—	30,983
Income (loss) from continuing operations before income tax expense	1,551	2,307	2,255	(788)	18,683
Income tax expense (benefit)	576	868	729	(788)	6,289
Income from continuing operations	975	1,439	1,526	—	12,394
Income from discontinued operations	—	—	—	—	—
Net income	\$ 975	\$ 1,439	\$ 1,526	\$ —	\$ 12,394
Average equity	\$ 3,000	\$ 3,834	\$ 53,398	\$ —	\$ 117,767
Average assets	50,829	50,498	249,363	(65,715)	1,429,772
Return on average equity	43%	50%	NM	NM	14%
Overhead ratio	67	63	NM	NM	57

Nine months ended September 30, 2006

(in millions, except ratios)	Investment Bank	Retail Financial Services	Card Services(d)	Commercial Banking
Noninterest revenue	\$ 13,648	\$ 3,512	\$ 2,136	\$ 763
Net interest income	325	7,585	8,859	2,019
Total net revenue	13,973	11,097	10,995	2,782
Provision for credit losses	128	299	3,317	49
Credit reimbursement (to)/from TSS(b)	90	—	—	—
Noninterest expense(c)	9,655	6,636	3,745	1,494
Income from continuing operations before income tax expense	4,280	4,162	3,933	1,239
Income tax expense	1,615	1,667	1,446	485
Income from continuing operations	2,665	2,495	2,487	754
Income from discontinued operations	—	—	—	—
Net income	\$ 2,665	\$ 2,495	\$ 2,487	\$ 754
Average equity	\$ 20,670	\$ 14,167	\$ 14,100	\$ 5,500
Average assets	648,101	230,307	146,192	56,246
Return on average equity	17%	24%	24%	18%
Overhead ratio	69	60	34	54

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Nine months ended September 30, 2006 (in millions, except ratios)	Treasury & Securities Services	Asset Management	Corporate	Reconciling Items (d)(e)	Total
Noninterest revenue	\$ 3,003	\$ 4,115	\$ 777	\$ 2,302	\$ 30,256
Net interest income	1,569	725	(957)	(4,575)	15,550
Total net revenue	4,572	4,840	(180)	(2,273)	45,806
Provision for credit losses	1	(42)	1	(1,617)	2,136
Credit reimbursement (to)/from TSS(b)	(90)	—	—	—	—
Noninterest expense(c)	3,162	3,294	972	—	28,958
Income (loss) from continuing operations before income tax expense	1,319	1,588	(1,153)	(656)	14,712
Income tax expense (benefit)	485	586	(659)	(656)	4,969
Income (loss) from continuing operations	834	1,002	(494)	—	9,743
Income from discontinued operations	—	—	175	—	175
Net income (loss)	\$ 834	\$ 1,002	\$ (319)	\$ —	\$ 9,918
Average equity	\$ 2,314	\$ 3,500	\$ 49,076	\$ —	\$ 109,327
Average assets	30,526	42,597	209,172	(65,797)	1,297,344
Return on average equity	48%	38%	NM	NM	12%
Overhead ratio	69	68	NM	NM	63

- (a) In addition to analyzing the Firm's results on a reported basis, management reviews the Firm's and the lines' of business results on a "managed" basis, which is a non-GAAP financial measure. The Firm's definition of managed basis starts with the reported U.S. GAAP results and includes certain reclassifications that do not have any impact on Net income as reported by the lines of business or by the Firm as a whole.
- (b) TSS reimburses IB for credit portfolio exposures IB manages on behalf of clients the segments share.
- (c) Includes Merger costs which are reported in the Corporate segment. Merger costs attributed to the business segments for the three and nine months ended September 30, 2007 and 2006 were as follows.

(in millions)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Investment Bank	\$ —	\$ —	\$ —	\$ 1
Retail Financial Services	2	7	13	17
Card Services	—	5	1	21
Commercial Banking	—	—	—	1
Treasury & Securities Services	32	30	95	85
Asset Management	6	4	13	18
Corporate:				
Other	21	2	65	62
Total Merger costs	\$ 61	\$ 48	\$ 187	\$ 205

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

(in millions)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Noninterest revenue	\$ (836)	\$ (721)	\$ (2,370)	\$ (2,783)
Net interest income	1,414	1,328	4,131	4,400
Provision for credit losses	578	607	1,761	1,617
Average assets	66,100	62,971	65,715	65,797

- (e) Segment managed results reflect revenues on a tax-equivalent basis with the corresponding income tax impact recorded within Income tax expense. These adjustments are eliminated in Reconciling items to arrive at the Firm's reported U.S. GAAP results. Tax-equivalent adjustments for the three and nine months ended September 30, 2007 and 2006 were as follows.

(in millions)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Noninterest revenue	\$ 192	\$ 165	\$ 501	\$ 481
Net interest income	95	57	287	175
Income tax expense	287	222	788	656

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

	Three months ended September 30, 2007			Three months ended September 30, 2006		
	Average Balance	Interest	Rate (Annualized)	Average Balance	Interest	Rate (Annualized)
Assets						
Deposits with banks	\$ 39,906	\$ 508	5.06%	\$ 31,291	\$ 352	4.46%
Federal funds sold and securities purchased under resale agreements	133,780	1,629	4.83	125,618	1,442	4.55
Securities borrowed	87,955	1,242	5.60	82,216	887	4.28
Trading assets – debt instruments	310,445	5,182	6.62	213,164	2,834	5.28
Securities: Available-for-sale	95,646	1,370	5.68 ^(c)	77,962	1,119	5.70 ^(c)
Held-to-maturity	48	1	6.71	67	2	6.50
Interests in purchased receivables	—	—	—	—	—	—
Loans	476,912	9,382	7.80	461,673	8,578	7.37
Total interest-earning assets	1,144,692	19,314	6.69	991,991	15,214	6.08
Allowance for loan losses	(7,691)			(7,076)		
Cash and due from banks	33,489			29,554		
Trading assets – equity instruments	86,177			75,366		
Trading assets – derivative receivables	64,821			55,419		
Goodwill	45,276			43,386		
Other intangible assets						
Mortgage servicing rights	9,290			8,048		
Purchased credit card relationships	2,505			3,055		
All other intangibles	4,027			4,147		
Other assets	94,748			81,585		
Assets of discontinued operations held-for-sale ^(a)	—			23,664		
Total assets	\$ 1,477,334			\$ 1,309,139		
Liabilities						
Interest bearing deposits	\$ 540,937	\$ 5,638	4.13%	\$ 451,509	\$ 4,471	3.93%
Federal funds purchased and securities sold under repurchase agreements	206,174	2,693	5.18	192,674	2,251	4.63
Commercial paper	26,511	312	4.68	19,207	231	4.78
Other borrowings ^(b)	104,995	1,296	4.90	101,366	1,312	5.13
Beneficial interests issued by consolidated VIEs	14,454	165	4.52	13,630	143	4.16
Long-term debt	177,851	1,789	3.99	133,279	1,370	4.08
Total interest-bearing liabilities	1,070,922	11,893	4.41	911,665	9,778	4.26
Noninterest-bearing deposits	121,512			122,944		
Trading liabilities – derivative payables	65,467			54,928		
All other liabilities, including the allowance for lending-related commitments	100,457			84,971		
Liabilities of discontinued operations held-for-sale ^(a)	—			22,825		
Total liabilities	1,358,358			1,197,333		
Stockholders' equity						
Preferred stock	—			—		
Common stockholders' equity	118,976			111,806		
Total stockholders' equity	118,976			111,806		
Total liabilities and stockholders' equity	\$ 1,477,334			\$ 1,309,139		
Interest rate spread			2.28%			1.82%
Net interest income and net yield on interest-earning assets		\$ 7,421	2.57%		\$ 5,436	2.17%

(a) For purposes of the consolidated average balance sheet for assets and liabilities transferred to discontinued operations, JPMorgan Chase used Federal funds sold interest income as a reasonable estimate of the earnings on corporate trust deposits; therefore, JPMorgan Chase transferred to Assets of discontinued operations held-for-sale average Federal funds sold, along with the related interest income earned, and transferred to Liabilities of discontinued operations held-for-sale average corporate trust deposits.

(b) Includes securities sold but not yet purchased.

(c) For the quarters ended September 30, 2007 and 2006, the annualized rate for available-for-sale securities based upon amortized cost was 5.64% and 5.65%, respectively.

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

	Nine months ended September 30, 2007			Nine months ended September 30, 2006		
	Average Balance	Interest	Rate (Annualized)	Average Balance	Interest	Rate (Annualized)
Assets						
Deposits with banks	\$ 24,848	\$ 901	4.85%	\$ 30,424	\$ 1,006	4.42%
Federal funds sold and securities purchased under resale agreements	134,009	4,936	4.92	127,863	3,859	4.03
Securities borrowed	85,878	3,498	5.45	84,385	2,457	3.89
Trading assets – debt instruments	287,680	13,277	6.17	201,232	8,123	5.40
Securities: Available-for-sale	95,924	4,074	5.68 ^(c)	73,690	3,036	5.51 ^(c)
Held-to-maturity	58	3	6.10	72	4	6.53
Interests in purchased receivables	—	—	—	18,640	652	4.68
Loans	470,078	26,942	7.66	444,558	24,048	7.23
Total interest-earning assets	1,098,475	53,631	6.53	980,864	43,185	5.89
Allowance for loan losses	(7,417)			(7,140)		
Cash and due from banks	32,167			31,391		
Trading assets – equity instruments	86,923			72,075		
Trading assets – derivative receivables	61,801			55,942		
Goodwill	45,194			43,437		
Other intangible assets						
Mortgage servicing rights	8,487			7,548		
Purchased credit card relationships	2,674			3,160		
All other intangibles	4,166			4,240		
Other assets	97,302			83,771		
Assets of discontinued operations held-for-sale ^(a)	—			22,056		
Total assets	\$ 1,429,772			\$ 1,297,344		
Liabilities						
Interest bearing deposits	\$ 517,856	\$ 15,975	4.12%	\$ 440,514	\$ 12,140	3.68%
Federal funds purchased and securities sold under repurchase agreements	204,942	7,903	5.16	178,936	5,760	4.30
Commercial paper	24,726	892	4.82	17,348	569	4.39
Other borrowings ^(b)	100,492	3,668	4.88	104,049	3,950	5.08
Beneficial interests issued by consolidated VIEs	14,691	425	3.86	32,993	1,077	4.37
Long-term debt	162,929	4,722	3.87	126,011	3,964	4.21
Total interest-bearing liabilities	1,025,636	33,585	4.38	899,851	27,460	4.08
Noninterest-bearing deposits	122,904			124,517		
Trading liabilities – derivative payables	61,742			57,052		
All other liabilities, including the allowance for lending-related commitments	101,723			85,445		
Liabilities of discontinued operations held-for-sale ^(a)	—			21,107		
Total liabilities	1,312,005			1,187,972		
Stockholders' equity						
Preferred stock	—			45		
Common stockholders' equity	117,767			109,327		
Total stockholders' equity	117,767			109,372		
Total liabilities and stockholders' equity	\$ 1,429,772			\$ 1,297,344		
Interest rate spread			2.15%			1.81%
Net interest income and net yield on interest-earning assets		\$ 20,046	2.44%		\$ 15,725	2.14%

(a) For purposes of the consolidated average balance sheet for assets and liabilities transferred to discontinued operations, JPMorgan Chase used Federal funds sold interest income as a reasonable estimate of the earnings on corporate trust deposits; therefore, JPMorgan Chase transferred to Assets of discontinued operations held-for-sale average Federal funds sold, along with the related interest income earned, and transferred to Liabilities of discontinued operations held-for-sale average corporate trust deposits.

(b) Includes securities sold but not yet purchased.

(c) For the nine months ended September 30, 2007 and 2006, the annualized rate for available-for-sale securities based upon amortized cost was 5.66% and 5.45%, respectively.

GLOSSARY OF TERMS

ACH: Automated Clearing House.

AICPA: American Institute of Certified Public Accountants.

AICPA Statement of Position (“SOP”) 07-1: “Clarification of the Scope of the Audit and Accounting Guide *Investment Companies* and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies.”

Assets under management: Represent assets actively managed by Asset Management on behalf of institutional, private banking, private client services and retail clients. Excludes assets managed by American Century Companies, Inc., in which the Firm has a 44% ownership interest.

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

Beneficial interest issued by consolidated VIEs: Represents the interest of third-party holders of debt/equity securities, or other obligations, issued by VIEs that JPMorgan Chase consolidates under FIN 46R. The underlying obligations of the VIEs consist of short-term borrowings, commercial paper and long-term debt. The related assets consist of trading assets, available-for-sale securities, loans and other assets.

Benefit obligation: Refers to the projected benefit obligation for pension plans and the accumulated postretirement benefit obligation for OPEB plans.

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

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

EITF: Emerging Issues Task Force.

EITF Issue 02-3: “Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities.”

EITF Issue 06-11: “Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards.”

FASB: Financial Accounting Standards Board.

FIN 39: FASB Interpretation No. 39, “Offsetting of Amounts Related to Certain Contracts – an interpretation of APB Opinion No. 10 and FASB Statement No. 105.”

FIN 41: FASB Interpretation No. 41, “Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements – an interpretation of APB Opinion No. 10 and a Modification of FASB Interpretation No. 39.”

FIN 45: FASB Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others – an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34.”

FIN 46R: FASB Interpretation No. 46 (revised December 2003), “Consolidation of Variable Interest Entities – an interpretation of ARB No. 51.”

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

FSP: FASB Staff Position.

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

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FSP FIN 39-1: “Amendment of FASB Interpretation No. 39.”

FSP FIN 46(R)-7: “Application of FASB Interpretation No. 46(R) to Investment Companies.”

Interchange income: A fee that is paid to a credit card issuer in the clearing and settlement of a sales or cash advance transaction.

Interests in purchased receivables: Represent an ownership interest in cash flows of an underlying pool of receivables transferred by a third-party seller into a bankruptcy-remote entity, generally a trust.

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

Managed average assets: Refers to total assets on the Firm’s balance sheet plus credit card receivables that have been securitized.

Managed basis: A non-GAAP presentation of financial results that includes reclassifications related to credit card securitizations and taxable equivalents. Management uses this non-GAAP financial measure at the segment level because it believes this provides information to investors in understanding the underlying operational performance and trends of the particular business segment and facilitates a comparison of the business segment with the performance of competitors.

Managed credit card receivables: Refers to credit card receivables on the Firm’s balance sheet plus credit card receivables that have been securitized.

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

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

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

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

NM: Not meaningful.

OPEB: Other postretirement employee benefits.

Overhead ratio: Noninterest expense as a percentage of Total net revenue.

Principal transactions (revenue): Realized and unrealized gains and losses from trading activities (including physical commodities inventories that are accounted for at the lower of cost or fair value) and changes in fair value associated with instruments held by the Investment Bank for which the SFAS 159 fair value option was elected. Principal transactions revenue also include private equity gains and losses.

Reported basis: Financial statements prepared under accounting principles generally accepted in the United States of America (“U.S. GAAP”). The reported basis includes the impact of credit card securitizations, but excludes the impact of taxable-equivalent adjustments.

Return on common equity less goodwill: Represents net income applicable to common stock divided by total average common equity (net of goodwill). The Firm uses return on equity less goodwill, a non-GAAP financial measure, to evaluate the operating performance of the Firm. The Firm also utilizes this measure to facilitate operating comparisons to other competitors.

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SFAS: Statement of Financial Accounting Standards.

SFAS 5: “Accounting for Contingencies.”

SFAS 109: “Accounting for Income Taxes.”

SFAS 114: “Accounting by Creditors for Impairment of a Loan – an amendment of FASB Statements No. 5 and 15.”

SFAS 123R: “Share-Based Payment.”

SFAS 133: “Accounting for Derivative Instruments and Hedging Activities.”

SFAS 140: “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a replacement of FASB Statement No. 125.”

SFAS 142: “Goodwill and Other Intangible Assets.”

SFAS 155: “Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140.”

SFAS 157: “Fair Value Measurements.”

SFAS 158: “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R).”

SFAS 159: “The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115.”

Staff Accounting Bulletin (“SAB”) 109: “Written Loan Commitments Recorded at Fair Value Through Earnings.”

Stress testing: A scenario that measures market risk under unlikely but plausible events in abnormal markets.

Unaudited: Financial statements and information included throughout this document that have not been subjected to auditing procedures sufficient to permit an independent certified public accountant to express an opinion.

U.S. GAAP: Accounting principles generally accepted in the United States of America.

U.S. government and federal agency obligations: Obligations of the U.S. government or an instrumentality of the U.S. government whose obligations are fully and explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.

U.S. government-sponsored enterprise obligations: Obligations of agencies originally established or chartered by the U.S. government to serve public purposes as specified by the U.S. Congress; these obligations are not explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.

Value-at-risk (“VAR”): A measure of the dollar amount of potential loss from adverse market moves in an ordinary market environment.

LINE OF BUSINESS METRICS

Investment Banking

IB's revenues comprise the following:

Investment banking fees includes advisory, equity underwriting, bond underwriting and loan syndication fees.

Fixed income markets includes client and portfolio management revenue related to both market-making and proprietary risk-taking across global fixed income markets, including government and corporate debt, foreign exchange, interest rate and commodities markets.

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

Credit portfolio revenue includes Net interest income, fees and loan sale activity for IB's credit portfolio. Credit portfolio revenue also includes gains or losses on securities received as part of a loan restructuring, and changes in the CVA, which is the component of the fair value of a derivative that reflects the credit quality of the counterparty. Credit portfolio revenue also includes the results of risk management related to the Firm's lending and derivative activities. In addition, Credit portfolio revenue includes 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.

Retail Financial Services

Description of selected business metrics within Regional Banking:

Personal bankers – Retail branch office personnel who acquire, retain and expand new and existing customer relationships by assessing customer needs and recommending and selling appropriate banking products and services.

Sales specialists – Retail branch office personnel who specialize in the marketing of a single product, including mortgages, investments and business banking, by partnering with the personal bankers.

Mortgage banking revenues comprise the following:

Production revenue includes Mortgage Servicing Rights created from the sales of loans, net gains or losses on the sales of loans, and other production-related fees. Also includes revenue associated with originations of subprime mortgage loans.

Net mortgage servicing revenue includes the following components:

- (a) Servicing revenue represents all gross income earned from servicing third-party mortgage loans including stated service fees, excess service fees, late fees, and other ancillary fees.
- (b) Changes in MSR asset fair value due to:
 - market-based inputs such as interest rates and volatility, as well as updates to valuation assumptions used in the MSR valuation model.
 - servicing portfolio runoff (or time decay).
- (c) Derivative valuation adjustments and other, which represents changes in the fair value of derivative instruments used to offset the impact of changes in the market-based inputs to the MSR valuation model.

MSR risk management results include changes in the MSR asset fair value due to inputs or assumptions and derivative valuation adjustments and other.

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Mortgage Banking's origination channels comprise the following:

Retail – Borrowers who are buying or refinancing a home are directly contacted by a mortgage banker employed by the Firm using a branch office, the Internet or by phone. Borrowers are frequently referred to a mortgage banker by real estate brokers, home builders or other third parties.

Wholesale – A third-party mortgage broker refers loan applications to a mortgage banker at the Firm. Brokers are independent loan originators that specialize in finding and counseling borrowers but do not provide funding for loans.

Correspondent – Correspondents are banks, thrifts, other mortgage banks and other financial institutions that sell closed loans to the Firm.

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

Card Services

Description of selected business metrics within CS:

Charge volume – Represents the dollar amount of cardmember purchases, balance transfers and cash advance activity.

Net accounts opened – Includes originations, purchases and sales.

Merchant acquiring business – Represents an entity that processes payments for merchants. JPMorgan Chase is a partner in Chase Paymentech Solutions, LLC.

Bank card volume – Represents the dollar amount of transactions processed for the merchants.

Total transactions – Represents the number of transactions and authorizations processed for the merchants.

Commercial Banking

Commercial Banking revenues comprise the following:

Lending includes a variety of financing alternatives, which are often provided on a basis secured by receivables, inventory, equipment, real estate or other assets. Products include term loans, revolving lines of credit, bridge financing, asset-backed structures, and leases.

Treasury services includes a broad range of products and services enabling clients to transfer, invest and manage the receipt and disbursement of funds, while providing the related information reporting. These products and services include U.S. dollar and multi-currency clearing, ACH, lockbox, disbursement and reconciliation services, check deposits, other check and currency-related services, trade finance and logistics solutions, commercial card, and deposit products, sweeps and money market mutual funds.

Investment banking products provide clients with sophisticated capital-raising alternatives, as well as balance sheet and risk management tools through advisory, equity underwriting, loan syndications, investment-grade debt, asset-backed securities, private placements, high-yield bonds, interest rate derivatives, foreign exchange hedges, and securities sales.

Description of selected business metrics within CB:

Liability balances include deposits and deposits that are swept to on-balance sheet liabilities (e.g., commercial paper, Fed funds purchased, and repurchase agreements).

IB revenues, gross – Represents total revenue related to investment banking products sold to CB clients.

Treasury & Securities Services

Treasury & Securities Services **firmwide metrics** include certain TSS product revenues and liability balances reported in other lines of business related to customers who are also customers of those other lines of business. In order to capture the firmwide impact of 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 management’s view, in order to understand the aggregate TSS business.

Description of selected business metrics within TSS:

Liability balances include deposits and deposits that are swept to on-balance sheet liabilities (e.g., commercial paper, Fed funds purchased, and repurchase agreements).

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Asset Management

Assets under management: Represent assets actively managed by Asset Management on behalf of institutional, private banking, private client services and retail clients. Excludes assets managed by American Century Companies, Inc., in which the Firm has a 44% ownership interest.

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

Alternative Assets: The following types of assets constitute alternative investments – hedge funds, currency, real estate and private equity.

AM's client segments comprise the following:

Institutional brings comprehensive global investment services – including asset management, pension analytics, asset-liability management and active risk budgeting strategies – to corporate and public institutions, endowments, foundations, not-for-profit organizations and governments worldwide.

Retail provides worldwide investment management services and retirement planning and administration through third-party and direct distribution of a full range of investment vehicles.

The **Private Bank** addresses every facet of wealth management for ultra-high-net-worth individuals and families worldwide, including investment management, capital markets and risk management, tax and estate planning, banking, capital raising and specialty-wealth advisory services.

Private Client Services offers high-net-worth individuals, families and business owners in the United States comprehensive wealth management solutions, including investment management, capital markets and risk management, tax and estate planning, banking, and specialty-wealth advisory services.

FORWARD-LOOKING STATEMENTS

From time to time, the Firm has made and will make forward-looking statements. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often use words such as “anticipate,” “target,” “expect,” “estimate,” “intend,” “plan,” “goal,” “believe,” or other words of similar meaning. Forward-looking statements provide JPMorgan Chase’s current expectations or forecasts of future events, circumstances, results or aspirations. JPMorgan Chase’s disclosures in this report contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Firm also may make forward-looking statements in its other documents filed or furnished with the Securities and Exchange Commission (“SEC”). In addition, the Firm’s senior management may make forward-looking statements orally to analysts, investors, representatives of the media and others.

All forward-looking statements are, by their nature, subject to risks and uncertainties. JPMorgan Chase’s actual future results may differ materially from those set forth in its forward-looking statements. Factors that could cause this difference – many of which are beyond the Firm’s control – include the following: local, regional and international business, political or economic conditions; changes in trade, monetary and fiscal policies and laws; volatility in the credit, rates, debt and equity markets; technological changes instituted by the Firm and by other entities which may affect the Firm’s business; mergers and acquisitions, including the Firm’s ability to integrate acquisitions; ability of the Firm to develop new products and services; acceptance of new products and services and the ability of the Firm to increase market share; the ability of the Firm to control expenses; competitive pressures; changes in laws and regulatory requirements; changes in applicable accounting policies; costs, outcomes and effects of litigation and regulatory investigations; changes in the credit quality of the Firm’s customers; and adequacy of the Firm’s risk management framework.

Additional factors that may cause future results to differ materially from forward-looking statements are discussed in Part I, Item 1A: Risk Factors in the Firm’s 2006 Annual Report to which reference is hereby made. There is no assurance that any list of risks and uncertainties or risk factors is complete.

Any forward-looking statements made by or on behalf of the Firm speak only as of the date they are made and JPMorgan Chase does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statement was made. The reader should, however, consult any further disclosures of a forward-looking nature the Firm may make in any subsequent Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, or Current Reports on Form 8-K.

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Item 3 Quantitative and Qualitative Disclosures about Market Risk

For a discussion of the quantitative and qualitative disclosures about market risk, see the Market Risk Management section of the management's discussion and analysis ("MD&A") on pages 62–65 of this Form 10-Q.

Item 4 Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of the Firm's management, including its Chairman and Chief Executive Officer and its Chief Financial Officer, of the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chairman and Chief Executive Officer and the Chief Financial Officer concluded that these disclosure controls and procedures were effective. See Exhibits 31.1 and 31.2 for the Certification statements issued by the Chairman and Chief Executive Officer, and Chief Financial Officer.

The Firm is committed to maintaining high standards of internal control over financial reporting. Nevertheless, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

There was no change in the Firm's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that occurred during the third quarter of 2007 that has materially affected, or is reasonably likely to materially affect, the Firm's internal control over financial reporting.

Part II Other Information

Item 1 Legal proceedings

The following information supplements and amends the disclosure set forth under Part I, Item 3 "Legal proceedings" in the Firm's 2006 Annual Report, Part II, Item 1 "Legal Proceedings" in the Firm's Quarterly Report on Form 10-Q for the quarterly period ending March 31, 2007 and Part II, Item 1 "Legal proceedings" in the Firm's Quarterly Report on Form 10-Q for the quarterly period ending June 30, 2007 (the "Firm's SEC filings").

Enron litigation. In the purported consolidated class action lawsuit by JPMorgan Chase stockholders, briefing on the plaintiffs' appeal of the dismissal of their complaint to the United States Court of Appeals for the Second Circuit is complete. In the shareholder derivative action against current and former directors of JPMorgan Chase, briefing on the plaintiffs' appeal to the United States Court of Appeals for the Second Circuit of the decision granting the Firm's motion to dismiss is also complete.

In the action pending in New York Supreme Court, New York County, alleging claims relating to the Firm's role as Indenture Trustee, defendant JPMorgan Chase Bank, N.A. filed a motion to dismiss the Amended Complaint on May 24, 2007. The parties await the Court's decision.

IPO allocation litigation. With respect to the IPO securities cases, on August 14, 2007, plaintiffs filed second amended class action complaints in each of the six class certification focus cases. JPMSI is a named defendant in two of these cases. Underwriter defendants' time to answer, move or otherwise respond to the amended complaints has been extended until November 9, 2007.

On September 27, 2007, plaintiffs filed a written motion seeking class certification in the six class certification focus cases. Under the briefing schedule currently in place, the underwriter defendants' opposition papers are due by December 21, 2007, and plaintiffs' reply papers are due by February 15, 2008. In addition, the parties are engaged in class certification discovery.

In re JPMorgan Chase Cash Balance Litigation. On July 31, 2007, the United States District Court for the Southern District of New York denied plaintiffs' motions for reconsideration and certification of the May 30, 2007 Order granting in part and denying in part plaintiffs' motion for class certification.

On August 17, 2007, a Class Action Complaint was filed in the United States District Court for the Southern District of New York, *Bilello v. JPMorgan Chase Retirement Plan, JPMorgan Chase Director of Human Resources, as administrator of the JPMorgan Chase Retirement Plan*. The complaint asserts claims on behalf of participants in the Chemical Bank Plan and certain other predecessor plans to the JPMorgan Chase Retirement Plan, including notice claims that were excluded from the class in *In re JPMorgan Chase Cash Balance Litigation*. More specifically, the *Bilello* complaint alleges that (1) defendants failed to comply with the notice and disclosure requirements of ERISA in connection with the conversion of the Chemical Bank Plan to a cash balance plan and subsequent mergers of the Chemical Bank Plan with other predecessor plans resulting in cash balance plans, and (2) the Chemical Bank Plan, following its conversion to a cash balance plan, was impermissibly backloaded in violation of 29 U.S.C. § 1054(b)(1)(B), ERISA § 204(b)(1)(B). Defendants anticipate filing a motion to dismiss in November 2007.

American Express Litigation. VISA and American Express reached an agreement in principle to settle the litigation on November 1, 2007, including a settlement related to the banks' membership in MasterCard. VISA will pay American Express approximately \$2 billion over 4 years. The first payment of \$1.13 billion is to be paid by no later than

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March 31, 2008. It is anticipated that the VISA settlement will be funded from a portion of the proceeds generated from VISA's currently planned IPO. As a result of the settlement, the defendant banks, including JPMorgan Chase, will be released and dismissed from the action. The defendant banks' separate payment obligation with respect to the American Express settlement is \$185 million. JPMorgan Chase's contribution to the proposed settlement will have no material adverse effect on the Firm.

Interchange Litigation. The Magistrate Judge has recommended to the District Court that it grant defendants' motion to dismiss all claims that predate January 1, 2004. Plaintiffs' time to file objections to this recommendation has been extended pending a motion to clarify the effect, if any, of the Magistrate's report and recommendation as to certain unnamed putative class members. JPMorgan Chase is a signatory to a judgment sharing agreement that Visa U.S.A. previously entered into with certain of its members.

In addition to the various cases, proceedings and investigations discussed above, JPMorgan Chase and its subsidiaries are named as defendants or otherwise involved in a number of other legal actions and governmental proceedings arising in connection with their businesses. Additional actions, investigations or proceedings may be initiated from time to time in the future. In view of the inherent difficulty of predicting the outcome of legal matters, particularly where the claimants seek very large or indeterminate damages, or where the cases present novel legal theories, involve a large number of parties or are in early stages of discovery, the Firm cannot state with confidence what the eventual outcome of these pending matters will be, what the timing of the ultimate resolution of these matters will be or what the eventual loss, fines, penalties or impact related to each pending matter may be. JPMorgan Chase believes, based upon its current knowledge, after consultation with counsel and after taking into account its current litigation reserves, that the outcome of the legal actions, proceedings and investigations currently pending against it should not have a material, adverse effect on the consolidated financial condition of the Firm. However, in light of the uncertainties involved in such proceedings, actions and investigations, there is no assurance that the ultimate resolution of these matters will not significantly exceed the reserves currently accrued by the Firm; as a result, the outcome of a particular matter may be material to JPMorgan Chase's operating results for a particular period, depending upon, among other factors, the size of the loss or liability imposed and the level of JPMorgan Chase's income for that period.

Item 1A Risk Factors

For a discussion of risk factors affecting the Firm, see Part 1, Item 1A, Risk Factors, on pages 4–6 and Forward-Looking Statements on page 147 of JPMorgan Chase's 2006 Annual Report.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

During the third quarter of 2007, shares of common stock of JPMorgan Chase & Co. were issued in transactions exempt from registration under the Securities Act of 1933, pursuant to Section 4(2) thereof, as follows: on July 27, 2007, 39,339 shares were issued to retired employees who had deferred receipt of such common shares pursuant to the Corporate Performance Incentive Plan.

The actual amount of shares repurchased under the Firm's repurchase program is subject to various factors, including market conditions; legal considerations affecting the amount and timing of repurchase activity; the Firm's capital position (taking into account goodwill and intangibles); internal capital generation; and alternative potential investment opportunities. The repurchase program does not include specific price targets or time tables; may be executed through open market purchases or privately negotiated transactions or utilizing Rule 10b5-1 programs; and may be suspended at any time.

For the three and nine months ended September 30, 2007, under the respective stock repurchase programs then in effect, the Firm repurchased a total of 47.0 million shares and 164.6 million shares for \$2.1 billion and \$8.0 billion at an average price per share of \$45.42 and \$48.67, respectively. For the three and nine months ended September 30, 2006, under the respective stock repurchase programs then in effect, the Firm repurchased a total of 20.0 million shares and 69.5 million shares for \$900 million and \$2.9 billion at an average price per share of \$44.88 and \$42.22, respectively. As of September 30, 2007, \$6.4 billion of authorized repurchase capacity remained under the new stock repurchase program.

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

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The Firm's repurchases of equity securities during the third quarter and first nine months of 2007 were as follows:

For the nine months ended September 30, 2007	Total open market shares repurchased	Average price paid per share ^(a)	Dollar value of remaining authorized repurchase ^(b) (in millions)
First quarter	80,906,259	\$ 49.45	\$ 1,212
Repurchases under the \$8.0 billion program	8,043,500	49.06	— ^(c)
Repurchases under the \$10.0 billion program	28,633,286	51.71	8,519 ^(d)
Second quarter	36,676,786	51.13	8,519
July	17,691,700	47.09	7,686
August	28,313,500	44.37	6,430
September	1,015,000	45.22	6,384
Third quarter	47,020,200	45.42	
Year-to-date	164,603,245	\$ 48.67	

(a) Excludes commission costs.

(b) The amount authorized by the Board of Directors excludes commissions cost.

(c) The unused portion of this program was cancelled when the replacement program was authorized.

(d) Dollar value under new program of \$10.0 billion.

In addition to the repurchases disclosed above, participants in the Firm's stock-based incentive plans may have shares withheld to cover income taxes. Shares withheld to pay income taxes are repurchased pursuant to the terms of the applicable plan and not under the Firm's share repurchase program. Shares repurchased pursuant to these plans during the third quarter and first nine months of 2007 were as follows:

For the nine months ended September 30, 2007	Total shares repurchased	Average price paid per share
First quarter	2,591,697	\$ 49.99
Second quarter	84,218	48.70
July	28,764	49.73
August	—	—
September	—	—
Third quarter	28,764	49.73
Year-to-date	2,704,679	\$ 49.94

Item 3 Defaults Upon Senior Securities

None

Item 4 Submission of Matters to a Vote of Security Holders

None

Item 5 Other Information

None

Item 6 Exhibits

- 4.1 — First Supplemental Indenture, dated as of November 1, 2007, between JPMorgan Chase & Co. and Deutsche Bank Trust Company Americas, as Trustee, to the Indenture, dated as of December 1, 1989 (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of JPMorgan Chase & Co. (File No. 1-5805) filed on November 7, 2007)
- 31.1 — Certification
- 31.2 — Certification
- 32 — Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

JPMORGAN CHASE & CO.
(Registrant)

Date: November 9, 2007

By

/s/ Louis Rauchenberger
Louis Rauchenberger
Managing Director and Controller
[Principal Accounting Officer]

INDEX TO EXHIBITS**SEQUENTIALLY NUMBERED**

<u>EXHIBIT NO.</u>	<u>EXHIBITS</u>	<u>PAGE AT WHICH LOCATED</u>
4.1	First Supplemental Indenture, dated as of November 1, 2007, between JPMorgan Chase & Co. and Deutsche Bank Trust Company Americas, as Trustee, to the Indenture, dated as of December 1, 1989 (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of JPMorgan Chase & Co. (File No. 1-5805) filed on November 7, 2007)	NA
31.1	Certification	125
31.2	Certification	126
The following exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that Section. In addition, Exhibit No. 32 shall not be deemed incorporated into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.		
32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	127