Management's report on internal control over financial reporting

JPMorgan Chase & Co.

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

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

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

Management has completed an assessment of the effectiveness of the Firm's internal control over financial reporting as of December 31, 2005. In making the assessment, management used the framework in "Internal Control – Integrated Framework" promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based upon the assessment performed, management concluded that as of December 31, 2005, JPMorgan Chase's internal control over financial reporting was effective based upon the COSO criteria. Additionally, based upon management's assessment, the Firm determined that there were no material weaknesses in its internal control over financial reporting as of December 31, 2005.

Management's assessment of the effectiveness of the Firm's internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, JPMorgan Chase's independent registered public accounting firm, who also audited the Firm's financial statements as of and for the year ended December 31, 2005, as stated in their report which is included herein.

William B. Harrison, Jr.
Chairman of the Board

James Dimon
President and Chief Executive Officer

Michael J. Cavanagh
Executive Vice President and Chief Financial Officer

February 24, 2006

Report of independent registered public accounting firm

JPMorgan Chase & Co.

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

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

We have completed integrated audits of JPMorgan Chase & Co.'s 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions on JPMorgan Chase & Co.'s 2005, 2004, and 2003 consolidated financial statements and on its internal control over financial reporting as of December 31, 2005, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in stockholders' equity and cash flows present fairly, in all material respects, the financial position of the JPMorgan Chase & Co. and its subsidiaries (the "Company") at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the accompanying Management's report on internal control over financial reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control – Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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

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

PricewaterhouseCoopers LLP

February 24, 2006

Consolidated statements of income

JPMorgan Chase & Co.

Year ended December 31, (in millions, except per share data)[a]	2005	2004	2003
Revenue			
Investment banking fees	**$ 4,088**	$ 3,537	$ 2,890
Trading revenue	**5,860**	3,612	4,427
Lending & deposit related fees	**3,389**	2,672	1,727
Asset management, administration and commissions	**10,390**	8,165	6,039
Securities/private equity gains	**473**	1,874	1,479
Mortgage fees and related income	**1,054**	806	790
Credit card income	**6,754**	4,840	2,466
Other income	**2,694**	830	601
Noninterest revenue	**34,702**	26,336	20,419
Interest income	**45,200**	30,595	24,044
Interest expense	**25,369**	13,834	11,079
Net interest income	**19,831**	16,761	12,965
Total net revenue	**54,533**	43,097	33,384
Provision for credit losses	**3,483**	2,544	1,540
Noninterest expense			
Compensation expense	**18,255**	14,506	11,387
Occupancy expense	**2,299**	2,084	1,912
Technology and communications expense	**3,624**	3,702	2,844
Professional & outside services	**4,224**	3,862	2,875
Marketing	**1,917**	1,335	710
Other expense	**3,705**	2,859	1,694
Amortization of intangibles	**1,525**	946	294
Merger costs	**722**	1,365	—
Litigation reserve charge	**2,564**	3,700	100
Total noninterest expense	**38,835**	34,359	21,816
Income before income tax expense	**12,215**	6,194	10,028
Income tax expense	**3,732**	1,728	3,309
Net income	**$ 8,483**	$ 4,466	$ 6,719
Net income applicable to common stock	**$ 8,470**	$ 4,414	$ 6,668
Net income per common share			
Basic earnings per share	**$ 2.43**	$ 1.59	$ 3.32
Diluted earnings per share	**2.38**	1.55	3.24
Average basic shares	**3,492**	2,780	2,009
Average diluted shares	**3,557**	2,851	2,055
Cash dividends per common share	**$ 1.36**	$ 1.36	$ 1.36

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

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

Consolidated balance sheets

JPMorgan Chase & Co.

At December 31, (in millions, except share data)	2005	2004
Assets		
Cash and due from banks	**$ 36,670**	$ 35,168
Deposits with banks	**21,661**	21,680
Federal funds sold and securities purchased under resale agreements	**133,981**	101,354
Securities borrowed	**74,604**	47,428
Trading assets (including assets pledged of $79,657 at December 31, 2005, and $77,266 at December 31, 2004)	**298,377**	288,814
Securities:		
Available-for-sale (including assets pledged of $17,614 at December 31, 2005, and $26,881 at December 31, 2004)	**47,523**	94,402
Held-to-maturity (fair value: $80 at December 31, 2005, and $117 at December 31, 2004)	**77**	110
Interests in purchased receivables	**29,740**	31,722
Loans	**419,148**	402,114
Allowance for loan losses	**(7,090)**	(7,320)
Loans, net of Allowance for loan losses	**412,058**	394,794
Private equity investments	**6,374**	7,735
Accrued interest and accounts receivable	**22,421**	21,409
Premises and equipment	**9,081**	9,145
Goodwill	**43,621**	43,203
Other intangible assets:		
Mortgage servicing rights	**6,452**	5,080
Purchased credit card relationships	**3,275**	3,878
All other intangibles	**4,832**	5,726
Other assets	**48,195**	45,600
Total assets	**$ 1,198,942**	$ 1,157,248
Liabilities		
Deposits:		
U.S. offices:		
Noninterest-bearing	**$ 135,599**	$ 129,257
Interest-bearing	**287,774**	261,673
Non-U.S. offices:		
Noninterest-bearing	**7,476**	6,931
Interest-bearing	**124,142**	123,595
Total deposits	**554,991**	521,456
Federal funds purchased and securities sold under repurchase agreements	**125,925**	127,787
Commercial paper	**13,863**	12,605
Other borrowed funds	**10,479**	9,039
Trading liabilities	**145,930**	151,207
Accounts payable, accrued expenses and other liabilities (including the Allowance for lending-related commitments of $400 at December 31, 2005, and $492 at December 31, 2004)	**78,460**	75,722
Beneficial interests issued by consolidated VIEs	**42,197**	48,061
Long-term debt	**108,357**	95,422
Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities	**11,529**	10,296
Total liabilities	**1,091,731**	1,051,595
Commitments and contingencies (see Note 25 of this Annual Report)		
Stockholders' equity		
Preferred stock	**139**	339
Common stock (authorized 9,000,000,000 shares at December 31, 2005 and 2004; issued 3,618,189,597 shares and 3,584,747,502 shares at December 31, 2005 and 2004, respectively)	**3,618**	3,585
Capital surplus	**74,994**	72,801
Retained earnings	**33,848**	30,209
Accumulated other comprehensive income (loss)	**(626)**	(208)
Treasury stock, at cost (131,500,350 shares at December 31, 2005, and 28,556,534 shares at December 31, 2004)	**(4,762)**	(1,073)
Total stockholders' equity	**107,211**	105,653
Total liabilities and stockholders' equity	**$ 1,198,942**	$ 1,157,248

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

Consolidated statements of changes in stockholders' equity

JPMorgan Chase & Co.

Year ended December 31, (in millions, except per share data)[a]	2005	2004	2003
Preferred stock			
Balance at beginning of year	**$ 339**	$ 1,009	$ 1,009
Redemption of preferred stock	**(200)**	(670)	—
Balance at end of year	**139**	339	1,009
Common stock			
Balance at beginning of year	**3,585**	2,044	2,024
Issuance of common stock	**33**	72	20
Issuance of common stock for purchase accounting acquisitions	**—**	1,469	—
Balance at end of year	**3,618**	3,585	2,044
Capital surplus			
Balance at beginning of year	**72,801**	13,512	13,222
Issuance of common stock and options for purchase accounting acquisitions	**—**	55,867	—
Shares issued and commitments to issue common stock for employee stock-based awards and related tax effects	**2,193**	3,422	290
Balance at end of year	**74,994**	72,801	13,512
Retained earnings			
Balance at beginning of year	**30,209**	29,681	25,851
Net income	**8,483**	4,466	6,719
Cash dividends declared:			
Preferred stock	**(13)**	(52)	(51)
Common stock ($1.36 per share each year)	**(4,831)**	(3,886)	(2,838)
Balance at end of year	**33,848**	30,209	29,681
Accumulated other comprehensive income (loss)			
Balance at beginning of year	**(208)**	(30)	1,227
Other comprehensive income (loss)	**(418)**	(178)	(1,257)
Balance at end of year	**(626)**	(208)	(30)
Treasury stock, at cost			
Balance at beginning of year	**(1,073)**	(62)	(1,027)
Purchase of treasury stock	**(3,412)**	(738)	—
Reissuance from treasury stock	**—**	—	1,082
Share repurchases related to employee stock-based awards	**(277)**	(273)	(117)
Balance at end of year	**(4,762)**	(1,073)	(62)
Total stockholders' equity	**$ 107,211**	$105,653	$ 46,154
Comprehensive income			
Net income	**$ 8,483**	$ 4,466	$ 6,719
Other comprehensive income (loss)	**(418)**	(178)	(1,257)
Comprehensive income	**$ 8,065**	$ 4,288	$ 5,462

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

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

Consolidated statements of cash flows

JPMorgan Chase & Co.

Year ended December 31, (in millions)[a]	2005	2004	2003
Operating activities			
Net income	**$ 8,483**	$ 4,466	$ 6,719
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Provision for credit losses	**3,483**	2,544	1,540
Depreciation and amortization	**4,318**	3,835	3,101
Deferred tax (benefit) provision	**(1,791)**	(827)	1,428
Investment securities (gains) losses	**1,336**	(338)	(1,446)
Private equity unrealized (gains) losses	**55**	(766)	(77)
Gain on dispositions of businesses	**(1,254)**	(17)	(68)
Net change in:			
Trading assets	**(3,845)**	(48,703)	(2,671)
Securities borrowed	**(27,290)**	(4,816)	(7,691)
Accrued interest and accounts receivable	**(1,934)**	(2,391)	1,809
Other assets	**(9)**	(17,588)	(9,848)
Trading liabilities	**(12,578)**	29,764	15,769
Accounts payable, accrued expenses and other liabilities	**5,532**	13,277	5,973
Other operating adjustments	**1,267**	(245)	63
Net cash (used in) provided by operating activities	**(24,227)**	(21,805)	14,601
Investing activities			
Net change in:			
Deposits with banks	**104**	(4,196)	(1,233)
Federal funds sold and securities purchased under resale agreements	**(32,469)**	(13,101)	(11,059)
Other change in loans	**(148,894)**	(136,851)	(171,779)
Held-to-maturity securities:			
Proceeds	**33**	66	221
Available-for-sale securities:			
Proceeds from maturities	**31,053**	45,197	10,548
Proceeds from sales	**82,902**	134,534	315,738
Purchases	**(81,749)**	(173,745)	(301,854)
Proceeds due to the sale and securitization of loans	**126,310**	108,637	170,870
Net cash (used) received in business acquisitions or dispositions	**(1,039)**	13,864	(575)
All other investing activities, net	**4,796**	2,519	1,541
Net cash (used in) provided by investing activities	**(18,953)**	(23,076)	12,418
Financing activities			
Net change in:			
Deposits	**31,415**	52,082	21,851
Federal funds purchased and securities sold under repurchase agreements	**(1,862)**	7,065	(56,017)
Commercial paper and other borrowed funds	**2,618**	(4,343)	555
Proceeds from the issuance of long-term debt and capital debt securities	**43,721**	25,344	17,195
Repayments of long-term debt and capital debt securities	**(26,883)**	(16,039)	(8,316)
Proceeds from the issuance of stock and stock-related awards	**682**	848	1,213
Redemption of preferred stock	**(200)**	(670)	—
Treasury stock purchased	**(3,412)**	(738)	—
Cash dividends paid	**(4,878)**	(3,927)	(2,865)
All other financing activities, net	**3,868**	(26)	133
Net cash provided by (used in) financing activities	**45,069**	59,596	(26,251)
Effect of exchange rate changes on cash and due from banks	**(387)**	185	282
Net increase (decrease) in cash and due from banks	**1,502**	14,900	1,050
Cash and due from banks at the beginning of the year	**35,168**	20,268	19,218
Cash and due from banks at the end of the year	**$ 36,670**	$ 35,168	$ 20,268
Cash interest paid	**$ 24,583**	$ 13,384	$ 10,976
Cash income taxes paid	**$ 4,758**	$ 1,477	$ 1,337

Note: In 2004, the fair values of noncash assets acquired and liabilities assumed in the Merger with Bank One were $320.9 billion and $277.0 billion, respectively, and approximately 1,469 million shares of common stock, valued at approximately $57.3 billion, were issued in connection with the merger with Bank One.

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

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

Note 1 – Basis of presentation

JPMorgan Chase & Co. ("JPMorgan Chase" or the "Firm"), a financial holding company incorporated under Delaware law in 1968, is a leading global financial services firm and one of the largest banking institutions in the United States, with operations worldwide. The Firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing, investment management, private banking and private equity. For a discussion of the Firm's business segment information, see Note 31 on pages 130–131 of this Annual Report.

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

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

Consolidation

The consolidated financial statements include 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 usual condition for a controlling financial interest is ownership of a majority of the voting interests of an entity. However, a controlling financial interest may also exist in 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. They are, for example, 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 set up 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 13 on pages 108–111 of this Annual Report.

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 or the right to receive the entity's losses or 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 interest holder in the VIE's capital structure. For further details, see Note 14 on pages 111–113 of this Annual Report.

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

Investments in companies that are considered to be voting-interest entities under FIN 46R in which the Firm has significant influence over operating and financing decisions are accounted for in accordance with the equity method of accounting. These investments are generally included in Other assets, and the Firm's share of income or loss is included in Other income. For a discussion of private equity investments, see Note 9 on pages 103–105 of this Annual Report.

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

Use of estimates in the preparation of consolidated financial statements

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and disclosures of contingent assets and liabilities. Actual results could be different from these estimates.

Foreign currency translation

JPMorgan Chase revalues assets, liabilities, revenues and expenses denominated in foreign currencies into U.S. dollars using applicable exchange rates.

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

Statements of cash flows

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

Significant accounting policies

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

Trading activities	Note 3	Page 94
Other noninterest revenue	Note 4	Page 95
Pension and other postretirement employee benefit plans	Note 6	Page 96
Employee stock-based incentives	Note 7	Page 100
Securities and private equity investments	Note 9	Page 103
Securities financing activities	Note 10	Page 105
Loans	Note 11	Page 106
Allowance for credit losses	Note 12	Page 107
Loan securitizations	Note 13	Page 108
Variable interest entities	Note 14	Page 111
Goodwill and other intangible assets	Note 15	Page 114
Premises and equipment	Note 16	Page 116
Income taxes	Note 22	Page 120
Accounting for derivative instruments and hedging activities	Note 26	Page 123
Off–balance sheet lending-related financial instruments and guarantees	Note 27	Page 124
Fair value of financial instruments	Note 29	Page 126

Note 2 – Business changes and developments

Merger with Bank One Corporation

Bank One Corporation merged with and into JPMorgan Chase (the "Merger") on July 1, 2004. As a result of the Merger, each outstanding share of common stock of Bank One was converted in a stock-for-stock exchange into 1.32 shares of common stock of JPMorgan Chase. JPMorgan Chase stockholders kept their shares, which remained outstanding and unchanged as shares of JPMorgan Chase following the Merger. Key objectives of the Merger were to provide the Firm with a more balanced business mix and greater geographic diversification. The Merger was accounted for using the purchase method of accounting, which requires that the assets and liabilities of Bank One be fair valued as of July 1, 2004. The purchase price to complete the Merger was $58.5 billion.

As part of the Merger, certain accounting policies and practices were conformed, which resulted in $976 million of charges in 2004. The significant components of the conformity charges comprised a $1.4 billion charge related to the decertification of the seller's interest in credit card securitizations, and the benefit of a $584 million reduction in the allowance for credit losses as a result of conforming the wholesale and consumer credit provision methodologies.

The final purchase price of the Merger has been allocated to the assets acquired and liabilities assumed using their fair values as of the merger date. The computation of the purchase price and the allocation of the purchase price to the net assets of Bank One – based on their respective fair values as of July 1, 2004 – and the resulting goodwill are presented below.

(in millions, except per share amounts)	July 1, 2004	
Purchase price		
Bank One common stock exchanged	1,113	
Exchange ratio	1.32	
JPMorgan Chase common stock issued	1,469	
Average purchase price per JPMorgan Chase common share[(a)]	$ 39.02	
		$ 57,336
Fair value of employee stock awards and direct acquisition costs		1,210
Total purchase price		$ 58,546
Net assets acquired:		
Bank One stockholders' equity	$ 24,156	
Bank One goodwill and other intangible assets	(2,754)	
Subtotal	21,402	
Adjustments to reflect assets acquired at fair value:		
Loans and leases	(2,261)	
Private equity investments	(72)	
Identified intangibles	8,665	
Pension plan assets	(778)	
Premises and equipment	(417)	
Other assets	(267)	
Amounts to reflect liabilities assumed at fair value:		
Deposits	(373)	
Deferred income taxes	932	
Other postretirement benefit plan liabilities	(49)	
Other liabilities	(1,162)	
Long-term debt	(1,234)	
		24,386
Goodwill resulting from Merger[(b)]		$ 34,160

(a) The value of the Firm's common stock exchanged with Bank One shareholders was based on the average closing prices of the Firm's common stock for the two days prior to, and the two days following, the announcement of the Merger on January 14, 2004.

(b) Goodwill resulting from the Merger reflects adjustments of the allocation of the purchase price to the net assets acquired through June 30, 2005. Minor adjustments subsequent to June 30, 2005, are reflected in the December 31, 2005 Goodwill balance in Note 15 on page 114 of this Annual Report.

Condensed statement of net assets acquired

The following condensed statement of net assets acquired reflects the fair value of Bank One net assets as of July 1, 2004.

(in millions)	July 1, 2004
Assets	
Cash and cash equivalents	**$ 14,669**
Securities	**70,512**
Interests in purchased receivables	**30,184**
Loans, net of allowance for loan losses	**129,650**
Goodwill and other intangible assets	**42,825**
All other assets	**47,739**
Total assets	**$ 335,579**
Liabilities	
Deposits	**$ 164,848**
Short-term borrowings	**9,811**
All other liabilities	**61,494**
Long-term debt	**40,880**
Total liabilities	**277,033**
Net assets acquired	**$ 58,546**

Acquired, identifiable intangible assets

Components of the fair value of acquired, identifiable intangible assets as of July 1, 2004, were as follows:

	Fair value (in millions)	Weighted average life (in years)	Useful life (in years)
Core deposit intangibles	$ 3,650	5.1	Up to 10
Purchased credit card relationships	3,340	4.6	Up to 10
Other credit card–related intangibles	295	4.6	Up to 10
Other customer relationship intangibles	870	4.6–10.5	Up to 20
Subtotal	8,155	5.1	Up to 20
Indefinite-lived asset management intangibles	510	NA	NA
Total	$ 8,665		

Unaudited pro forma condensed combined financial information

The following unaudited pro forma condensed combined financial information presents the results of operations of the Firm had the Merger taken place at January 1, 2003.

Year ended December 31, (in millions, except per share)	2004	2003
Noninterest revenue	$ 31,175	$ 28,966
Net interest income	21,366	21,715
Total net revenue	52,541	50,681
Provision for credit losses	2,727	3,570
Noninterest expense	40,504	33,136
Income before income tax expense	9,310	13,975
Net income	$ 6,544	$ 9,330
Net income per common share:		
Basic	$ 1.85	$ 2.66
Diluted	1.81	2.61
Average common shares outstanding:		
Basic	3,510	3,495
Diluted	3,593	3,553

Other business events

Collegiate Funding Services

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

BrownCo

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

Sears Canada credit card business

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

Chase Merchant Services, Paymentech integration

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

Neovest Holdings, Inc.

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

Vastera

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

JPMorgan Partners

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

Cazenove

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

Other acquisitions

During 2004, JPMorgan Chase purchased the Electronic Financial Services ("EFS") business from Citigroup and acquired a majority interest in hedge fund manager Highbridge Capital Management ("Highbridge").

Note 3 – Trading activities

Trading assets include debt and equity securities held for trading purposes that JPMorgan Chase owns ("long" positions). Trading liabilities include debt and equity securities that the Firm has sold to other parties but does not own ("short" positions). The Firm is obligated to purchase securities 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. These amounts include the derivative assets and liabilities net of cash received and paid, respectively, under legally enforceable master netting agreements. At December 31, 2005, the amount of cash received and paid was approximately $26.7 billion and $18.9 billion, respectively. At December 31, 2004, the amount of cash received and paid was approximately $32.2 billion and $22.0 billion, respectively. Trading positions are carried at fair value on the Consolidated balance sheets.

Trading revenue

Year ended December 31,[a] (in millions)	2005	2004	2003
Fixed income and other[b]	**$ 4,554**	$ 2,976	$ 4,046
Equities[c]	**1,271**	797	764
Credit portfolio[d]	**35**	(161)	(383)
Total	**$ 5,860**	$ 3,612	$ 4,427

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) Includes bonds and commercial paper and various types of interest rate derivatives as well as foreign exchange and commodities.
(c) Includes equity securities and equity derivatives.
(d) Includes credit derivatives.

Trading assets and liabilities

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

December 31, (in millions)	2005	2004
Trading assets		
Debt and equity instruments:		
U.S. government and federal agency obligations	**$ 16,283**	$ 16,867
U.S. government-sponsored enterprise obligations	**24,172**	23,513
Obligations of state and political subdivisions	**9,887**	3,486
Certificates of deposit, bankers' acceptances and commercial paper	**5,652**	7,341
Debt securities issued by non-U.S. governments	**48,671**	50,699
Corporate securities and other	**143,925**	120,926
Total debt and equity instruments	**248,590**	222,832
Derivative receivables:		
Interest rate	**30,416**	45,892
Foreign exchange	**2,855**	7,939
Equity	**5,575**	6,120
Credit derivatives	**3,464**	2,945
Commodity	**7,477**	3,086
Total derivative receivables	**49,787**	65,982
Total trading assets	**$ 298,377**	$ 288,814
Trading liabilities		
Debt and equity instruments[a]	**$ 94,157**	$ 87,942
Derivative payables:		
Interest rate	**28,488**	41,075
Foreign exchange	**3,453**	8,969
Equity	**11,539**	9,096
Credit derivatives	**2,445**	2,499
Commodity	**5,848**	1,626
Total derivative payables	**51,773**	63,265
Total trading liabilities	**$ 145,930**	$ 151,207

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

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

Year ended December 31,[a] (in millions)	2005	2004	2003
Trading assets – debt and equity instruments	**$ 237,370**	$ 200,467	$ 154,597
Trading assets – derivative receivables	**57,365**	59,521	85,628
Trading liabilities – debt and equity instruments[b]	**$ 93,102**	$ 82,204	$ 72,877
Trading liabilities – derivative payables	**55,723**	52,761	67,783

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) Primarily represents securities sold, not yet purchased.

Note 4 – Other noninterest revenue

Investment banking fees

This revenue category includes advisory and equity and debt underwriting fees. Advisory fees are recognized as revenue when related services are 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. In addition, the Firm recognizes credit arrangement and syndication fees as revenue after satisfying certain retention, timing and yield criteria.

The following table presents the components of Investment banking fees:

Year ended December 31, (in millions)[(a)]	**2005**	2004	2003
Underwriting:			
Equity	**$ 864**	$ 780	$ 699
Debt	**1,969**	1,859	1,549
Total Underwriting	**2,833**	2,639	2,248
Advisory	**1,255**	898	642
Total	**$ 4,088**	$ 3,537	$ 2,890

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

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 and institutional trust services, brokerage services, insurance premiums and commissions and other products. These fees are recognized over the period in which the related service is provided.

Mortgage fees and related income

This revenue category includes fees and income derived from mortgage origination, sales and servicing, and includes the effect of risk management activities associated with the mortgage pipeline, warehouse and the mortgage servicing rights ("MSRs") asset (excluding gains and losses on the sale of Available-for-sale ("AFS") securities). Origination fees and gains or losses on loan sales are recognized in income upon sale. Mortgage servicing fees are recognized over the period the related service is provided, net of amortization. Valuation changes in the mortgage pipeline, warehouse, MSR asset and corresponding risk management instruments are generally adjusted through earnings as these changes occur. Net interest income 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 15 on pages 114–116 of this Annual Report.

Credit card income

This revenue category includes interchange income from credit and debit cards, annual fees, and servicing fees earned in connection with securitization activities. Volume-related payments to partners and expenses for rewards programs are also recorded within Credit card income. Fee revenues are recognized as earned, except for annual fees, which are recognized over a 12-month period. Expenses related to rewards programs are recorded when earned by the customer.

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 provide to the Firm their endorsement of the credit card programs, mailing lists, and 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 accounts, activation, charge volumes, and the cost of their marketing activities and awards.

The Firm recognizes the portion of payments based upon new accounts to the affinity organizations and co-brand partners, as deferred loan origination costs. The Firm defers these costs and amortizes them over 12 months. Payments based upon charge volumes and considered by the Firm as revenue sharing with the affinity organizations and co-brand partners are deducted from Credit card income as the related revenue is earned. The Firm expenses payments based upon marketing efforts performed by the endorsing organization or partner to activate a new account as incurred. These costs are recorded within Noninterest expense.

Note 5 – Interest income and interest expense

Details of Interest income and Interest expense were as follows:

Year ended December 31, (in millions)[(a)]	**2005**	2004	2003
Interest income			
Loans	**$ 26,062**	$ 16,771	$ 11,812
Securities	**3,129**	3,377	3,542
Trading assets	**9,117**	7,527	6,592
Federal funds sold and securities purchased under resale agreements	**4,125**	1,627	1,497
Securities borrowed	**1,154**	463	323
Deposits with banks	**680**	539	214
Interests in purchased receivables	**933**	291	64
Total interest income	**45,200**	30,595	24,044
Interest expense			
Interest-bearing deposits	**10,295**	4,630	3,604
Short-term and other liabilities	**9,542**	6,260	5,871
Long-term debt	**4,160**	2,466	1,498
Beneficial interests issued by consolidated VIEs	**1,372**	478	106
Total interest expense	**25,369**	13,834	11,079
Net interest income	**19,831**	16,761	12,965
Provision for credit losses	**3,483**	2,544	1,540
Net interest income after provision for credit losses	**$ 16,348**	$ 14,217	$ 11,425

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

Note 6 – Pension and other postretirement employee benefit plans

New U.S.-based postretirement plans were introduced in 2005 after the Bank One plans were merged into the heritage JPMorgan Chase plans as of December 31, 2004.

The Firm's defined benefit pension plans are accounted for in accordance with SFAS 87 and SFAS 88. The postretirement medical and life insurance plans are accounted for in accordance with SFAS 106.

The Firm uses a measurement date of December 31 for pension and other postretirement employee benefit plans. In addition, as of August 1, 2005, the U.S. postretirement medical and life insurance plan was remeasured to reflect a mid-year plan amendment and the final Medicare Part D regulations that were issued on January 21, 2005. For the Firm's defined benefit pension plan assets, fair value is used to determine the expected return on pension plan assets. For the Firm's other postretirement employee benefit plan assets, a calculated value that recognizes changes in fair value over a five-year period is used to determine the expected return on other postretirement employee benefit plan assets. Unrecognized net actuarial gains and losses and prior service costs associated with the U.S. defined benefit pension plan are amortized over the average future service period of plan participants, which is currently 10 years. For other postretirement employee benefit plans, unrecognized gains and losses are also amortized over the average future service period, which is currently 8 years. However, prior service costs associated with other postretirement employee benefit plans are recognized over the average years of service remaining to full eligibility age, which is currently 6 years.

Defined Benefit Pension Plans

The Firm has a qualified noncontributory U.S. defined benefit pension plan that provides benefits to substantially all U.S. employees. The U.S. plan employs a cash balance formula, in the form of salary and interest credits, to determine the benefits to be provided at retirement, based upon eligible compensation and years of service. Employees begin to accrue plan benefits after completing one year of service, and benefits generally vest after five years of service. The Firm also offers benefits through defined benefit pension plans to qualifying employees in certain non-U.S. locations based upon eligible compensation and years of service.

It is the Firm's policy to fund the pension plans in amounts sufficient to meet the requirements under applicable employee benefit and local tax laws. The Firm did not make any U.S. pension plan contributions in 2005 and based upon the current funded status of this plan, the Firm does not expect to make significant contributions in 2006. In 2004, the Firm made a cash contribution to its U.S. defined benefit pension plan of $1.1 billion, funding the plan to the maximum allowable amount under applicable tax law. Additionally, the Firm made cash contributions totaling $78 million and $40 million to fully fund the accumulated benefit obligations of certain non-U.S. defined benefit pension plans as of December 31, 2005 and 2004, respectively.

Postretirement medical and life insurance

JPMorgan Chase offers postretirement medical and life insurance benefits to certain retirees and qualifying U.S. employees. These benefits vary with length of service and date of hire and provide for limits on the Firm's share of covered medical benefits. The medical benefits are contributory, while the life insurance benefits are noncontributory. As of August 1, 2005, the eligibility requirements for U.S. employees to qualify for subsidized retiree medical coverage were revised and life insurance coverage was eliminated for active employees retiring after 2005. Postretirement medical benefits also are offered to qualifying U.K. employees.

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was enacted. The Act established a prescription drug benefit under Medicare ("Medicare Part D") and a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The Firm has determined that benefits provided to certain participants are at least actuarially equivalent to Medicare Part D and has reflected the effects of the subsidy in the financial statements and disclosures retroactive to the beginning of 2004 (July 1, 2004 for Bank One plans) in accordance with FSP SFAS 106-2.

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

The following tables present the funded status and amounts reported on the Consolidated balance sheets, the accumulated benefit obligation and the components of net periodic benefit costs reported in the Consolidated statements of income for the Firm's U.S. and non-U.S. defined benefit pension and postretirement benefit plans:

December 31, (in millions)	Defined benefit pension plans U.S. 2005	2004[b]	Non-U.S. 2005	2004[b]	Other postretirement benefit plans[c][d] 2005	2004[b]
Change in benefit obligation						
Benefit obligation at beginning of year	**$ (7,594)**	$ (4,633)	**$ (1,969)**	$ (1,659)	**$ (1,577)**	$ (1,252)
Merger with Bank One	**—**	(2,497)	**—**	(25)	**—**	(216)
Cazenove business partnership	**—**	—	**(291)**	—	**—**	—
Benefits earned during the year	**(280)**	(251)	**(25)**	(17)	**(13)**	(15)
Interest cost on benefit obligations	**(431)**	(348)	**(104)**	(87)	**(81)**	(81)
Plan amendments	**—**	70	**—**	—	**117**	32
Employee contributions	**—**	—	**—**	—	**(44)**	(36)
Actuarial gain (loss)	**(122)**	(511)	**(310)**	(99)	**21**	(163)
Benefits paid	**723**	555	**66**	64	**187**	167
Curtailments	**28**	21	**—**	—	**(9)**	(8)
Special termination benefits	**—**	—	**—**	(12)	**(1)**	(2)
Foreign exchange impact and other	**—**	—	**255**	(134)	**5**	(3)
Benefit obligation at end of year	**$ (7,676)**	$ (7,594)	**$ (2,378)**	$ (1,969)	**$ (1,395)**	$ (1,577)
Change in plan assets						
Fair value of plan assets at beginning of year	**$ 9,637**	$ 4,866	**$ 1,889**	$ 1,603	**$ 1,302**	$ 1,149
Merger with Bank One	**—**	3,280	**—**	20	**—**	98
Cazenove business partnership	**—**	—	**252**	—	**—**	—
Actual return on plan assets	**703**	946	**308**	164	**43**	84
Firm contributions	**—**	1,100	**78**	40	**3**	2
Benefits paid	**(723)**	(555)	**(66)**	(64)	**(19)**	(31)
Foreign exchange impact and other	**—**	—	**(238)**	126	**—**	—
Fair value of plan assets at end of year	**$ 9,617[e]**	$ 9,637[e]	**$ 2,223**	$ 1,889	**$ 1,329**	$ 1,302
Reconciliation of funded status						
Funded status	**$ 1,941**	$ 2,043	**$ (155)**	$ (80)	**$ (66)**	$ (275)
Unrecognized amounts:[a]						
Net transition asset	**—**	—	**—**	(1)	**—**	—
Prior service cost	**40**	47	**3**	4	**(105)**	(23)
Net actuarial loss	**1,078**	997	**599**	590	**335**	321
Prepaid benefit cost reported in Other assets	**$ 3,059**	$ 3,087	**$ 447[f]**	$ 513[f]	**$ 164**	$ 23
Accumulated benefit obligation	**$ (7,274)**	$ (7,167)	**$ (2,303)**	$ (1,931)	**NA**	NA

(a) For pension benefit plans, the unrecognized net loss is primarily the result of declines in interest rates in recent years, as offset by recent asset gains and amounts recognized through amortization in expense. Other factors that contribute to this unrecognized amount include demographic experience, which differs from expected, and changes in other actuarial assumptions. For other postretirement benefit plans, the primary drivers of the cumulative unrecognized loss was the decline in the discount rate in recent years and the medical trend, which was higher than expected. These losses have been offset somewhat by the recognition of future savings attributable to Medicare Part D subsidy payments.
(b) Effective July 1, 2004, the Firm assumed the obligations of heritage Bank One's pension and postretirement plans. These plans were similar to those of JPMorgan Chase and were merged into the Firm's plans effective December 31, 2004.
(c) The Medicare Prescription Drug, Improvement and Modernization Act of 2003 resulted in a $35 million reduction in the Accumulated other postretirement benefit obligation as of January 1, 2004. During 2005, an additional $116 million reduction was reflected for recognition of the final Medicare Part D regulations issued on January 21, 2005.
(d) Includes postretirement benefit obligation of $44 million and $43 million and postretirement benefit liability (included in Accrued expenses) of $50 million and $57 million at December 31, 2005 and 2004, respectively, for the U.K. plan, which is unfunded.
(e) At December 31, 2005 and 2004, approximately $405 million and $358 million, respectively, of U.S. plan assets relate to surplus assets of group annuity contracts.
(f) At December 31, 2005 and 2004, Accrued expenses related to non-U.S. defined benefit pension plans that JPMorgan Chase elected not to prefund fully totaled $164 million and $124 million, respectively.

For the year ended December 31, (in millions)	Defined benefit pension plans U.S. 2005	2004[a]	2003[b]	Non-U.S. 2005	2004[a]	2003[b]	Other postretirement benefit plans 2005[c]	2004[a][c]	2003[b]
Components of net periodic benefit cost									
Benefits earned during the period	**$ 280**	$ 251	$ 180	**$ 25**	$ 17	$ 16	**$ 13**	$ 15	$ 15
Interest cost on benefit obligations	**431**	348	262	**104**	87	74	**81**	81	73
Expected return on plan assets	**(694)**	(556)	(322)	**(109)**	(90)	(83)	**(90)**	(86)	(92)
Amortization of unrecognized amounts:									
Prior service cost	**5**	13	6	**1**	1	—	**(10)**	—	1
Net actuarial loss	**4**	23	62	**38**	44	35	**12**	—	—
Curtailment (gain) loss	**2**	7	2	**—**	—	8	**(17)**	8	2
Settlement (gain) loss	**—**	—	—	**—**	(1)	—	**—**	—	—
Special termination benefits	**—**	—	—	**—**	11	—	**1**	2	—
Reported net periodic benefit costs	**$ 28**	$ 86	$ 190	**$ 59**	$ 69	$ 50	**$ (10)**	$ 20	$ (1)

(a) Effective July 1, 2004, the Firm assumed the obligations of heritage Bank One's pension and postretirement plans. These plans were similar to those of JPMorgan Chase and were merged into the Firm's plans effective December 31, 2004.
(b) Heritage JPMorgan Chase results only for 2003.
(c) The Medicare Prescription Drug, Improvement and Modernization Act of 2003 resulted in a $15 million and $5 million reduction in 2005 and 2004, respectively, in net periodic benefit cost. The impact on 2005 cost was higher as a result of the final Medicare Part D regulations issued on January 21, 2005.

JPMorgan Chase has a number of other defined benefit pension plans (i.e., U.S. plans not subject to Title IV of the Employee Retirement Income Security Act). The most significant of these plans is the Excess Retirement Plan, pursuant to which certain employees earn service credits on compensation amounts above the maximum stipulated by law. This plan is a nonqualified, noncontributory U.S. pension plan with an unfunded liability at December 31, 2005 and 2004, in the amount of $273 million and $292 million, respectively. Compensation expense related to this pension plan totaled $21 million in 2005, $28 million in 2004 and $19 million in 2003.

Plan assumptions

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

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

In 2005, the discount rate used in determining the benefit obligation under the U.S. pension and other postretirement employee benefit plans was selected by reference to the yield on a portfolio of bonds whose redemptions and coupons closely match each of the plan's projected cash flows; such portfolio is derived from a broad-based universe of high quality corporate bonds as of the measurement date. In years in which this hypothetical bond portfolio generates excess cash, such excess is assumed to be reinvested at the one-year forward rates implied by the Citigroup Pension Discount Curve published as of the measurement date. Prior to 2005, discount rates were selected by reference to the year-end Moody's corporate AA rate, as well as other high-quality indices with a duration that was similar to that of the respective plan's benefit obligations. The discount rate for the U.K. pension and other postretirement employee benefit plans was determined by matching the duration of the Firm's obligations with the corresponding duration from the yield curve of the year-end iBoxx £ corporate AA 15-year-plus bond index.

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

	U.S.		Non-U.S.	
For the year ended December 31,	**2005**	2004	**2005**	2004
Weighted-average assumptions used to determine benefit obligations				
Discount rate:				
Pension	**5.70%**	5.75%	**2.00-4.70%**	2.00-5.30%
Postretirement benefit	**5.65**	5.75	**4.7**	5.3
Rate of compensation increase	**4.00**	4.50	**3.00-3.75**	1.75-3.75

	U.S.			Non-U.S.		
For the year ended December 31,	**2005**	2004	2003[(b)]	**2005**	2004	2003[(b)]
Weighted-average assumptions used to determine net periodic benefit costs						
Discount rate	**5.75%**[(a)]	6.00%	6.50%	**2.00-5.30%**	2.00-5.75%	1.50-5.60%
Expected long-term rate of return on plan assets:						
Pension	**7.50**	7.50-7.75	8.00	**3.25-5.75**	3.00-6.50	2.70-6.50
Postretirement benefit	**4.75-7.00**	4.75-7.00	8.00	**NA**	NA	NA
Rate of compensation increase	**4.00**	4.25-4.50	4.50	**1.75-3.75**	1.75-3.75	1.25-3.00

(a) The postretirement plan was remeasured as of August 1, 2005, and a rate of 5.25% was used from the period of August 1, 2005, through December 31, 2005.
(b) Heritage JPMorgan Chase results only for 2003.

The following tables present JPMorgan Chase's assumed weighted-average medical benefits cost trend rate, which is used to measure the expected cost of benefits at year-end, and the effect of a one-percentage-point change in the assumed medical benefits cost trend rate.

December 31,	**2005**	2004[(a)]	2003[(b)]
Health care cost trend rate assumed for next year	**10%**	10%	10%
Rate to which cost trend rate is assumed to decline (ultimate trend rate)	**5**	5	5
Year that rate reaches ultimate trend rate	**2012**	2011	2010

(in millions) For the year ended December 31,2005	1-Percentage-point increase	1-Percentage-point decrease
Effect on total service and interest costs	**$ 4**	$ (3)
Effect on postretirement benefit obligation	**64**	(55)

(a) Effective July 1, 2004, the Firm assumed the obligations of heritage Bank One's pension and postretirement plans. These plans were similar to those of JPMorgan Chase and were merged into the Firm's plans effective December 31, 2004.
(b) 2003 reflects the results of heritage JPMorgan Chase only.

At December 31, 2005, the Firm reduced the discount rate used to determine its U.S. benefit obligations to 5.70% for the pension plan and to 5.65% for the postretirement benefits plans from the prior year rate of 5.75% for both plans. The Firm also changed the health care benefit obligation trend assumption to 10% for 2006, grading down to an ultimate rate of 5% in 2013. The 2006 expected long-term rate of return on its U.S. pension plan assets remained at 7.50%. The 2006 expected long-term rate of return on the Firm's COLI post-retirement plan assets remained at 7.00%; however, with the merger of Bank One's other postretirement plan assets, the Firm's overall expected long-term rate of return on U.S. postretirement employee benefit plan assets decreased to 6.84% and 6.80% in 2005 and 2004, respectively, to reflect a weighted average expected rate of return for the merged plan. The interest crediting rate assumption used to determine pension benefits changed to 5.00% from 4.75% in 2005, primarily due to changes in market interest rates which will result in additional expense of $18 million. The changes as of December 31, 2005, to the discount rates are expected to increase 2006 U.S. pension and other postretirement benefit expenses by approximately $5 million and to the non-U.S. pension and other postretirement benefit expenses by $23 million. The rate of compensation increase assumption of 4.00% at December 31, 2005, reflects the consolidation of the prior JPMorgan Chase and Bank One age-weighted increase assumptions; the impact to expense is not expected to be material.

JPMorgan Chase's U.S. pension and other postretirement benefit expenses are most sensitive to the expected long-term rate of return on plan assets. With all other assumptions held constant, a 25–basis point decline in the expected long-term rate of return on U.S. plan assets would result in an increase of approximately $26 million in 2006 U.S. pension and other postretirement benefit expenses. A 25–basis point decline in the discount rate for the U.S. plans would result in an increase in 2006 U.S. pension and other postretirement benefit expenses of approximately $20 million and an increase in the related projected benefit obligations of approximately $233 million. A 25-basis point decline in the discount rates for the non-U.S. plans would result in an increase in the 2006 non-U.S. pension and other postretirement benefit expenses of $12 million. A 25-basis point increase in the interest crediting rate would result in an increase in 2006 U.S. pension expense of approximately $18 million.

Investment strategy and asset allocation

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

The Firm's U.S. pension plan assets are held in various trusts and are invested in well-diversified portfolios of equities (including U.S. large and small capitalization and international equities), fixed income (including corporate and government bonds), Treasury inflation-indexed and high-yield securities, cash equivalents, and other securities. Non-U.S. pension plan assets are held in various trusts and are similarly invested in well-diversified portfolios of equity, fixed income and other securities. Assets of the Firm's COLI policies, which are used to fund partially the U.S. postretirement benefit plan, are held in separate accounts with an insurance company and are invested in equity and fixed income index funds. In addition, tax-exempt municipal debt securities, held in a trust, are used to fund the U.S. postretirement benefit plan. As of December 31, 2005, the assets used to fund the Firm's U.S. and non-U.S. defined benefit pension and postretirement benefit plans do not include JPMorgan Chase common stock, except in connection with investments in third-party stock-index funds.

The following table presents the weighted-average asset allocation at December 31 for the years indicated, and the respective target allocation by asset category, for the Firm's U.S. and non-U.S. defined benefit pension and postretirement benefit plans.

	Defined benefit pension plans								
	U.S.			Non-U.S.[(a)]			Postretirement benefit plans[(b)]		
	Target	% of plan assets		Target	% of plan assets		Target	% of plan assets	
December 31,	Allocation	**2005**	2004	Allocation	**2005**	2004	Allocation	**2005**	2004
Asset category									
Debt securities	30%	**33%**	38%	74%	**75%**	76%	50%	**54%**	54%
Equity securities	55	**57**	53	25	**24**	24	50	**46**	46
Real estate	5	**6**	5	1	**1**	—	—	**—**	—
Other	10	**4**	4	—	**—**	—	—	**—**	—
Total	100%	**100%**	100%	100%	**100%**	100%	100%	**100%**	100%

(a) Represents the U.K. defined benefit pension plan only, as plans outside the U.K. are not significant.
(b) Represents the U.S. postretirement benefit plan only, as the U.K. plan is unfunded.

Estimated future benefit payments

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

Year ended December 31, (in millions)	U.S. pension benefits	Non-U.S. pension benefits	Other postretirement benefits before Medicare Part D subsidy	Medicare Part D subsidy
2006	$ 558	$ 67	$ 124	$ 14
2007	550	70	127	15
2008	565	74	127	16
2009	584	77	128	17
2010	600	81	129	19
Years 2011–2015	3,266	396	633	111

Defined contribution plans

JPMorgan Chase offers several defined contribution plans in the U.S. and certain non-U.S. locations. The most significant of these plans is the 401(k) Savings Plan, which covers substantially all U.S. employees. The 401(k) Savings Plan allows employees to make pre-tax contributions to tax-deferred investment portfolios. The JPMorgan Chase Common Stock Fund within the 401(k) Savings Plan is a nonleveraged employee stock ownership plan. The Firm matches eligible employee contributions up to a certain percentage of benefits-eligible compensation per pay period, subject to plan and legal limits. Employees begin to receive matching contributions after completing a specified service requirement and are immediately vested in such company contributions. The Firm's defined contribution plans are administered in accordance with applicable local laws and regulations. Compensation expense related to these plans totaled $392 million in 2005, $317 million in 2004 and $240 million in 2003.

Note 7 – Employee stock-based incentives

Effective January 1, 2003, JPMorgan Chase adopted SFAS 123 using the prospective transition method. SFAS 123 requires all stock-based compensation awards, including stock options and stock-settled stock appreciation rights ("SARs"), to be accounted for at fair value. The Firm currently uses the Black-Scholes valuation model to estimate the fair value of stock options and SARs. Stock options that were outstanding as of December 31, 2002, continue to be accounted for under APB 25 using the intrinsic value method. Under this method, no expense is recognized for stock options or SARs granted at the stock price on grant date, since such options have no intrinsic value. Compensation expense for restricted stock and restricted stock units ("RSUs") is measured based upon the number of shares granted and the stock price at the grant date. Compensation expense is recognized in earnings over the required service period.

In connection with the Merger in 2004, JPMorgan Chase converted all outstanding Bank One employee stock-based awards at the merger date, and those awards became exercisable for or based upon JPMorgan Chase common stock. The number of awards converted, and the exercise prices of those awards, was adjusted to take into account the Merger exchange ratio of 1.32.

On December 16, 2004, the FASB issued SFAS 123R, which revises SFAS 123 and supersedes APB 25. In March 2005, the SEC issued SAB 107, which provides interpretive guidance on SFAS 123R. Accounting and reporting under SFAS 123R is generally similar to the SFAS 123 approach. However, SFAS 123R requires all share-based payments to employees, including grants of employee stock options and SARs, to be recognized in the income statement based upon their fair values. Pro forma disclosure is no longer an alternative. SFAS 123R permits adoption using one of two methods — modified prospective or modified retrospective. In April 2005, the U.S. Securities and Exchange Commission approved a new rule that, for public companies, delayed the effective date of SFAS 123R to no later than January 1, 2006. The Firm adopted SFAS 123R on January 1, 2006, under the modified prospective method.

Key employee stock-based awards

In 2005, JPMorgan Chase granted long-term stock-based awards under the 1996 Long-Term Incentive Plan as amended ("the 1996 Plan") until May 2005 and under the 2005 Long-Term Incentive Plan ("the 2005 Plan") thereafter to certain key employees. These two plans, plus prior Firm plans and plans assumed as the result of acquisitions, constitute the Firm's plans ("LTI Plans"). The 2005 Plan was adopted by the Board of Directors on March 15, 2005, and became effective on May 17, 2005, after approval by shareholders at the annual meeting. The 2005 Plan replaces three existing stock compensation plans—the 1996 Plan and two non-shareholder approved plans—all of which expired in May 2005. Under the terms of the 2005 Plan, 275 million shares of common stock are available for issuance during its five-year term. The 2005 Plan is the only active plan under which the Firm is currently granting stock-based incentive awards.

In 2005, 15.5 million SARs settled only in shares and 1.7 million nonqualified stock options were granted. Under the LTI Plans, stock options and SARs are granted with an exercise price equal to JPMorgan Chase's common stock price on the grant date. Generally, options and SARs cannot be exercised until at least one year after the grant date and become exercisable over various periods as determined at the time of the grant. These awards generally expire 10 years after the grant date.

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

The following table presents a summary of JPMorgan Chase's option and SAR activity under the LTI Plans during the last three years:

Year ended December 31,[a] (Options/SARs in thousands)	**2005** Number of options/SARs	**2005** Weighted-average exercise price	2004 Number of options/SARs	2004 Weighted-average exercise price	2003 Number of options	2003 Weighted-average exercise price
Outstanding, January 1	**376,330**	**$ 37.59**	294,026	$ 39.88	298,731	$ 40.84
Granted	**17,248**	**35.55**	16,667	39.79	26,751	22.15
Bank One Conversion, July 1	**NA**	**NA**	111,287	29.63	NA	NA
Exercised	**(26,731)**	**24.28**	(27,763)	25.33	(14,574)	17.47
Canceled	**(28,272)**	**44.77**	(17,887)	46.68	(16,882)	47.57
Outstanding, December 31	**338,575**	**$ 37.93**	376,330	$ 37.59	294,026	$ 39.88
Exercisable, December 31	**286,017**	**$ 38.89**	246,945	$ 36.82	176,163	$ 37.88

(a) 2004 includes six months of awards for the combined Firm and six months of awards for heritage JPMorgan Chase. 2003 reflects the awards for heritage JPMorgan Chase only.

The following table details the distribution of options and SARs outstanding under the LTI Plans at December 31, 2005:

(Options/SARs in thousands) Range of exercise prices	Options/SARs outstanding: Outstanding	Options/SARs outstanding: Weighted-average exercise price	Options/SARs outstanding: Weighted-average remaining contractual life (in years)	Options/SARs exercisable: Exercisable	Options/SARs exercisable: Weighted-average exercise price
$7.27–$20.00	**2,504**	**$ 19.12**	**0.8**	**2,503**	**$ 19.12**
$20.01–$35.00	**125,422**	**28.02**	**5.8**	**88,418**	**27.22**
$35.01–$50.00	**135,263**	**40.04**	**4.9**	**119,710**	**40.13**
$50.01–$63.48	**75,386**	**51.27**	**4.8**	**75,386**	**51.27**
Total	**338,575**	**$ 37.93**	**5.2**	**286,017**	**$ 38.89**

The following table presents a summary of JPMorgan Chase's restricted stock and RSU activity under the LTI Plans during the last three years:

(in thousands) Year ended December 31,[a]	Number of restricted stock/RSUs **2005**	2004	2003
Outstanding, January 1	**85,099**	85,527	55,886
Granted	**38,115**	32,514	44,552
Bank One conversion	**NA**	15,116	NA
Lapsed[b]	**(30,413)**	(43,349)	(12,545)
Forfeited	**(8,197)**	(4,709)	(2,366)
Outstanding, December 31	**84,604**	85,099	85,527

(a) 2004 includes six months of awards for the combined Firm and six months of awards for heritage JPMorgan Chase. 2003 reflects the awards for heritage JPMorgan Chase only.
(b) Lapsed awards represent both restricted stock for which restrictions have lapsed and RSUs that have been converted into common stock.

Restricted stock and RSUs are granted by JPMorgan Chase at no cost to the recipient. These awards are subject to forfeiture until certain restrictions have lapsed, including continued employment for a specified period. The recipient of a share of restricted stock is entitled to voting rights and dividends on the common stock. An RSU entitles the recipient to receive a share of common stock after the applicable restrictions lapse; the recipient is entitled to receive cash payments equivalent to any dividends paid on the underlying common stock during the period the RSU is outstanding. Effective January 2005, the equity portion of the Firm's annual incentive awards were granted primarily in the form of RSUs.

The vesting of certain awards issued prior to 2002 is conditioned upon certain service requirements being met and JPMorgan Chase's common stock reaching and sustaining target prices within a five-year performance period. During 2002, it was determined that it was no longer probable that the target stock prices related to forfeitable awards granted in 1999, 2000, and 2001 would be achieved within their respective performance periods, and accordingly, previously accrued expenses were reversed. The target stock prices for these awards range from $73.33 to $85.00. These awards were forfeited as follows: 1.2 million shares granted in 1999 were forfeited in January 2004; and 1.2 million shares granted in 2000 were forfeited in January 2005. Additionally, 1.2 million shares granted in 2001 were forfeited in January 2006.

Broad-based employee stock options

No broad-based employee stock option grants were made in 2005. Prior awards were granted by JPMorgan Chase under the Value Sharing Plan, a non-shareholder-approved plan. The exercise price is equal to JPMorgan Chase's common stock price on the grant date. The options become exercisable over various periods and generally expire 10 years after the grant date.

The following table presents a summary of JPMorgan Chase's broad-based employee stock option plans and SAR activity during the past three years:

Year ended December 31,	**2005**		2004		2003	
(Options/SARs in thousands)	Number of options/SARs	Weighted-average exercise price	Number of options/SARs	Weighted-average exercise price	Number of options	Weighted-average exercise price
Outstanding, January 1	**112,184**	**$ 40.42**	117,822	$ 39.11	113,155	$ 40.62
Granted	**—**	**—**	6,321	39.96	12,846	21.87
Exercised	**(2,000)**	**24.10**	(5,960)	15.26	(2,007)	13.67
Canceled	**(4,602)**	**39.27**	(5,999)	39.18	(6,172)	37.80
Outstanding, December 31	**105,582**	**$ 40.78**	112,184	$ 40.42	117,822	$ 39.11
Exercisable, December 31	**52,592**	**$ 40.29**	30,082	$ 36.33	36,396	$ 32.88

The following table details the distribution of broad-based employee stock options and SARs outstanding at December 31, 2005:

	Options/SARs outstanding			Options/SARs exercisable	
(Options/SARs in thousands) Range of exercise prices	Outstanding	Weighted-average exercise price	Weighted-average remaining contractual life (in years)	Exercisable	Weighted-average exercise price
$ 20.01–$35.00	**15,200**	**$ 25.01**	**4.3**	**10,490**	**$ 26.42**
$ 35.01–$50.00	**70,088**	**41.18**	**4.5**	**41,990**	**43.72**
$ 50.01–$51.22	**20,294**	**51.22**	**5.1**	**112**	**51.22**
Total	**105,582**	**$ 40.78**	**4.6**	**52,592**	**$ 40.29**

Comparison of the fair and intrinsic value measurement methods

Pre-tax employee stock-based compensation expense related to the LTI plans totaled $1.6 billion in 2005, $1.3 billion in 2004 and $919 million in 2003.

The following table presents net income (after-tax) and basic and diluted earnings per share as reported, and as if all outstanding awards were accounted for at fair value:

Year ended December 31,[a] (in millions, except per share data)	**2005**	2004	2003
Net income as reported	**$ 8,483**	$ 4,466	$ 6,719
Add: Employee stock-based compensation expense originally included in reported net income	**938**	778	551
Deduct: Employee stock-based compensation expense determined under the fair value method for all awards	**(1,015)**	(960)	(863)
Pro forma net income	**$ 8,406**	$ 4,284	$ 6,407
Earnings per share:			
Basic: As reported	**$ 2.43**	$ 1.59	$ 3.32
Pro forma	**2.40**	1.52	3.16
Diluted: As reported	**$ 2.38**	$ 1.55	$ 3.24
Pro forma	**2.36**	1.48	3.09

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

The following table presents JPMorgan Chase's weighted-average, grant-date fair values for the employee stock-based compensation awards granted, and the assumptions used to value stock options and SARs under the Black-Scholes valuation model:

Year ended December 31,[a]	**2005**	2004	2003
Weighted-average grant-date fair value			
Stock options:			
Key employee	**$ 10.44**	$ 13.04	$ 5.60
Broad-based employee	**NA**	10.71	4.98
Converted Bank One options	**NA**	14.05	NA
Restricted stock and RSUs (all payable solely in stock)	**37.35**	39.58	22.03
Weighted-average annualized stock option valuation assumptions			
Risk-free interest rate	**4.25%**	3.44%	3.19%
Expected dividend yield[b]	**3.79**	3.59	5.99
Expected common stock price volatility	**37**	41	44
Assumed weighted-average expected life of stock options (in years)			
Key employee	**6.8**	6.8	6.8
Broad-based employee	**NA**	3.8	3.8

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) Based primarily upon historical data at the grant dates.

Note 8 – Noninterest expense

Merger costs

Costs associated with the Merger were reflected in the Merger costs caption of the Consolidated statements of income. A summary of such costs, by expense category, is shown in the following table for 2005 and 2004. There were no such costs in 2003.

Year ended December 31, (in millions)	2005	2004[a]
Expense category		
Compensation	**$ 238**	$ 467
Occupancy	**(77)**	448
Technology and communications and other	**561**	450
Total[b]	**$ 722**	$ 1,365

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.
(b) With the exception of occupancy-related write-offs, all of the costs in the table require the expenditure of cash.

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

Year ended December 31, (in millions)	2005	2004[a]
Liability balance, beginning of period	**$ 952**	$ —
Recorded as merger costs	**722**	1,365
Recorded as goodwill	**26**	1,028
Liability utilized	**(903)**	(1,441)
Total	**$ 797**	$ 952

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

Note 9 – Securities and private equity investments

Securities are classified as AFS, Held-to-maturity ("HTM") or Trading. Trading securities are discussed in Note 3 on page 94 of this Annual Report. Securities are classified as AFS when, in management's judgment, they may be sold in response to or in anticipation of changes in market conditions, or as part of the Firm's management of its structural interest rate risk. AFS securities are carried at fair value on the Consolidated balance sheets. Unrealized gains and losses after SFAS 133 valuation adjustments are reported as net increases or decreases to Accumulated other comprehensive income (loss). The specific identification method is used to determine realized gains and losses on AFS securities, which are included in Securities / private equity gains on the Consolidated statements of income. Securities that the Firm has the positive intent and ability to hold to maturity are classified as HTM and are carried at amortized cost on the Consolidated balance sheets.

The following table presents realized gains and losses from AFS securities and private equity gains (losses):

Year ended December 31,[a] (in millions)	2005	2004	2003
Realized gains	**$ 302**	$ 576	$ 2,123
Realized losses	**(1,638)**	(238)	(677)
Net realized securities gains (losses)	**(1,336)**	338	1,446
Private equity gains	**1,809**	1,536	33
Total Securities/private equity gains	**$ 473**	$ 1,874	$ 1,479

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

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

	2005				2004			
December 31, (in millions)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale securities								
U.S. government and federal agency obligations:								
U.S. treasuries	**$ 4,245**	**$ 24**	**$ 2**	**$ 4,267**	$ 13,621	$ 7	$ 222	$ 13,406
Mortgage-backed securities	**80**	**3**	**—**	**83**	2,405	41	17	2,429
Agency obligations	**165**	**16**	**—**	**181**	12	—	—	12
Collateralized mortgage obligations	**4**	**—**	**—**	**4**	71	4	4	71
U.S. government-sponsored enterprise obligations	**22,604**	**9**	**596**	**22,017**	46,143	142	593	45,692
Obligations of state and political subdivisions	**712**	**21**	**7**	**726**	2,748	126	8	2,866
Debt securities issued by non-U.S. governments	**5,512**	**12**	**18**	**5,506**	7,901	59	38	7,922
Corporate debt securities	**5,754**	**39**	**74**	**5,719**	7,007	127	18	7,116
Equity securities	**3,179**	**110**	**7**	**3,282**	5,810	39	14	5,835
Other, primarily asset-backed securities[a]	**5,738**	**23**	**23**	**5,738**	9,103	25	75	9,053
Total available-for-sale securities	**$ 47,993**	**$ 257**	**$ 727**	**$ 47,523**	$ 94,821	$ 570	$ 989	$ 94,402
Held-to-maturity securities[b]								
Total held-to-maturity securities	**$ 77**	**$ 3**	**$ —**	**$ 80**	$ 110	$ 7	$ —	$ 117

(a) Includes collateralized mortgage obligations of private issuers, which generally have underlying collateral consisting of obligations of the U.S. government and federal agencies and corporations.
(b) Consists primarily of mortgage-backed securities.

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

	Securities with unrealized losses					
	Less than 12 months		12 months or more			
2005 (in millions)	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Total Fair value	Total Gross unrealized losses
Available-for-sale securities						
U.S. government and federal agency obligations:						
U.S. treasuries	**$ 3,789**	**$ 1**	**$ 85**	**$ 1**	**$ 3,874**	**$ 2**
Mortgage-backed securities	**—**	**—**	**47**	**—**	**47**	**—**
Agency obligations	**7**	**—**	**13**	**—**	**20**	**—**
Collateralized mortgage obligations	**15**	**—**	**30**	**—**	**45**	**—**
U.S. government-sponsored enterprise obligations	**10,607**	**242**	**11,007**	**354**	**21,614**	**596**
Obligations of state and political subdivisions	**237**	**3**	**107**	**4**	**344**	**7**
Debt securities issued by non-U.S. governments	**2,380**	**17**	**71**	**1**	**2,451**	**18**
Corporate debt securities	**3,076**	**52**	**678**	**22**	**3,754**	**74**
Equity securities	**1,838**	**7**	**2**	**—**	**1,840**	**7**
Other, primarily asset-backed securities	**778**	**14**	**370**	**9**	**1,148**	**23**
Total securities with unrealized losses	**$ 22,727**	**$ 336**	**$ 12,410**	**$ 391**	**$ 35,137**	**$ 727**

	Securities with unrealized losses					
	Less than 12 months		12 months or more			
2004 (in millions)	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Total Fair value	Total Gross unrealized losses
Available-for-sale securities						
U.S. government and federal agency obligations:						
U.S. treasuries	$ 10,186	$ 154	$ 940	$ 68	$ 11,126	$ 222
Mortgage-backed securities	344	1	1,359	16	1,703	17
Agency obligations	5	—	3	—	8	—
Collateralized mortgage obligations	278	4	2	—	280	4
U.S. government-sponsored enterprise obligations	34,760	282	10,525	311	45,285	593
Obligations of state and political subdivisions	678	6	96	2	774	8
Debt securities issued by non-U.S. governments	3,395	17	624	21	4,019	38
Corporate debt securities	1,103	13	125	5	1,228	18
Equity securities	1,804	14	23	—	1,827	14
Other, primarily asset-backed securities	1,896	41	321	34	2,217	75
Total securities with unrealized losses	$ 54,449	$ 532	$ 14,018	$ 457	$ 68,467	$ 989

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

Included in the $727 million of gross unrealized losses on AFS securities at December 31, 2005, was $391 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 due to overall increases in market interest rates and not due to underlying credit concerns of the issuers. Substantially all of the securities with unrealized losses aged greater than 12 months have a market value at December 31, 2005, that is within 4% of their amortized cost basis.

In calculating the effective yield for mortgage-backed securities ("MBS") and collateralized mortgage obligations ("CMO"), JPMorgan Chase includes the effect of principal prepayments. Management regularly performs simulation testing to determine the impact that market conditions would have on its MBS and CMO portfolios. MBSs and CMOs that management believes have prepayment risk are included in the AFS portfolio and are reported at fair value.

The following table presents the amortized cost, estimated fair value and average yield at December 31, 2005, of JPMorgan Chase's AFS and HTM securities by contractual maturity:

	Available-for-sale securities			Held-to-maturity securities		
Maturity schedule of securities December 31, 2005 (in millions)	Amortized cost	Fair value	Average yield(a)	Amortized cost	Fair value	Average yield(a)
Due in one year or less	$ 6,723	$ 6,426	2.77%	$ —	$ —	—%
Due after one year through five years	7,740	8,009	3.72	—	—	—
Due after five years through 10 years	5,346	5,366	4.70	30	31	6.96
Due after 10 years(b)	28,184	27,722	4.69	47	49	6.73
Total securities	$ 47,993	$ 47,523	4.27%	$ 77	$ 80	6.82%

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

Private equity investments are primarily held by the Private Equity business within Corporate (which includes JPMorgan Partners and ONE Equity Partners businesses). The Private Equity business invests in buyouts, growth equity and venture opportunities in the normal course of business. These investments are accounted for under investment company guidelines. Accordingly, these investments, irrespective of the percentage of equity ownership interest held by Private Equity, are carried on the Consolidated balance sheets at fair value. Realized and unrealized gains and losses arising from changes in value are reported in Securities/private equity gains in the Consolidated statements of income in the period that the gains or losses occur.

Privately-held investments are initially valued based upon cost. The carrying values of privately-held investments are adjusted from cost to reflect both positive and negative changes evidenced by financing events with third-party capital providers. In addition, these investments are subject to ongoing impairment reviews by Private Equity's senior investment professionals. A variety of factors are reviewed and monitored to assess impairment including, but not limited to, operating performance and future expectations of the particular portfolio investment, industry valuations of comparable public companies, changes in market outlook and the third-party financing environment over time. The Valuation Control Group within the Finance area is responsible for reviewing the accuracy of the carrying values of private investments held by Private Equity.

Private Equity also holds 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. To determine the carrying values of these investments, Private Equity incorporates the use of discounts to take into account the fact that it cannot immediately realize or risk-manage the quoted public values as a result of regulatory and/or contractual sales restrictions imposed on these holdings.

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

	2005		2004	
December 31, (in millions)	Carrying value	Cost	Carrying value	Cost
Total private equity investments	$ 6,374	$ 8,036	$ 7,735	$ 9,103

Note 10 – Securities financing activities

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

Securities purchased under resale agreements ("resale agreements") and securities sold under repurchase agreements ("repurchase agreements") are generally treated as collateralized financing transactions and are carried on the Consolidated balance sheets at the amounts the securities will be subsequently sold or repurchased, plus accrued interest. Where appropriate, resale and repurchase agreements with the same counterparty are reported on a net basis in accordance with FIN 41. JPMorgan Chase takes possession of securities purchased under resale agreements. On a daily basis, JPMorgan Chase monitors the market value of the underlying collateral received from its counterparties, consisting primarily of U.S. and non-U.S. government and agency securities, and requests additional collateral from its counterparties when necessary.

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

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

December 31, (in millions)	2005	2004
Securities purchased under resale agreements	**$ 129,570**	$ 94,076
Securities borrowed	**74,604**	47,428
Securities sold under repurchase agreements	**$ 103,052**	$105,912
Securities loaned	**14,072**	6,435

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

At December 31, 2005, the Firm had received securities as collateral that can be repledged, delivered or otherwise used with a fair value of approximately $331 billion. This collateral was generally obtained under resale or securities borrowing agreements. Of these securities, approximately $320 billion were repledged, delivered or otherwise used, generally as collateral under repurchase agreements, securities lending agreements or to cover short sales.

Note 11 – Loans

Loans are reported at the principal amount outstanding, net of the Allowance for loan losses, unearned income and any net deferred loan fees. Loans held for sale are carried at the lower of cost or fair value, with valuation changes recorded in noninterest revenue. Loans are classified as "trading" where positions are bought and sold to make profits from short-term movements in price. Loans held for trading purposes are included in Trading assets and are carried at fair value, with gains and losses included in Trading revenue. Interest income is recognized using the interest method, or on a basis approximating a level rate of return over the term of the loan.

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

Consumer loans are generally charged to the Allowance for loan losses upon reaching specified stages of delinquency, in accordance with the Federal Financial Institutions Examination Council ("FFIEC") policy. For example, credit card loans are charged off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification of the filing of bankruptcy, whichever is earlier. Residential mortgage products are generally charged off to net realizable value at 180 days past due. Other consumer products are generally charged off (to net realizable value if collateralized) at 120 days past due. Accrued interest on residential mortgage products, and automobile and education financings and certain other consumer loans are accounted for in accordance with the nonaccrual loan policy discussed in the preceding paragraph. Interest and fees related to credit card loans continue to accrue until the loan is charged off or paid. Accrued interest on all other consumer loans is generally reversed against interest income when the loan is charged off. A collateralized loan is considered an in-substance foreclosure and is reclassified to assets acquired in loan satisfactions, within Other assets, only when JPMorgan Chase has taken physical possession of the collateral, but regardless of whether formal foreclosure proceedings have taken place.

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

December 31, (in millions)	2005	2004
U.S. wholesale loans:		
Commercial and industrial	**$ 70,233**	$ 61,033
Real estate	**13,612**	13,038
Financial institutions	**11,100**	14,195
Lease financing receivables	**2,621**	3,098
Other	**14,499**	8,504
Total U.S. wholesale loans	**112,065**	99,868
Non-U.S. wholesale loans:		
Commercial and industrial	**27,452**	25,120
Real estate	**1,475**	1,747
Financial institutions	**7,975**	7,280
Lease financing receivables	**1,144**	1,052
Total non-U.S. wholesale loans	**38,046**	35,199
Total wholesale loans:[(a)]		
Commercial and industrial	**97,685**	86,153
Real estate[(b)]	**15,087**	14,785
Financial institutions	**19,075**	21,475
Lease financing receivables	**3,765**	4,150
Other	**14,499**	8,504
Total wholesale loans	**150,111**	135,067
Total consumer loans:[(c)]		
Consumer real estate		
Home finance – home equity & other	**76,727**	67,837
Home finance – mortgage	**56,726**	56,816
Total Home finance	**133,453**	124,653
Auto & education finance	**49,047**	62,712
Consumer & small business and other	**14,799**	15,107
Credit card receivables[(d)]	**71,738**	64,575
Total consumer loans	**269,037**	267,047
Total loans[(e)(f)(g)]	**$ 419,148**	$ 402,114

(a) Includes Investment Bank, Commercial Banking, Treasury & Securities Services and Asset & Wealth 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 and Card Services.
(d) Includes billed finance charges and fees net of an allowance for uncollectible amounts.
(e) Loans are presented net of unearned income of $3.0 billion and $4.1 billion at December 31, 2005 and 2004, respectively.
(f) Includes loans held for sale (primarily related to securitization and syndication activities) of $34.2 billion and $24.5 billion at December 31, 2005 and 2004, respectively.
(g) Amounts are presented gross of the Allowance for loan losses.

The following table reflects information about the Firm's loans held for sale, principally mortgage-related:

Year ended December 31, (in millions)[a]	2005	2004	2003
Net gains on sales of loans held for sale	**$ 596**	$ 368	$ 933
Lower of cost or fair value adjustments	**(332)**	39	26

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

Impaired loans

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

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

December 31, (in millions)[a]	2005	2004
Impaired loans with an allowance	**$ 1,095**	$ 1,496
Impaired loans without an allowance[b]	**80**	284
Total impaired loans	**$ 1,175**	$ 1,780
Allowance for impaired loans under SFAS 114[c]	**$ 257**	$ 521
Average balance of impaired loans during the year	**1,478**	1,883
Interest income recognized on impaired loans during the year	**5**	8

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.
(b) 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.
(c) The allowance for impaired loans under SFAS 114 is included in JPMorgan Chase's Allowance for loan losses.

Note 12 – Allowance for credit losses

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

The Allowance for loan losses includes an asset-specific component and a formula-based component. Within the formula-based component is a statistical calculation and an adjustment to the statistical calculation.

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

The formula-based component covers performing wholesale and consumer loans and is the product of a statistical calculation, as well as adjustments to such calculation. These adjustments take into consideration model imprecision, external factors and economic events that have occurred but are not yet reflected in the factors used to derive the statistical calculation.

The statistical calculation is the product of probability of default and loss given default. For risk-rated loans (generally loans originated by the wholesale lines of business), these factors are differentiated by risk rating and maturity. For scored loans (generally loans originated by the consumer lines of business), loss is primarily determined by applying statistical loss factors and other risk indicators to pools of loans by asset type. Adjustments to the statistical calculation for the risk-rated portfolios are determined by creating estimated ranges using historical experience of both loss given default and probability of default. Factors related to concentrated and deteriorating industries are also incorporated into the calculation where relevant. Adjustments to the statistical calculation for the scored loan portfolios are accomplished in part by analyzing the historical loss experience for each major product segment. The estimated ranges and the determination of the appropriate point within the range are based upon management's view of uncertainties that relate to current macroeconomic and political conditions, quality of underwriting standards, and other relevant internal and external factors affecting the credit quality of the portfolio.

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

The allowance for credit losses is reviewed at least quarterly by the Chief Risk Officer of the Firm, the Risk Policy Committee, a risk subgroup of the Operating Committee, and the Audit Committee of the Board of Directors of the Firm relative to the risk profile of the Firm's credit portfolio and current economic conditions. As of December 31, 2005, JPMorgan Chase deemed the allowance for credit losses to be appropriate (i.e., sufficient to absorb losses that are inherent in the portfolio, including those not yet identifiable).

As a result of the Merger, management modified its methodology for determining the Provision for credit losses for the combined Firm. The effect of conforming methodologies in 2004 was a decrease in the consumer allowance of $254 million and a decrease in the wholesale allowance (including both funded loans and lending-related commitments) of $330 million. In addition, the Bank One seller's interest in credit card securitizations was decertificated; this resulted in an increase to the provision for loan losses of approximately $1.4 billion (pre-tax) in 2004.

JPMorgan Chase maintains an allowance for credit losses as follows:

Allowance for credit losses on:	Reported in: Balance sheet	Income statement
Loans	Allowance for loan losses	Provision for credit losses
Lending-related commitments	Other liabilities	Provision for credit losses

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

December 31, (in millions)	2005	2004[c]
Allowance for loan losses at January 1	**$ 7,320**	$ 4,523
Addition resulting from the Merger, July 1, 2004	**—**	3,123
Gross charge-offs	**(4,869)**	(3,805)[d]
Gross recoveries	**1,050**	706
Net charge-offs	**(3,819)**	(3,099)
Provision for loan losses:		
Provision excluding accounting policy conformity	**3,575**	1,798
Accounting policy conformity[a]	**—**	1,085
Total Provision for loan losses	**3,575**	2,883
Other	**14**	(110)[e]
Allowance for loan losses at December 31	**$ 7,090**[b]	$ 7,320[f]

(a) Represents an increase of approximately $1.4 billion as a result of the decertification of heritage Bank One seller's interest in credit card securitizations, partially offset by a reduction of $357 million to conform provision methodologies.
(b) 2005 includes $203 million of asset-specific and $6.9 billion of formula-based allowance. Included within the formula-based allowance was $5.1 billion related to a statistical calculation (including $400 million related to Hurricane Katrina), and an adjustment to the statistical calculation of $1.8 billion.
(c) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.
(d) Includes $406 million related to the Manufactured Home Loan portfolio in the fourth quarter of 2004.
(e) Primarily represents the transfer of the allowance for accrued interest and fees on reported and securitized credit card loans.
(f) 2004 includes $469 million of asset-specific loss and $6.8 billion of formula-based loss. Included within the formula-based loss is $4.8 billion related to statistical calculation and an adjustment to the statistical calculation of $2.0 billion.

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

December 31, (in millions)	2005	2004[c]
Allowance for lending-related commitments at January 1	**$ 492**	$ 324
Addition resulting from the Merger, July 1, 2004	**—**	508
Provision for lending-related commitments:		
Provision excluding accounting policy conformity	**(92)**	(112)
Accounting policy conformity[a]	**—**	(227)
Total Provision for lending-related commitments	**(92)**	(339)
Other	**—**	(1)
Allowance for lending-related commitments at December 31[b]	**$ 400**	$ 492

(a) Represents a reduction of $227 million to conform provision methodologies in the wholesale portfolio.
(b) 2005 includes $60 million of asset-specific and $340 million of formula-based allowance. 2004 includes $130 million of asset-specific and $362 million of formula-based allowance. The formula-based allowance for lending-related commitments is based upon a statistical calculation. There is no adjustment to the statistical calculation for lending-related commitments.
(c) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

Note 13 – Loan securitizations

JPMorgan Chase securitizes, sells and services various consumer loans, such as consumer real estate, credit card and automobile loans, as well as certain wholesale loans (primarily real estate) originated by the Investment Bank. In addition, the Investment Bank purchases, packages and securitizes commercial and consumer loans. All IB activity is collectively referred to below as Wholesale activities. Interests in the sold and securitized loans may be retained.

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

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

Retained interests that are subject to prepayment risk, such that JPMorgan Chase may not recover substantially all of its investment, are recorded at fair value; subsequent adjustments are reflected in Other comprehensive income or in earnings, if the fair value of the retained interest has declined below its carrying amount and such decline has been determined to be other-than-temporary.

Interests in the securitized loans are generally retained by the Firm in the form of senior or subordinated interest-only strips, subordinated tranches, escrow accounts and servicing rights, and they are generally recorded in Other assets. In addition, credit card securitization trusts require the Firm to maintain a minimum undivided interest in the trusts, representing the Firm's interests in the receivables transferred to the trust that have not been securitized. These interests are not represented by security certificates. The Firm's undivided interests are carried at historical cost and are classified in Loans. Retained interests from wholesale activities are reflected as trading assets.

JPMorgan Chase retains servicing responsibilities for all residential mortgage, credit card and automobile loan securitizations and for certain wholesale activity securitizations it sponsors, and receives servicing fees based on the securitized loan balance plus certain ancillary fees. The Firm also retains the right to service the residential mortgage loans it sells in connection with mortgage-backed securities transactions with the Government National Mortgage Association ("GNMA"), Federal National Mortgage Association ("FNMA") and Federal Home Loan Mortgage Corporation ("Freddie Mac"). For a discussion of mortgage servicing rights, see Note 15 on pages 114–116 of this Annual report.

JPMorgan Chase-sponsored securitizations utilize SPEs as part of the securitization process. These SPEs are structured to meet the definition of a QSPE (as discussed in Note 1 on page 91 of this Annual Report); accordingly, the assets and liabilities of securitization-related QSPEs are not reflected in the Firm's Consolidated balance sheets (except for retained interests, as described below) but are included on the balance sheet of the QSPE purchasing the assets. Assets held by securitization-related SPEs as of December 31, 2005 and 2004, were as follows:

December 31, (in billions)	2005	2004
Credit card receivables	**$ 96.0**	$ 106.3
Residential mortgage receivables	**29.8**	19.1
Wholesale activities[(a)]	**72.9**	44.8
Automobile loans	**5.5**	4.9
Total	**$ 204.2**	$ 175.1

(a) Co-sponsored securitizations include non-JPMorgan Chase originated assets.

The following table summarizes new securitization transactions that were completed during 2005 and 2004, the resulting gains arising from such securitizations, certain cash flows received from such securitizations, and the key economic assumptions used in measuring the retained interests, as of the dates of such sales:

Year ended December 31,	**2005**				2004[(a)]			
(in millions)	Residential mortgage	Credit card	Automobile	Wholesale activities[(e)]	Residential mortgage	Credit card	Automobile	Wholesale activities[(e)]
Principal securitized	**$ 18,125**	**$ 15,145**	**$ 3,762**	**$ 22,691**	$ 6,529	$ 8,850	$ 1,600	$ 8,756
Pre-tax gains (losses)	**21**	**101**	**9**[(c)]	**131**	47	52	(3)	135
Cash flow information:								
Proceeds from securitizations	**$ 18,093**	**$ 14,844**	**$ 2,622**	**$ 22,892**	$ 6,608	$ 8,850	$ 1,597	$ 8,430
Servicing fees collected	**17**	**94**	**4**	**—**	12	69	1	3
Other cash flows received	**—**	**298**	**—**	**3**	25	225	—	16
Proceeds from collections reinvested in revolving securitizations	**—**	**129,696**	**—**	**—**	—	110,697	—	—
Key assumptions (rates per annum):								
Prepayment rate[(b)]	**9.1–12.1% CPR**	**16.7–20.0% PPR**	**1.5% ABS**	**0–50%**	23.8–37.6% CPR	15.5–16.7% PPR	1.5% ABS	17.0–50.0%
Weighted-average life (in years)	**5.6–6.7**	**0.4–0.5**	**1.4–1.5**	**1.0–4.4**	1.9–3.0	0.5–0.6	1.8	2.0–4.0
Expected credit losses	**—**[(d)]	**4.7–5.7%**	**0.6–0.7%**	**0–2.0%**[(d)]	1.0–2.3%	5.5–5.8%	0.6%	0.0–3.0%[(d)]
Discount rate	**13.0–13.3%**	**12.0%**	**6.3–7.3%**	**0.6–18.5%**	15.0–30.0%	12.0%	4.1%	0.6–5.0%

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.
(b) CPR: constant prepayment rate; ABS: absolute prepayment speed; PPR: principal payment rate.
(c) The auto securitization gain of $9 million does not include the write-down of loans transferred to held-for-sale in 2005 and risk management activities intended to protect the economic value of the loans while held-for-sale.
(d) Expected credit losses for prime residential mortgage and certain wholesale securitizations are minimal and are incorporated into other assumptions.
(e) Wholesale activities consist of wholesale loans (primarily commercial real estate) originated by the Investment Bank as well as $11.4 billion and $1.8 billion of consumer loans purchased from the market in 2005 and 2004, respectively, and then packaged and securitized by the Investment Bank.

In addition to securitization transactions, the Firm sold residential mortgage loans totaling $52.5 billion, $65.7 billion and $123.2 billion during 2005, 2004 and 2003, respectively, primarily as GNMA, FNMA and Freddie Mac mortgage-backed securities; these sales resulted in pre-tax gains of $293 million, $58.1 million and $564.3 million, respectively.

At both December 31, 2005 and 2004, the Firm had, with respect to its credit card master trusts, $24.8 billion and $35.2 billion, respectively, related to undivided interests, and $2.2 billion and $2.1 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 23% for both 2005 and 2004, respectively.

The Firm also maintains escrow accounts up to predetermined limits for some credit card and automobile securitizations, in the unlikely event of deficiencies in cash flows owed to investors. The amounts available in such escrow accounts are recorded in Other assets and, as of December 31, 2005, amounted to $754 million and $76 million for credit card and automobile securitizations, respectively; as of December 31, 2004, these amounts were $395 million and $132 million for credit card and automobile securitizations, respectively.

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

December 31, (in millions)	2005	2004
Residential mortgage[(a)]	**$ 182**	$ 433
Credit card[(a)]	**808**	494
Automobile[(a)(b)]	**150**	85
Wholesale activities[(c)]	**265**	23
Total	**$ 1,405**	$ 1,035

(a) Pre-tax unrealized gains (losses) recorded in Stockholders' equity that relate to retained securitization interests totaled $60 million and $118 million for Residential mortgage; $6 million and $(3) million for Credit card; and $5 million and $11 million for Automobile at December 31, 2005 and 2004, respectively.
(b) In addition to the automobile retained interest amounts noted above, the Firm also retained senior securities totaling $490 million at December 31, 2005, from 2005 auto securitizations that are classified as AFS securities. These securities are valued using quoted market prices and are therefore not included in the key economic assumption and sensitivities table that follows.
(c) In addition to the wholesale retained interest amounts noted above, the Firm also retained subordinated securities totaling $51 million at December 31, 2005, from re-securitization activities. These securities are valued using quoted market prices and are therefore not included in the key assumptions and sensitivities table that follows.

The table below outlines the key economic assumptions used to determine the fair value of the other retained interests at December 31, 2005 and 2004, respectively; and it outlines the sensitivities of those fair values to immediate 10% and 20% adverse changes in those assumptions:

December 31, 2005 (in millions)	Residential mortgage	Credit card	Automobile	Wholesale activities
Weighted-average life (in years)	**0.5–3.5**	**0.4–0.7**	**1.2**	**0.2–4.1**
Prepayment rate	**20.1–43.7% CPR**	**11.9–20.8% PPR**	**1.5% ABS**	**0.0–50.0%**[(a)]
Impact of 10% adverse change	**$ (3)**	**$ (44)**	**$ —**	**$ (5)**
Impact of 20% adverse change	**(5)**	**(88)**	**(2)**	**(6)**
Loss assumption	**0.0–5.2%**[(b)]	**3.2–8.1%**	**0.7%**	**0.0–2.0%**[(b)]
Impact of 10% adverse change	**$ (10)**	**$ (77)**	**$ (4)**	**$ (6)**
Impact of 20% adverse change	**(19)**	**(153)**	**(9)**	**(11)**
Discount rate	**12.7–30.0%**[(c)]	**6.9–12.0%**	**7.2%**	**0.2–18.5%**
Impact of 10% adverse change	**$ (4)**	**$ (2)**	**$ (1)**	**$ (6)**
Impact of 20% adverse change	**(8)**	**(4)**	**(3)**	**(12)**

December 31, 2004 (in millions)	Residential mortgage	Credit card	Automobile	Wholesale activities
Weighted-average life (in years)	0.8–3.4	0.5–1.0	1.3	0.2–4.0
Prepayment rate	15.1–37.1% CPR	8.3–16.7% PPR	1.4% ABS	0.0–50.0%[(a)]
Impact of 10% adverse change	$ (5)	$ (34)	$ (6)	$ (1)
Impact of 20% adverse change	(8)	(69)	(13)	(1)
Loss assumption	0.0–5.0%[(b)]	5.7–8.4%	0.7%	0.0–3.0%[(b)]
Impact of 10% adverse change	$ (17)	$ (144)	$ (4)	$ —
Impact of 20% adverse change	(34)	(280)	(8)	—
Discount rate	13.0–30.0%[(c)]	4.9–12.0%	5.5%	1.0–22.9%
Impact of 10% adverse change	$ (9)	$ (2)	$ (1)	$ —
Impact of 20% adverse change	(18)	(4)	(2)	—

(a) Prepayment risk on certain wholesale retained interests are minimal and are incorporated into other assumptions.
(b) Expected credit losses for prime residential mortgage and certain wholesale securitizations are minimal and are incorporated into other assumptions.
(c) The Firm sold certain residual interests from sub-prime mortgage securitizations via Net Interest Margin ("NIM") securitizations and retains residual interests in these NIM transactions, which are valued using a 30% discount rate.

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 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 assumption, which might counteract or magnify the sensitivities.

Expected static-pool net credit losses include actual incurred losses plus projected net credit losses, divided by the original balance of the outstandings comprising the securitization pool.

The table below displays the expected static-pool net credit losses for 2005, 2004 and 2003, based upon securitizations occurring in that year:

	Loans securitized in:[(a)]					
	2005		2004[(b)]		2003[(b)]	
	Residential mortgage[(c)]	Automobile	Residential mortgage	Automobile	Residential mortgage	Automobile
December 31, 2005	**0.0%**	**0.9%**	0.0–2.4%	0.8%	0.0–2.0%	0.5%
December 31, 2004	**NA**	**NA**	0.0–3.3	1.1	0.0–2.1	0.9
December 31, 2003	**NA**	**NA**	NA	NA	0.0–3.6	0.9

(a) Static-pool losses are not applicable to credit card securitizations due to their revolving structure.
(b) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(c) 2005 securitizations consist of prime-mortgage securitizations only. Expected losses are minimal and incorporated in other assumptions.

The table below presents information about delinquencies, net credit losses and components of reported and securitized financial assets at December 31, 2005 and 2004:

December 31, (in millions)	Total Loans		Nonaccrual and 90 days or more past due		Net loan charge-offs[a] Year ended	
	2005	2004	**2005**	2004	**2005**	2004
Home finance	**$ 133,453**	$ 124,653	**$ 863**	$ 673	**$ 154**	$ 573
Auto & education finance	**49,047**	62,712	**195**	193	**277**	263
Consumer & small business and other	**14,799**	15,107	**280**	295	**141**	154
Credit card receivables	**71,738**	64,575	**1,091**	1,006	**3,324**	1,923
Total consumer loans	**269,037**	267,047	**2,429**	2,167	**3,896**	2,913
Total wholesale loans	**150,111**	135,067	**1,042**	1,582	**(77)**	186
Total loans reported	**419,148**	402,114	**3,471**	3,749	**3,819**	3,099
Securitized loans:						
Residential mortgage[b]	**8,061**	11,533	**370**	460	**105**	150
Automobile	**5,439**	4,763	**11**	12	**15**	24
Credit card	**70,527**	70,795	**730**	1,337	**3,776**	2,898
Total consumer loans securitized	**84,027**	87,091	**1,111**	1,809	**3,896**	3,072
Securitized wholesale activities	**9,049**	1,401	**4**	—	**—**	—
Total loans securitized[c]	**93,076**	88,492	**1,115**	1,809	**3,896**	3,072
Total loans reported and securitized[d]	**$ 512,224**	$ 490,606	**$ 4,586**	$ 5,558	**$ 7,715**	$ 6,171

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.
(b) Includes $5.9 billion and $10.3 billion of outstanding principal balances on securitized sub-prime 1–4 family residential mortgage loans as of December 31, 2005 and 2004, respectively.
(c) Total assets held in securitization-related SPEs were $204.2 billion and $175.1 billion at December 31, 2005 and 2004, respectively. The $93.1 billion and $88.5 billion of loans securitized at December 31, 2005 and 2004, respectively, excludes: $85.6 billion and $50.8 billion of securitized loans, in which the Firm's only continuing involvement is the servicing of the assets; $24.8 billion and $35.2 billion of seller's interests in credit card master trusts; and $0.7 billion and $0.6 billion of escrow accounts and other assets, respectively.
(d) 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.

Note 14 – Variable interest entities

Refer to Note 1 on page 91 of this Annual Report for a further description of JPMorgan Chase's policies regarding consolidation of variable interest entities.

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

- Investment Bank: Utilizes VIEs to assist clients in accessing the financial markets in a cost-efficient manner by providing the structural flexibility to meet their needs pertaining to price, yield and desired risk. There are two broad categories of transactions involving VIEs in the IB: (1) multi-seller conduits and (2) client intermediation; both are discussed below. The IB also securitizes loans through QSPEs which are not considered VIEs, to create asset-backed securities, as further discussed in Note 13 on pages 108–111 of this Annual Report.
- Asset & Wealth Management: Provides investment management services to a limited number of the Firm's mutual funds deemed VIEs. AWM earns a fixed fee based upon assets managed; the fee varies with each fund's investment objective and is competitively priced. For the limited number of funds that qualify as VIEs, AWM's relationships with such funds are not considered significant interests under FIN 46R.
- Treasury & Securities Services: Provides trustee and custodial services to a number of VIEs. These services are similar to those provided to non-VIEs. TSS earns market-based fees for services provided. Such relationships are not considered significant interests under FIN 46R.
- Commercial Banking: Utilizes VIEs to assist clients in accessing the financial markets in a cost-efficient manner. This is often accomplished through the use of products similar to those offered in the Investment Bank. Commercial Banking may assist in the structuring and/or on-going administration of these VIEs and may provide liquidity, letters of credit and/or derivative instruments in support of the VIE.
- The Firm's Private Equity business, included in Corporate, is involved with entities that may be deemed VIEs. Private equity activities are accounted for in accordance with the Investment Company Audit Guide ("Audit Guide"). The FASB deferred adoption of FIN 46R for non-registered investment companies that apply the Audit Guide until the proposed Statement of Position on the clarification of the scope of the Audit Guide is finalized. The Firm continues to apply this deferral provision; had FIN 46R been applied to VIEs subject to this deferral, the impact would have had an insignificant impact on the Firm's Consolidated financial statements as of December 31, 2005.

As noted above, there are two broad categories of transactions involving VIEs with which the IB is involved: multi-seller conduits and client intermediation. These categories are discussed more fully below.

Multi-seller conduits

The Firm is an active participant in the asset-backed securities business, helping meet customers' financing needs by providing access to the commercial paper markets through VIEs known as multi-seller conduits. These entities are separate bankruptcy-remote corporations in the business of purchasing interests in, and making loans secured by, receivable pools and other financial assets pursuant to agreements with customers. The entities fund their purchases and loans through the issuance of highly-rated commercial paper. The primary source of repayment of the commercial paper is the cash flow from the pools of assets.

JPMorgan Chase serves as the administrator and provides contingent liquidity support and limited credit enhancement for several multi-seller conduits. The commercial paper issued by the conduits is backed by collateral, credit enhancements and commitments to provide liquidity sufficient to support receiving at least a liquidity rating of A-1, P-1 and, in certain cases, F1.

As a means of ensuring timely repayment of the commercial paper, each asset pool financed by the conduits has a minimum 100% deal-specific liquidity facility associated with it. In the unlikely event an asset pool is removed from the conduit, the administrator can draw on the liquidity facility to repay the maturing commercial paper. The liquidity facilities are typically in the form of asset purchase agreements and are generally structured such that the bank liquidity is provided by purchasing, or lending against, a pool of non-defaulted, performing assets. Deal-specific liquidity is the primary source of liquidity support for the conduits.

Program-wide liquidity in the form of revolving and short-term lending commitments also is provided by the Firm to these vehicles in the event of short-term disruptions in the commercial paper market.

Deal-specific credit enhancement that supports the commercial paper issued by the conduits is generally structured to cover a multiple of historical losses expected on the pool of assets and is provided primarily by customers (i.e., sellers) or other third parties. The deal-specific credit enhancement is typically in the form of over-collateralization provided by the seller but also may include any combination of the following: recourse to the seller or originator, cash collateral accounts, letters of credit, excess spread, retention of subordinated interests or third-party guarantees. In certain instances, the Firm provides limited credit enhancement in the form of standby letters of credit.

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

	Consolidated		Nonconsolidated		Total	
December 31, (in billions)	**2005**	2004	**2005**	2004[(b)]	**2005**	2004[(b)]
Total commercial paper issued by conduits	**$ 35.2**	$ 35.8	**$ 8.9**	$ 9.3	**$ 44.1**	$ 45.1
Commitments						
Asset-purchase agreements	**$ 47.9**	$ 47.2	**$ 14.3**	$ 16.3	**$ 62.2**	$ 63.5
Program-wide liquidity commitments	**5.0**	4.0	**1.0**	2.0	**6.0**	6.0
Program-wide limited credit enhancements	**1.3**	1.4	**1.0**	1.2	**2.3**	2.6
Maximum exposure to loss[(a)]	**48.4**	48.2	**14.8**	16.9	**63.2**	65.1

(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 $41.6 billion and $42.2 billion at December 31, 2005 and 2004, respectively, plus contractual but undrawn commitments of $21.6 billion and $22.9 billion at December 31, 2005 and 2004, respectively. Since the Firm provides credit enhancement and liquidity to these multi-seller conduits, the maximum exposure is not adjusted to exclude exposure absorbed by third-party liquidity providers.

(b) In December 2003 and February 2004, two multi-seller conduits were restructured, with each conduit issuing preferred securities acquired by an independent third-party investor; the investor absorbs the majority of the expected losses of the conduit. In determining the primary beneficiary of the restructured conduits, the Firm leveraged an existing rating agency model – an independent market standard – to estimate the size of the expected losses, and the Firm considered the relative rights and obligations of each of the variable interest holders.

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

As a financial intermediary, the Firm is involved in structuring VIE transactions to meet investor and client needs. The Firm intermediates various types of risks (including fixed income, equity and credit), typically using derivative instruments as further discussed below. In certain circumstances, the Firm also provides liquidity and other support to the VIEs to facilitate the transaction. The Firm's current exposure to nonconsolidated VIEs is reflected in its Consolidated balance sheets or in the Notes to consolidated financial statements. The risks inherent in derivative instruments or liquidity commitments are managed similarly to other credit, market and liquidity risks to which the Firm is exposed. The Firm intermediates principally with the following types of VIEs: credit-linked note vehicles and municipal bond vehicles.

The Firm structures credit-linked notes in which the VIE purchases highly-rated assets (such as asset-backed securities) and enters into a credit derivative contract with the Firm to obtain exposure to a referenced credit not held by the VIE. Credit-linked notes are issued by the VIE to transfer the risk of the referenced credit to the investors in the VIE. Clients and investors often prefer a VIE structure, since the credit-linked notes generally carry a higher credit rating than they would if issued directly by JPMorgan Chase.

The Firm is involved with municipal bond vehicles for the purpose of creating a series of secondary market trusts that allow tax-exempt investors to finance their investments at short-term tax-exempt rates. The VIE purchases fixed-rate, longer-term highly-rated municipal bonds by issuing puttable floating-rate certificates and inverse floating-rate certificates; the investors in the inverse floating-rate certificates are exposed to the residual losses of the VIE (the "residual interests"). For vehicles in which the Firm owns the residual interests, the Firm consolidates the VIE. In vehicles where third-party investors own the residual interests, the Firm's exposure is limited because of the high credit quality of the underlying municipal bonds, the unwind triggers based upon the market value of the underlying collateral and the residual interests held by third parties. The Firm often serves as remarketing agent for the VIE and provides liquidity to support the remarketing.

Assets held by credit-linked and municipal bond vehicles at December 31, 2005 and 2004, were as follows:

December 31, (in billions)	**2005**	2004
Credit-linked note vehicles[a]	**$ 13.5**	$ 17.8
Municipal bond vehicles[b]	**13.7**	7.5

(a) Assets of $1.8 billion and $2.3 billion reported in the table above were recorded on the Firm's Consolidated balance sheets at December 31, 2005 and 2004, 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 $4.9 billion and $2.6 billion at December 31, 2005 and 2004, respectively, and are reported in the table. Total liquidity commitments were $5.8 billion and $3.1 billion at December 31, 2005 and 2004, respectively. The Firm's maximum credit exposure to all municipal bond vehicles was $10.7 billion and $5.7 billion at December 31, 2005 and 2004, respectively.

Finally, 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. JPMorgan Chase records and reports these positions similarly to any other third-party transaction. 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, and they are not considered significant for disclosure purposes.

Consolidated VIE assets

The following table summarizes the Firm's total consolidated VIE assets, by classification on the Consolidated balance sheets, as of December 31, 2005 and 2004:

December 31, (in billions)	**2005**	2004
Consolidated VIE assets[a]		
Investment securities[b]	**$ 1.9**	$ 10.6
Trading assets[c]	**9.3**	4.7
Loans	**8.1**	3.4
Interests in purchased receivables	**29.6**	31.6
Other assets	**3.0**	0.4
Total consolidated assets	**$ 51.9**	$ 50.7

(a) The Firm also holds $3.9 billion and $3.4 billion of assets, at December 31, 2005 and December 31, 2004, respectively, primarily as a seller's interest, in certain consumer securitizations in a segregated entity, as part of a two-step securitization transaction. This interest is included in the securitization activities disclosed in Note 13 on pages 108–111 of this Annual Report.
(b) The decline in balance is primarily attributable to the sale of the Firm's interest in a structured investment vehicle's capital notes and resulting deconsolidation of this vehicle in 2005.
(c) Includes the fair value of securities and derivatives.

Interests in purchased receivables include interests in receivables purchased by Firm-administered conduits, which have been consolidated in accordance with FIN 46R. Interests in purchased receivables are carried at cost and are reviewed to determine whether an other-than-temporary impairment exists. Based upon the current level of credit protection specified in each transaction, primarily through overcollateralization, the Firm determined that no other-than-temporary impairment existed at December 31, 2005.

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 17 on page 117 of this Annual Report for the maturity profile of FIN 46 long-term beneficial interests.

FIN 46R transition

In December 2003, the FASB issued a revision to FIN 46 ("FIN 46R") to address various technical corrections and implementation issues that had arisen since the issuance of FIN 46. Effective March 31, 2004, JPMorgan Chase implemented FIN 46R for all VIEs, excluding certain investments made by its private equity business, as previously discussed. Implementation of FIN 46R did not have a significant effect on the Firm's Consolidated financial statements.

Note 15 – Goodwill and other intangible assets

Goodwill is not amortized but instead tested for impairment in accordance with SFAS 142 at the reporting-unit segment, which is generally one level below the six major reportable business segments (as described in Note 31 on pages 130–131 of this Annual Report); plus Private Equity (which is included in Corporate). Goodwill is tested annually (during the fourth quarter) or more often if events or circumstances, such as adverse changes in the business climate, indicate there may be impairment. Intangible assets determined to have indefinite lives are not amortized but instead are tested for impairment at least annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the fair value of the indefinite-lived intangible asset to its carrying amount. Other acquired intangible assets determined to have finite lives, such as core deposits and credit card relationships, are amortized over their estimated useful lives in a manner that best reflects the economic benefits of the intangible asset. In addition, impairment testing is performed periodically on these amortizing intangible assets.

Goodwill and other intangible assets consist of the following:

December 31, (in millions)	**2005**	2004
Goodwill	**$ 43,621**	$ 43,203
Mortgage servicing rights	**6,452**	5,080
Purchased credit card relationships	**3,275**	3,878

December 31, (in millions)	**2005**	2004
All other intangibles:		
Other credit card–related intangibles	**$ 124**	$ 272
Core deposit intangibles	**2,705**	3,328
All other intangibles	**2,003**	2,126
Total All other intangible assets	**$ 4,832**	$ 5,726

Goodwill

As of December 31, 2005, goodwill increased by $418 million compared with December 31, 2004, principally in connection with the establishment of the business partnership with Cazenove, as well as the acquisitions of Vastera, Neovest and the Sears Canada credit card business. These increases to Goodwill were partially offset by the deconsolidation of Paymentech. Goodwill was not impaired at December 31, 2005 or 2004, nor was any goodwill written off due to impairment during the years ended December 31, 2005, 2004 or 2003.

Goodwill attributed to the business segments was as follows:

(in millions)	**Dec. 31, 2005**	Dec. 31, 2004	Goodwill resulting from the Merger
Investment Bank	**$ 3,531**	$ 3,309	$ 1,179
Retail Financial Services	**14,991**	15,022	14,576
Card Services	**12,984**	12,781	12,802
Commercial Banking	**2,651**	2,650	2,599
Treasury & Securities Services	**2,062**	2,044	465
Asset & Wealth Management	**7,025**	7,020	2,539
Corporate (Private Equity)	**377**	377	—
Total goodwill	**$ 43,621**	$ 43,203	$ 34,160

Mortgage servicing rights

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

The amount capitalized as MSRs represents the amount paid to third parties to acquire MSRs or is based on fair value, if retained upon the sale or securitization of mortgage loans. The Firm estimates the fair value of MSRs using a discounted future cash flow model. The model considers portfolio characteristics, contractually specified servicing fees, prepayment assumptions, delinquency rates, late charges, other ancillary revenues and costs to service, as well as other economic factors.

During the fourth quarter of 2005, the Firm enhanced its valuation of MSRs by utilizing an option-adjusted spread ("OAS") valuation approach. An OAS approach projects MSR cash flows over multiple interest rate scenarios in conjunction with the Firm's proprietary prepayment model, and then discounts these cash flows at risk-adjusted rates. Prior to the fourth quarter of 2005, MSRs were valued using cash flows and discount rates determined by a "static" or single interest rate path valuation model. The initial valuation of MSRs under OAS did not have a material impact on the Firm's financial statements.

The Firm compares fair value estimates and assumptions to observable market data where available and to recent market activity and actual portfolio experience. Management believes that the assumptions used to estimate fair values are supportable and reasonable.

The Firm accounts for its MSRs at the lower of cost or fair value, in accordance with SFAS 140. MSRs are amortized as a reduction of the actual servicing income received in proportion to, and over the period of, the estimated future net servicing income stream of the underlying mortgage loans. For purposes of evaluating and measuring impairment of MSRs, the Firm stratifies the portfolio on the basis of the predominant risk characteristics, which are loan type and interest rate. Any indicated impairment is recognized as a reduction in revenue through a valuation allowance, which represents the extent that the carrying value of an individual stratum exceeds its estimated fair value.

The Firm evaluates other-than-temporary impairment by reviewing changes in mortgage and other market interest rates over historical periods and then determines an interest rate scenario to estimate the amounts of the MSRs' gross carrying value and the related valuation allowance that could be expected to be recovered in the foreseeable future. Any gross carrying value and related valuation allowance amounts that are not expected to be recovered in the foreseeable future, based upon the interest rate scenario, are considered to be other-than-temporary.

The carrying value of MSRs is sensitive to changes in interest rates, including their effect on prepayment speeds. JPMorgan Chase uses a combination of derivatives, AFS securities and trading instruments to manage changes in the fair value of MSRs. The intent is to offset any changes in the fair value of MSRs with changes in the fair value of the related risk management instrument. MSRs decrease in value when interest rates decline. Conversely, securities (such as mortgage-backed securities), principal-only certificates and derivatives (when the Firm receives fixed-rate interest payments) decrease in value when interest rates increase. The Firm offsets the interest rate risk of its MSRs by designating certain derivatives (e.g., a combination of swaps, swaptions and floors that produces an interest rate profile opposite to the designated risk of the hedged MSRs) as fair value hedges of specified MSRs under SFAS 133. SFAS 133 hedge accounting allows the carrying value of the hedged MSRs to be adjusted through earnings in the same period that the change in value of the hedging derivatives is recognized through earnings. Both of these valuation adjustments are recorded in Mortgage fees and related income.

When applying SFAS 133, the loans underlying the MSRs being hedged are stratified into specific SFAS 133 asset groupings that possess similar interest rate and prepayment risk exposures. The documented hedge period for the Firm is daily. Daily adjustments are performed to incorporate new or terminated derivative contracts and to modify the amount of the corresponding similar asset grouping that is being hedged. The Firm has designated changes in the benchmark interest rate (LIBOR) as the hedged risk. In designating the benchmark interest rate, the Firm considers the impact that the change in the benchmark rate has on the prepayment speed estimates in determining the fair value of the MSRs. The Firm performs both prospective and retrospective hedge-effectiveness evaluations, using a regression analysis, to determine whether the hedge relationship is expected to be highly effective. Hedge effectiveness is assessed by comparing the change in value of the MSRs as a result of changes in benchmark interest rates to the change in the value of the designated derivatives. For a further discussion on derivative instruments and hedging activities, see Note 26 on page 123 of this Annual Report.

Securities (both AFS and Trading) also are used to manage the risk exposure of MSRs. Because these securities do not qualify as hedges under SFAS 133, they are accounted for under SFAS 115. Realized and unrealized gains and losses on trading securities are recognized in earnings in Mortgage fees and related income; interest income on the AFS securities is recognized in earnings in Net interest income; and unrealized gains and losses on AFS securities are reported in Other comprehensive income. Finally, certain nonhedge derivatives, which have not been designated by management in SFAS 133 hedge relationships, are used to manage the economic risk exposure of MSRs and are recorded in Mortgage fees and related income.

Certain AFS securities purchased by the Firm to manage structural interest rate risk were designated in 2005 as risk management instruments of MSRs. At December 31, 2005 and 2004, the unrealized loss on AFS securities used to manage the risk exposure of MSRs was $174 million and $3 million, respectively.

The following table summarizes MSR activity and related amortization for the dates indicated. It also includes the key assumptions and the sensitivity of the fair value of MSRs at December 31, 2005, to immediate 10% and 20% adverse changes in each of those assumptions.

Year ended December 31, (in millions)[(a)]	**2005**	2004	2003
Balance at January 1	**$ 6,111**	$ 6,159	$ 4,864
Additions	**1,897**	1,757	3,201
Bank One merger	**NA**	90	NA
Sales	**—**	(3)	—
Other-than-temporary impairment	**(1)**	(149)	(283)
Amortization	**(1,295)**	(1,297)	(1,397)
SFAS 133 hedge valuation adjustments	**90**	(446)	(226)
Balance at December 31	**6,802**	6,111	6,159
Less: valuation allowance	**350**	1,031	1,378
Balance at December 31, after valuation allowance	**$ 6,452**	$ 5,080	$ 4,781
Estimated fair value at December 31	**$ 6,668**	$ 5,124	$ 4,781
Weighted-average prepayment speed assumption (CPR)	**17.56%**	17.29%	17.67%
Weighted-average discount rate	**9.68%**	7.93%	7.31%

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

	2005
Weighted-average prepayment speed assumption (CPR)	**17.56%**
Impact on fair value with 10% adverse change	**$ (340)**
Impact on fair value with 20% adverse change	**(654)**
Weighted-average discount rate	**9.68%**
Impact on fair value with 10% adverse change	**$ (231)**
Impact on fair value with 20% adverse change	**(446)**

CPR: Constant prepayment rate.

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

The valuation allowance represents the extent to which the carrying value of MSRs exceeds its estimated fair value for its applicable SFAS 140 strata. Changes in the valuation allowance are the result of the recognition of impairment or the recovery of previously recognized impairment charges due to changes in market conditions during the period. The changes in the valuation allowance for MSRs were as follows:

Year ended December 31, (in millions)[(a)]	**2005**	2004	2003
Balance at January 1	**$ 1,031**	$ 1,378	$ 1,634
Other-than-temporary impairment	**(1)**	(149)	(283)
SFAS 140 impairment (recovery) adjustment	**(680)**	(198)	27
Balance at December 31	**$ 350**	$ 1,031	$ 1,378

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

The Firm recorded an other-than-temporary impairment of its MSRs of $1 million, $149 million and $283 million, in 2005, 2004 and 2003, respectively, which permanently reduced the gross carrying value of the MSRs and the related valuation allowance. The permanent reduction precludes subsequent reversals. This write-down had no impact on the results of operations or financial condition of the Firm.

Purchased credit card relationships and All other intangible assets

During 2005, purchased credit card relationship intangibles decreased by $603 million as a result of $703 million in amortization expense, partially offset by the purchase of the Sears Canada credit card business. All other intangible assets decreased by $894 million in 2005 primarily as a result of $836 million in amortization expense and the impact of the deconsolidation of Paymentech. 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:

	2005			2004		
December 31, (in millions)	Gross amount	Accumulated amortization	Net carrying value	Gross amount	Accumulated amortization	Net carrying value
Purchased credit card relationships	**$ 5,325**	**$ 2,050**	**$ 3,275**	$ 5,225	$ 1,347	$ 3,878
All other intangibles:						
Other credit card–related intangibles	**183**	**59**	**124**	295	23	272
Core deposit intangibles	**3,797**	**1,092**	**2,705**	3,797	469	3,328
Other intangibles	**2,582**	**579**[(a)]	**2,003**	2,528	402[(a)]	2,126

Amortization expense (in millions)[(b)]	**2005**	2004	2003
Purchased credit card relationships	**$ 703**	$ 476	$ 256
Other credit card–related intangibles	**36**	23	—
Core deposit intangibles	**623**	330	6
All other intangibles	**163**	117	32
Total amortization expense	**$ 1,525**	$ 946	$ 294

(a) Includes $14 million and $16 million for 2005 and 2004, respectively, of amortization expense related to servicing assets on securitized automobile loans, which is recorded in Asset management, administration and commissions.

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

Future amortization expense

The following table presents estimated amortization expenses related to credit card relationships, core deposits and All other intangible assets at December 31, 2005:

(in millions) Year ended December 31,	Purchased credit card relationships	Other credit card-related intangibles	Core deposit intangibles	All other intangible assets	Total
2006	$ 688	$ 16	$ 547	$ 163	$ 1,414
2007	620	15	469	145	1,249
2008	515	15	402	132	1,064
2009	372	15	329	123	839
2010	312	13	276	110	711

Note 16 – Premises and equipment

Premises and equipment, including leasehold improvements, are carried at cost less accumulated depreciation and amortization. JPMorgan Chase computes depreciation using the straight-line method over the estimated useful life of an asset. For leasehold improvements, the Firm uses the straight-line method computed over the lesser of the remaining term of the leased facility or 10 years. JPMorgan Chase has recorded immaterial asset retirement obligations related to asbestos remediation under SFAS 143 and FIN 47 in those cases where it has sufficient information to estimate the obligations' fair value.

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

Note 17 – Long-term debt

JPMorgan Chase issues long-term debt denominated in various currencies, although predominantly U.S. dollars, with both fixed and variable interest rates. The following table is a summary of long-term debt (including unamortized original issue debt discount and SFAS 133 valuation adjustments):

By remaining contractual maturity at December 31, 2005 (in millions)		Under 1 year	1–5 years	After 5 years	**2005 total**	2004 total
Parent company						
Senior debt:[a]	Fixed rate	$ 5,991	$ 14,705	$ 4,224	**$ 24,920**	$ 25,563
	Variable rate	3,574	11,049	2,291	**16,914**	15,128
	Interest rates[b]	2.80–6.88%	0.22–6.63%	1.12–8.85%	**0.22–8.85%**	0.20–7.63%
Subordinated debt:	Fixed rate	$ 758	$ 8,241	$ 15,818	**$ 24,817**	$ 22,055
	Variable rate	—	26	1,797	**1,823**	2,686
	Interest rates[b]	6.13–7.88%	4.80–10.00%	1.92–9.88%	**1.92–10.00%**	1.92–10.00%
	Subtotal	$ 10,323	$ 34,021	$ 24,130	**$ 68,474**	$ 65,432
Subsidiaries						
Senior debt:[a]	Fixed rate	$ 636	$ 3,746	$ 2,362	**$ 6,744**	$ 6,249
	Variable rate	5,364	21,632	5,013	**32,009**	22,097
	Interest rates[b]	3.00–10.95%	1.71–17.00%	1.76–13.00%	**1.71–17.00%**	1.71–13.00%
Subordinated debt:	Fixed rate	$ —	$ 845	$ 285	**$ 1,130**	$ 1,644
	Variable rate	—	—	—	**—**	—
	Interest rates[b]	—	6.13–6.70%	8.25%	**6.13–8.25%**	6.00–8.25%
	Subtotal	$ 6,000	$ 26,223	$ 7,660	**$ 39,883**	$ 29,990
Total long-term debt		$ 16,323	$ 60,244	$ 31,790	**$ 108,357**[d][e][f]	$ 95,422
FIN 46R long-term beneficial interests:[c]						
	Fixed rate	$ 80	$ 9	$ 376	**$ 465**	$ 775
	Variable rate	26	95	1,768	**1,889**	5,618
	Interest rates[b]	3.39–7.35%	0.51–7.00%	2.42–12.79%	**0.51–12.79%**	0.54–12.79%
Total FIN 46R long-term beneficial interests		$ 106	$ 104	$ 2,144	**$ 2,354**	$ 6,393

(a) Included are various equity-linked or other indexed instruments. Embedded derivatives separated from hybrid securities in accordance with SFAS 133 are reported at fair value and shown net with the host contract on the balance sheet. Changes in fair value of separated derivatives are recorded in Trading revenue.
(b) The interest rates shown are the range of contractual rates in effect at year-end, including non-U.S. dollar fixed and variable-rate issuances, which excludes the effects of related derivative instruments. The use of these derivative instruments modifies the Firm's exposure to the contractual interest rates disclosed in the table above. Including the effects of derivatives, the range of modified rates in effect at December 31, 2005, for total long-term debt was 0.49% to 17.00%, versus the contractual range of 0.22% to 17.00% presented in the table above.
(c) Included on the Consolidated balance sheets in Beneficial interests issued by consolidated variable interest entities.
(d) At December 31, 2005, long-term debt aggregating $27.7 billion was redeemable at the option of JPMorgan Chase, in whole or in part, prior to maturity, based upon the terms specified in the respective notes.
(e) The aggregate principal amount of debt that matures in each of the five years subsequent to 2005 is $16.3 billion in 2006, $17.8 billion in 2007, $23.4 billion in 2008, $11.1 billion in 2009, and $8.0 billion in 2010.
(f) Includes $2.3 billion of outstanding zero-coupon notes at December 31, 2005. The aggregate principal amount of these notes at their respective maturities is $5.9 billion.

The weighted-average contractual interest rate for total long-term debt was 4.62% and 4.50% as of December 31, 2005 and 2004, respectively. In order to modify exposure to interest rate and currency exchange rate movements, JPMorgan Chase utilizes derivative instruments, primarily interest rate and cross-currency interest rate swaps, in conjunction with some of its debt issues. The use of these instruments modifies the Firm's interest expense on the associated debt. The modified weighted-average interest rate for total long-term debt, including the effects of related derivative instruments, was 4.65% and 3.97% as of December 31, 2005 and 2004, respectively.

JPMorgan Chase & Co. (Parent Company) has guaranteed certain debt of its subsidiaries, including both long-term debt and structured notes sold as part of the Firm's trading activities. These guarantees rank on a parity with all of the Firm's other unsecured and unsubordinated indebtedness. Guaranteed liabilities totaled $170 million and $320 million at December 31, 2005 and 2004, respectively.

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

At December 31, 2005, the Firm had 22 wholly-owned Delaware statutory business trusts ("issuer trusts") that issued guaranteed preferred beneficial interests in the Firm's junior subordinated deferrable interest debentures.

The junior subordinated deferrable interest debentures issued by the Firm to the issuer trusts, totaling $11.5 billion and $10.3 billion at December 31, 2005 and 2004, respectively, were reflected in the Firm's Consolidated balance sheets in the Liabilities section under the caption "Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities." The Firm also records the common capital securities issued by the issuer trusts in Other assets in its Consolidated balance sheets at December 31, 2005 and 2004.

The debentures issued to the issuer trusts by the Firm, less the capital securities of the issuer trusts, qualify as Tier 1 capital. The following is a summary of the outstanding capital securities, net of discount, issued by each trust and the junior subordinated deferrable interest debenture issued by JPMorgan Chase to each trust as of December 31, 2005:

December 31, 2005 (in millions)	Amount of capital securities issued by trust[(a)]	Principal amount of debenture held by trust[(b)]	Issue date	Stated maturity of capital securities and debentures	Earliest redemption date	Interest rate of capital securities and debentures	Interest payment/ distribution dates
Bank One Capital III	$ 474	$ 616	2000	2030	Any time	8.75%	Semiannually
Bank One Capital V	300	335	2001	2031	2006	8.00%	Quarterly
Bank One Capital VI	525	556	2001	2031	2006	7.20%	Quarterly
Chase Capital I	600	619	1996	2026	2006	7.67%	Semiannually
Chase Capital II	495	511	1997	2027	2007	LIBOR + 0.50%	Quarterly
Chase Capital III	296	306	1997	2027	2007	LIBOR + 0.55%	Quarterly
Chase Capital VI	249	256	1998	2028	Any time	LIBOR + 0.625%	Quarterly
First Chicago NBD Capital I	248	256	1997	2027	2007	LIBOR + 0.55%	Quarterly
First Chicago NBD Institutional Capital A	499	551	1996	2026	2006	7.95%	Semiannually
First Chicago NBD Institutional Capital B	250	273	1996	2026	2006	7.75%	Semiannually
First USA Capital Trust I	3	3	1996	2027	2007	9.33%	Semiannually
JPM Capital Trust I	750	773	1996	2027	2007	7.54%	Semiannually
JPM Capital Trust II	400	412	1997	2027	2007	7.95%	Semiannually
J.P. Morgan Chase Capital IX	500	509	2001	2031	2006	7.50%	Quarterly
J.P. Morgan Chase Capital X	1,000	1,022	2002	2032	2007	7.00%	Quarterly
J.P. Morgan Chase Capital XI	1,075	1,009	2003	2033	2008	5.88%	Quarterly
J.P. Morgan Chase Capital XII	400	393	2003	2033	2008	6.25%	Quarterly
JPMorgan Chase Capital XIII	472	487	2004	2034	2014	LIBOR + 0.95%	Quarterly
JPMorgan Chase Capital XIV	600	593	2004	2034	2009	6.20%	Quarterly
JPMorgan Chase Capital XV	994	1,049	2005	2035	Any time	5.88%	Semiannually
JPMorgan Chase Capital XVI	500	501	2005	2035	2010	6.35%	Quarterly
JPMorgan Chase Capital XVII	496	499	2005	2035	Any time	5.85%	Semiannually
Total	$ 11,126	$ 11,529					

(a) Represents the amount of capital securities issued to the public by each trust, net of unamortized discount.
(b) Represents the principal amount of JPMorgan Chase debentures held as assets by each trust, net of unamortized discount amounts. The principal amount of debentures held by the trusts includes the impact of hedging and purchase accounting fair value adjustments that are recorded on the Firm's financial statements.

Note 18 – Preferred stock

JPMorgan Chase is authorized to issue 200 million shares of preferred stock, in one or more series, with a par value of $1 per share. Outstanding preferred stock at December 31, 2005 and 2004, was 280,433 and 4.28 million shares, respectively. On May 6, 2005, JPMorgan Chase redeemed a total of 4.0 million shares of its Fixed/adjustable rate, noncumulative preferred stock.

Dividends on shares of the outstanding series of preferred stock are payable quarterly. The preferred stock outstanding takes precedence over JPMorgan Chase's common stock for the payment of dividends and the distribution of assets in the event of a liquidation or dissolution of the Firm.

The following is a summary of JPMorgan Chase's preferred stock outstanding as of December 31:

(in millions, except per share amounts and rates)	Stated value and redemption price per share[(b)]	Shares		Outstanding at December 31,		Earliest redemption date	Rate in effect at December 31, 2005
		2005	2004	**2005**	2004		
6.63% Series H cumulative[(a)]	$ 500.00	**0.28**	0.28	**$ 139**	$ 139	3/31/2006	**6.63%**
Fixed/adjustable rate, noncumulative	50.00	**—**	4.00	**—**	200	—	**—**
Total preferred stock		**0.28**	4.28	**$ 139**	$ 339		

(a) Represented by depositary shares.
(b) Redemption price includes amount shown in the table plus any accrued but unpaid dividends.

Note 19 – Common stock

At December 31, 2005, JPMorgan Chase was authorized to issue 9.0 billion shares of common stock with a $1 par value per share. In connection with the Merger, the shareholders approved an increase in the amount of authorized shares of 4.5 billion from the 4.5 billion that had been authorized as of December 31, 2003. Common shares issued (newly issued or distributed from treasury) by JPMorgan Chase during 2005, 2004 and 2003 were as follows:

December 31,[(a)] (in millions)	**2005**	2004	2003
Issued – balance at January 1	**3,584.8**	2,044.4	2,023.6
Newly issued:			
Employee benefits and compensation plans	**34.0**	69.0	20.9
Employee stock purchase plans	**1.4**	3.1	0.7
Purchase accounting acquisitions and other	**—**	1,469.4	—
Total newly issued	**35.4**	1,541.5	21.6
Cancelled shares	**(2.0)**	(1.1)	(0.8)
Total issued – balance at December 31	**3,618.2**	3,584.8	2,044.4
Treasury – balance at January 1	**(28.6)**	(1.8)	(24.9)
Purchase of treasury stock	**(93.5)**	(19.3)	—
Share repurchases related to employee stock-based awards[(b)]	**(9.4)**	(7.5)	(3.0)
Issued from treasury:			
Employee benefits and compensation plans	**—**	—	25.8
Employee stock purchase plans	**—**	—	0.3
Total issued from treasury	**—**	—	26.1
Total treasury – balance at December 31	**(131.5)**	(28.6)	(1.8)
Outstanding	**3,486.7**	3,556.2	2,042.6

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) Participants in the Firm's stock-based incentive plans may have shares withheld to cover income taxes. The shares withheld amounted to 8.2 million, 5.7 million and 2.3 million for 2005, 2004 and 2003, respectively.

During 2005 and 2004, the Firm repurchased 93.5 million shares and 19.3 million shares, respectively, of common stock under a stock repurchase program that was approved by the Board of Directors on July 20, 2004. The Firm did not repurchase shares of its common stock during 2003 under a prior stock repurchase program.

As of December 31, 2005, approximately 507 million unissued shares of common stock were reserved for issuance under various employee or director incentive, compensation, option and stock purchase plans.

Note 20 – Earnings per share

SFAS 128 requires the presentation of basic and diluted earnings per share ("EPS") in the income statement. Basic EPS is computed by dividing net income applicable to common stock by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed using the same method as basic EPS but, in the denominator, the number of common shares reflect, in addition to outstanding shares, the potential dilution that could occur if convertible securities or other contracts to issue common stock were converted or exercised into common stock. Net income available for common stock is the same for basic EPS and diluted EPS, as JPMorgan Chase had no convertible securities, and therefore, no adjustments to net income available for common stock were necessary. The following table presents the calculation of basic and diluted EPS for 2005, 2004 and 2003:

Year ended December 31, (in millions, except per share amounts)[(a)]	**2005**	2004	2003
Basic earnings per share			
Net income	**$ 8,483**	$ 4,466	$ 6,719
Less: preferred stock dividends	**13**	52	51
Net income applicable to common stock	**$ 8,470**	$ 4,414	$ 6,668
Weighted-average basic shares outstanding	**3,491.7**	2,779.9	2,008.6
Net income per share	**$ 2.43**	$ 1.59	$ 3.32
Diluted earnings per share			
Net income applicable to common stock	**$ 8,470**	$ 4,414	$ 6,668
Weighted-average basic shares outstanding	**3,491.7**	2,779.9	2,008.6
Add: Broad-based options	**3.6**	5.4	4.1
Restricted stock, restricted stock units and key employee options	**62.0**	65.3	42.4
Weighted-average diluted shares outstanding	**3,557.3**	2,850.6	2,055.1
Net income per share[(b)]	**$ 2.38**	$ 1.55	$ 3.24

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) Options issued under employee benefit plans to purchase 280 million, 300 million and 335 million shares of common stock were outstanding for the years ended 2005, 2004 and 2003, respectively, but were not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of the common shares.

Note 21 – Accumulated other comprehensive income (loss)

Accumulated other comprehensive income (loss) includes the after-tax change in unrealized gains and losses on AFS securities, cash flow hedging activities and foreign currency translation adjustments (including the impact of related derivatives).

Year ended December 31,[(a)] (in millions)	Unrealized gains (losses) on AFS securities[(b)]	Translation adjustments	Cash flow hedges	Accumulated other comprehensive income (loss)
Balance at December 31, 2002	$ 731	$ (6)	$ 502	$ 1,227
Net change	(712)	—	(545)	(1,257)
Balance at December 31, 2003	19	(6)	(43)	(30)
Net change	(80)[(c)]	(2)[(d)]	(96)	(178)
Balance at December 31, 2004	(61)	(8)	(139)	(208)
Net change	**(163)**[(e)]	—[(f)]	**(255)**	**(418)**
Balance at December 31, 2005	**$ (224)**	**$ (8)**	**$ (394)**	**$ (626)**

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) Represents 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.
(c) The net change during 2004 was due primarily to rising interest rates and recognition of unrealized gains through securities sales.
(d) Includes $280 million of after-tax gains (losses) on foreign currency translation from operations for which the functional currency is other than the U.S. dollar offset by $(282) million of after-tax gains (losses) on hedges.
(e) The net change during 2005 was due primarily to higher interest rates, partially offset by the reversal of unrealized losses through securities sales.
(f) Includes $(351) million of after-tax gains (losses) on foreign currency translation from operations for which the functional currency is other than the U.S. dollar offset by $351 million of after-tax gains (losses) on hedges.

The following table presents the after-tax changes in net unrealized holdings gains (losses) and the reclassification adjustments in unrealized gains and losses on AFS securities and cash flow hedges. Reclassification adjustments include amounts recognized in net income during the current year that had been previously recorded in Other comprehensive income.

Year ended December 31, (in millions)[(a)]	**2005**	2004	2003
Unrealized gains (losses) on AFS securities:			
Net unrealized holdings gains (losses) arising during the period, net of taxes[(b)]	**$ (1,058)**	$ 41	$ 149
Reclassification adjustment for (gains) losses included in income, net of taxes[(c)]	**895**	(121)	(861)
Net change	**$ (163)**	$ (80)	$ (712)
Cash flow hedges:			
Net unrealized holdings gains (losses) arising during the period, net of taxes[(d)]	**$ (283)**	$ 34	$ 86
Reclassification adjustment for (gains) losses included in income, net of taxes[(e)]	**28**	(130)	(631)
Net change	**$ (255)**	$ (96)	$ (545)

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) Net of income tax expense (benefit) of $(648) million for 2005, $27 million for 2004 and $92 million for 2003.
(c) Net of income tax expense (benefit) of $(548) million for 2005, $79 million for 2004 and $528 million for 2003.
(d) Net of income tax expense (benefit) of $(187) million for 2005, $23 million for 2004 and $60 million for 2003.
(e) Net of income tax expense (benefit) of $(18) million for 2005 and $86 million for 2004 and $438 million for 2003.

Note 22 – Income taxes

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

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

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

December 31, (in millions)	**2005**	2004
Deferred tax assets		
Allowance for other than loan losses	**$ 3,554**	$ 3,711
Employee benefits	**3,381**	2,677
Allowance for loan losses	**2,745**	2,739
Non-U.S. operations	**807**	743
Fair value adjustments	**531**	—
Gross deferred tax assets	**$ 11,018**	$ 9,870
Deferred tax liabilities		
Depreciation and amortization	**$ 3,683**	$ 3,558
Leasing transactions	**3,158**	4,266
Fee income	**1,396**	1,162
Non-U.S. operations	**1,297**	1,144
Fair value adjustments	**—**	186
Other, net	**149**	348
Gross deferred tax liabilities	**$ 9,683**	$ 10,664
Valuation allowance	**$ 110**	$ 150
Net deferred tax asset (liability)	**$ 1,225**	$ (944)

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

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

Year ended December 31, (in millions)[(a)]	**2005**	2004	2003
Current income tax expense			
U.S. federal	**$ 4,269**	$ 1,695	$ 965
Non-U.S.	**917**	679	741
U.S. state and local	**337**	181	175
Total current expense	**5,523**	2,555	1,881
Deferred income tax (benefit) expense			
U.S. federal	**(2,063)**	(382)	1,341
Non-U.S.	**316**	(322)	14
U.S. state and local	**(44)**	(123)	73
Total deferred (benefit) expense	**(1,791)**	(827)	1,428
Total income tax expense	**$ 3,732**	$ 1,728	$ 3,309

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

The preceding table does not reflect the tax effects of unrealized gains and losses on AFS securities, SFAS 133 hedge transactions and certain tax benefits associated with the Firm's employee stock plans. The tax effect of these items is recorded directly in Stockholders' equity. Stockholders' equity increased by $425 million, $431 million and $898 million in 2005, 2004 and 2003, respectively, as a result of these tax effects.

U.S. federal income taxes have not been provided on the undistributed earnings of certain non-U.S. subsidiaries, to the extent that such earnings have been reinvested abroad for an indefinite period of time. For 2005, such earnings approximated $333 million on a pre-tax basis. At December 31, 2005, the cumulative amount of undistributed pre-tax earnings in these subsidiaries approximated $1.5 billion. It is not practicable at this time to determine the income tax liability that would result upon repatriation of these earnings.

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

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

The tax expense (benefit) applicable to securities gains and losses for the years 2005, 2004 and 2003 was $(536) million, $126 million and $477 million, respectively.

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

Year ended December 31,[a]	**2005**	2004	2003
Statutory U.S. federal tax rate	**35.0%**	35.0%	35.0%
Increase (decrease) in tax rate resulting from:			
U.S. state and local income taxes, net of federal income tax benefit	**1.6**	0.6[b]	2.1
Tax-exempt income	**(3.0)**	(4.1)	(2.4)
Non-U.S. subsidiary earnings	**(1.4)**	(1.3)	(0.7)
Business tax credits	**(3.6)**	(4.1)	(0.9)
Other, net	**2.0**	1.8	(0.1)
Effective tax rate	**30.6%**	27.9%	33.0%

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) The lower rate in 2004 was attributable to changes in the proportion of income subject to different state and local taxes.

The following table presents the U.S. and non-U.S. components of income before income tax expense:

Year ended December 31, (in millions)[a]	**2005**	2004	2003
U.S.	**$ 8,959**	$ 3,817	$ 7,333
Non-U.S.[b]	**3,256**	2,377	2,695
Income before income tax expense	**$ 12,215**	$ 6,194	$ 10,028

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) For purposes of this table, non-U.S. income is defined as income generated from operations located outside the United States of America.

Note 23 – Restrictions on cash and intercompany funds transfers

JPMorgan Chase Bank's business is subject to examination and regulation by the Office of the Comptroller of the Currency ("OCC"). The Bank is a member of the Federal Reserve System and its deposits are insured by the Federal Deposit Insurance Corporation ("FDIC").

The Federal Reserve Board requires depository institutions to maintain cash reserves with a Federal Reserve Bank. The average amount of reserve balances deposited by the Firm's bank subsidiaries with various Federal Reserve Banks was approximately $2.7 billion in 2005 and $3.8 billion in 2004.

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

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

At January 1, 2006 and 2005, JPMorgan Chase's bank subsidiaries could pay, in the aggregate, $7.4 billion and $6.2 billion, respectively, in dividends to their respective bank holding companies without prior approval of their relevant banking regulators. Dividend capacity in 2006 will be supplemented by the banks' earnings during the year.

In compliance with rules and regulations established by U.S. and non-U.S. regulators, as of December 31, 2005 and 2004, cash in the amount of $6.4 billion and $4.3 billion, respectively, and securities with a fair value of $2.1 billion and $2.7 billion, respectively, were segregated in special bank accounts for the benefit of securities and futures brokerage customers.

Note 24 – Capital

There are two categories of risk-based capital: Tier 1 capital and Tier 2 capital. Tier 1 capital includes common stockholders' equity, qualifying preferred stock and minority interest less goodwill and other adjustments. Tier 2 capital consists of preferred stock not qualifying as Tier 1, subordinated long-term debt and other instruments qualifying as Tier 2, and the aggregate allowance for credit losses up to a certain percentage of risk-weighted assets. Total regulatory capital is subject to deductions for investments in certain subsidiaries. Under the risk-based capital guidelines of the FRB, JPMorgan Chase is required to maintain minimum ratios of Tier 1 and Total (Tier 1 plus Tier 2) capital to risk-weighted assets, as well as minimum leverage ratios (which are defined as Tier 1 capital to average adjusted on–balance sheet assets). Failure to meet these minimum requirements could cause the FRB to take action. Bank subsidiaries also are subject to these capital requirements by their respective primary regulators. As of December 31, 2005 and 2004, JPMorgan Chase and all of its banking subsidiaries were well-capitalized and met all capital requirements to which each was subject.

The following table presents the risk-based capital ratios for JPMorgan Chase and the Firm's significant banking subsidiaries at December 31, 2005 and 2004:

(in millions, except ratios)	Tier 1 capital	Total capital	Risk-weighted assets[c]	Adjusted average assets[d]	Tier 1 capital ratio	Total capital ratio	Tier 1 leverage ratio
December 31, 2005							
JPMorgan Chase & Co.[a]	**$ 72,474**	**$ 102,437**	**$ 850,643**	**$ 1,152,546**	**8.5%**	**12.0%**	**6.3%**
JPMorgan Chase Bank, N.A.	**61,050**	**84,227**	**750,397**	**995,095**	**8.1**	**11.2**	**6.1**
Chase Bank USA, N.A.	**8,608**	**10,941**	**72,229**	**59,882**	**11.9**	**15.2**	**14.4**
December 31, 2004							
JPMorgan Chase & Co.[a]	$ 68,621	$ 96,807	$ 791,373	$ 1,102,456	8.7%	12.2%	6.2%
JPMorgan Chase Bank, N.A.	55,489	78,478	670,295	922,877	8.3	11.7	6.0
Chase Bank USA, N.A.	8,726	11,186	86,955	71,797	10.0	12.9	12.2
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, FDIC and OCC.
(c) Includes off–balance sheet risk-weighted assets in the amounts of $279.2 billion, $260.0 billion and $15.5 billion, respectively, at December 31, 2005, and $250.3 billion, $229.6 billion and $15.5 billion, respectively, at December 31, 2004.
(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 subsidiaries and the total adjusted carrying value of nonfinancial equity investments that are subject to deductions from Tier 1 capital.
(e) Represents requirements for bank 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.

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

December 31, (in millions)	2005	2004
Tier 1 capital		
Total stockholders' equity	**$ 107,211**	$ 105,653
Effect of net unrealized losses on AFS securities and cash flow hedging activities	**618**	200
Adjusted stockholders' equity	**107,829**	105,853
Minority interest[a]	**12,660**	11,050
Less: Goodwill	**43,621**	43,203
Investments in certain subsidiaries	**401**	370
Nonqualifying intangible assets	**3,993**	4,709
Tier 1 capital	**$ 72,474**	$ 68,621
Tier 2 capital		
Long-term debt and other instruments qualifying as Tier 2	**$ 22,733**	$ 20,690
Qualifying allowance for credit losses	**7,490**	7,798
Less: Investments in certain subsidiaries and other	**260**	302
Tier 2 capital	**$ 29,963**	$ 28,186
Total qualifying capital	**$ 102,437**	$ 96,807

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

Note 25 – Commitments and contingencies

At December 31, 2005, JPMorgan Chase and its subsidiaries were obligated under a number of noncancelable operating leases for premises and equipment used primarily for banking purposes. Certain leases contain renewal options or escalation clauses providing for increased rental payments based upon maintenance, utility and tax increases or require the Firm to perform restoration work on leased premises. No lease agreement imposes restrictions on the Firm's ability to pay dividends, engage in debt or equity financing transactions, or enter into further lease agreements.

The following table shows required future minimum rental payments under operating leases with noncancelable lease terms that expire after December 31, 2005:

Year ended December 31, (in millions)	
2006	$ 993
2007	948
2008	901
2009	834
2010	724
After	5,334
Total minimum payments required[a]	9,734
Less: Sublease rentals under noncancelable subleases	(1,323)
Net minimum payment required	$ 8,411

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

Total rental expense was as follows:

Year ended December 31, (in millions)[a]	2005	2004	2003
Gross rental expense	**$ 1,269**	$ 1,187	$ 1,061
Sublease rental income	**(192)**	(158)	(106)
Net rental expense	**$ 1,077**	$ 1,029	$ 955

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

At December 31, 2005, assets were pledged to secure public deposits and for other purposes. The significant components of the assets pledged were as follows:

December 31, (in billions)	2005	2004
Reverse repurchase/securities borrowing agreements	**$ 320**	$ 238
Securities	**24**	49
Loans	**74**	75
Other[a]	**99**	90
Total assets pledged	**$ 517**	$ 452

(a) Primarily composed of trading assets.

Litigation reserve

The Firm maintains litigation reserves for certain of its litigations, including its material legal proceedings. While the outcome of litigation is inherently uncertain, management believes, in light of all information known to it at December 31, 2005, that 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 interest of stockholders.

Note 26 – Accounting for derivative instruments and hedging activities

Derivative instruments enable end users to increase, reduce or alter exposure to credit or market risks. The value of a derivative is derived from its reference to an underlying variable or combination of variables such as equity, foreign exchange, credit, commodity or interest rate prices or indices. JPMorgan Chase makes markets in derivatives for customers and also is an end-user of derivatives in order to manage the Firm's exposure to credit and market risks.

SFAS 133, as amended by SFAS 138 and SFAS 149, establishes accounting and reporting standards for derivative instruments, including those used for trading and hedging activities, and derivative instruments embedded in other contracts. All free-standing derivatives, whether designated for hedging relationships or not, are required to be recorded on the balance sheet at fair value. The accounting for changes in value of a derivative depends on whether the contract is for trading purposes or has been designated and qualifies for hedge accounting. The majority of the Firm's derivatives are entered into for trading purposes. The Firm also uses derivatives as an end user to hedge market exposures, modify the interest rate characteristics of related balance sheet instruments or meet longer-term investment objectives. Both trading and end-user derivatives are recorded at fair value in Trading assets and Trading liabilities as set forth in Note 3 on page 94 of this Annual Report.

In order to qualify for hedge accounting, a derivative must be considered highly effective at reducing the risk associated with the exposure being hedged. Each derivative must be designated as a hedge, with documentation of the risk management objective and strategy, including identification of the hedging instrument, the hedged item and the risk exposure, and how effectiveness is to be assessed prospectively and retrospectively. The extent to which a hedging instrument is effective at achieving offsetting changes in fair value or cash flows must be assessed at least quarterly. Any ineffectiveness must be reported in current-period earnings.

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

JPMorgan Chase's fair value hedges primarily include hedges of fixed-rate long-term debt, loans, AFS securities and MSRs. Interest rate swaps are the most common type of derivative contract used to modify exposure to interest rate risk, converting fixed-rate assets and liabilities to a floating rate. Interest rate options, swaptions and forwards are also used in combination with interest rate swaps to hedge the fair value of the Firm's MSRs. For a further discussion of MSR risk management activities, see Note 15 on pages 114–116 of this Annual Report. All amounts have been included in earnings consistent with the classification of the hedged item, primarily Net interest income, Mortgage fees and related income, and Other income. The Firm did not recognize any gains or losses during 2005 on firm commitments that no longer qualify as fair value hedges.

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

The Firm uses forward foreign exchange contracts and foreign currency-denominated debt instruments to protect the value of net investments in foreign currencies in non-U.S. subsidiaries. The portion of the hedging instruments excluded from the assessment of hedge effectiveness (forward points) is recorded in Net interest income.

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

Year ended December 31, (in millions)[(a)]	2005	2004
Fair value hedge ineffective net gains/(losses)[(b)]	**$ (58)**	$ 199
Cash flow hedge ineffective net gains/(losses)[(b)]	**(2)**	—
Cash flow hedging gains on forecasted transactions that failed to occur	**—**	1

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.
(b) Includes ineffectiveness and the components of hedging instruments that have been excluded from the assessment of hedge effectiveness.

Over the next 12 months, it is expected that $44 million (after-tax) of net gains recorded in Other comprehensive income at December 31, 2005, will be recognized in earnings. The maximum length of time over which forecasted transactions are hedged is 10 years, and such transactions primarily relate to core lending and borrowing activities.

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

Note 27 – 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 fulfills its obligation under the guarantee, and the counterparty subsequently fails to perform according to the terms of the contract. Most of these commitments and guarantees expire without a default occurring or without being drawn. As a result, the total contractual amount of these instruments is not, in the Firm's view, representative of its actual future credit exposure or funding requirements. Further, certain commitments, primarily related to consumer financings, are cancelable, upon notice, at the option of the Firm.

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 12 on pages 107–108 of this Annual Report for a further discussion on the allowance for credit losses on lending-related commitments.

The following table summarizes the contractual amounts of off–balance sheet lending-related financial instruments and guarantees and the related allowance for credit losses on lending-related commitments at December 31, 2005 and 2004:

Off–balance sheet lending-related financial instruments and guarantees

	Contractual amount		Allowance for lending-related commitments	
December 31, (in millions)	**2005**	2004	**2005**	2004
Lending-related				
Consumer	**$ 655,596**	$ 601,196	**$ 15**	$ 12
Wholesale:				
Other unfunded commitments to extend credit[(a)(b)(c)]	**208,469**	185,822	**208**	183
Asset purchase agreements[(d)]	**31,095**	39,330	**3**	2
Standby letters of credit and guarantees[(a)(e)]	**77,199**	78,084	**173**	292
Other letters of credit[(a)]	**7,001**	6,163	**1**	3
Total wholesale	**323,764**	309,399	**385**	480
Total lending-related	**$ 979,360**	$ 910,595	**$ 400**	$ 492
Other guarantees				
Securities lending guarantees[(f)]	**$ 244,316**	$ 220,783	**NA**	NA
Derivatives qualifying as guarantees	**61,759**	53,312	**NA**	NA

(a) Represents contractual amount net of risk participations totaling $29.3 billion and $26.4 billion at December 31, 2005 and 2004, respectively.
(b) Includes unused advised lines of credit totaling $28.3 billion and $22.8 billion at December 31, 2005 and 2004, respectively, which are not legally binding. In regulatory filings with the FRB, unused advised lines are not reportable.
(c) Excludes unfunded commitments to private third-party equity funds of $242 million and $563 million at December 31, 2005 and 2004, respectively.
(d) Represents asset purchase agreements to the Firm's administered multi-seller asset-backed commercial paper conduits, which excludes $32.4 billion and $31.7 billion at December 31, 2005 and 2004, respectively, related to conduits that were consolidated in accordance with FIN 46R, as the underlying assets of the conduits are reported in the Firm's Consolidated balance sheets. It also includes $1.3 billion of asset purchase agreements to other third-party entities at December 31, 2005 and $7.5 billion of asset purchase agreements to structured wholesale loan vehicles and other third-party entities at December 31, 2004.
(e) Includes unused commitments to issue standby letters of credit of $37.5 billion and $38.4 billion at December 31, 2005 and 2004, respectively.
(f) Collateral held by the Firm in support of securities lending indemnification agreements was $245.0 billion and $221.6 billion at December 31, 2005 and 2004, respectively.

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

The fair value at inception of the obligation undertaken when issuing the guarantees and commitments that qualify under FIN 45 is typically equal to the net present value of the future amount of premium receivable under the contract. The Firm has recorded this amount in Other Liabilities with an offsetting entry recorded in Other Assets. As cash is received under the contract, it is applied to the premium receivable recorded in Other Assets, and the fair value of the liability recorded at inception is amortized into income as Lending & deposit related fees over the life of the guarantee contract. The amount of the liability related to FIN 45 guarantees recorded at December 31, 2005 and 2004, excluding the allowance for credit losses on lending-related commitments and derivative contracts discussed below, was approximately $313 million and $341 million, respectively.

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

The majority of the Firm's unfunded commitments are not guarantees as defined in FIN 45, except for certain asset purchase agreements that are principally used as a mechanism to provide liquidity to SPEs, primarily multi-seller conduits, as described in Note 14 on pages 111–113 of this Annual Report. Some of these asset purchase agreements can be exercised at any time by the SPE's administrator, while others require a triggering event to occur. Triggering events include, but are not limited to, a need for liquidity, a market value decline of the assets or a downgrade in the rating of JPMorgan Chase Bank. These agreements may cause the Firm to purchase an asset from the SPE at an amount above the asset's fair value, in effect providing a guarantee of the initial value of the reference asset as of the date of the agreement. In most instances, third-party credit enhancements of the SPE mitigate the Firm's potential losses on these agreements.

Standby letters of credit and financial guarantees are conditional lending commitments issued by JPMorgan Chase to guarantee the performance of a customer to a third party under certain arrangements, such as commercial paper facilities, bond financings, acquisition financings, trade and similar transactions. Approximately 58% of these arrangements mature within three years. The Firm typically has recourse to recover from the customer any amounts paid under these guarantees; in addition, the Firm may hold cash or other highly liquid collateral to support these guarantees. At December 31, 2005 and 2004, the Firm held collateral relating to $9.0 billion and $7.4 billion, respectively, of these arrangements.

The Firm holds customers' securities under custodial arrangements. At times, these securities are loaned to third parties, and the Firm issues securities lending indemnification agreements to the customer that protect the customer against the risk of loss if the third party fails to return the securities. To support these indemnification agreements, the Firm obtains from the third party cash or other highly liquid collateral with a market value exceeding 100% of the value of the loaned securities. If the third-party borrower fails to return the securities, the Firm would use the collateral to purchase the securities in the market and would be exposed if the value of the collateral fell below 100%. The Firm invests third-party cash collateral received in support of the indemnification agreements. In a few cases where the cash collateral is invested in resale agreements, the Firm indemnifies the third party against reinvestment risk. At December 31, 2005 and 2004, the Firm held $245.0 billion and $221.6 billion, respectively, in collateral in support of securities lending indemnification arrangements. Based upon historical experience, management expects the risk of loss to be remote.

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

As part of the Firm's loan securitization activities, as described in Note 13 on pages 108–111 of this Annual Report, the Firm provides representations and warranties that certain securitized loans meet specific requirements. The Firm may be required to repurchase the loans and/or indemnify the purchaser of the loans against losses due to any breaches of such representations or warranties. Generally, the maximum amount of future payments the Firm would be required to make under such repurchase and/or indemnification provisions would be equal to the current amount of assets held by such securitization-related SPEs as of December 31, 2005, plus, in certain circumstances, accrued and unpaid interest on such loans and certain expenses. The potential loss due to such repurchase and/or indemnity is mitigated by the due diligence the Firm performs before the sale to ensure that the assets comply with the requirements set forth in the representations and warranties. Historically, losses incurred on such repurchases and/or indemnifications have been insignificant, and therefore management expects the risk of material loss to be remote.

The Firm is a partner with one of the leading companies in electronic payment services in a joint venture operating under the name of Chase Paymentech Solutions, LLC (the "joint venture"). The joint venture was formed in October 2005 as a result of an agreement to integrate the Firm's jointly-owned Chase Merchant Services ("CMS") and Paymentech merchant businesses, the latter of which was acquired as a result of the Merger. The joint venture provides merchant processing services in the United States and Canada. The joint venture is liable contingently for processed credit card sales transactions in the event of a dispute between the cardmember and a merchant. If a dispute is resolved in the cardmember's favor, the joint venture will credit or refund the amount to the cardmember and charge back the transaction to the merchant. If the joint venture is unable to collect the amount from the merchant, the joint venture will bear the loss for the amount credited or refunded to the cardmember. The joint venture mitigates this risk by withholding settlement, or by obtaining escrow deposits or letters of credit from certain merchants. However, in the unlikely event that: 1) a merchant ceases operations and is unable to deliver products, services or a refund; 2) the joint venture does not have sufficient collateral from the merchants to provide customer refunds; and 3) the joint venture does not have sufficient financial resources to provide customer refunds, the Firm would be liable to refund the cardholder in proportion to its approximate equity interest in the joint venture. For the year ended December 31, 2005, the joint venture, along with the integrated businesses of CMS and Paymentech, incurred aggregate credit losses of $11 million on $563 billion of aggregate volume processed, of which the Firm shared liability only on $200 billion of aggregate volume processed. At December 31, 2005, the joint venture held $909 million of collateral. In 2004, the CMS and Paymentech ventures incurred aggregate credit losses of $7.1 million on $396 billion of aggregate volume processed, of which the Firm shared liability only on $205 billion of aggregate volume processed. At December 31, 2004, the CMS and Paymentech ventures held $620 million of collateral. The Firm believes that, based upon historical experience and the collateral held by the joint venture, the fair value of the guarantee would not be different materially from the credit loss allowance recorded by the joint venture; therefore, the Firm has not recorded any allowance for losses in excess of the allowance recorded by the joint venture.

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

In addition to the contracts described above, there are certain derivative contracts to which the Firm is a counterparty that meet the characteristics of a guarantee under FIN 45. These derivatives are recorded on the Consolidated balance sheets at fair value. These contracts include written put options that require the Firm to purchase assets from the option holder at a specified price by a specified date in the future, as well as derivatives that effectively guarantee the return on a counterparty's reference portfolio of assets. The total notional value of the derivatives that the Firm deems to be guarantees was $62 billion and $53 billion at December 31, 2005 and 2004, respectively. The Firm reduces exposures to these contracts by entering into offsetting transactions or by entering into contracts that hedge the market risk related to these contracts. The fair value related to these contracts was a derivative receivable of $198 million and $180 million, and a derivative payable of $767 million and $622 million at December 31, 2005 and 2004, respectively. Finally, certain written put options and credit derivatives permit cash settlement and do not require the option holder or the buyer of credit protection to own the reference asset. The Firm does not consider these contracts to be guarantees as described in FIN 45.

Note 28 – Credit risk concentrations

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

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

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

For further information regarding on–balance sheet credit concentrations by major product and geography, see Note 11 on page 106 of this Annual Report. For information regarding concentrations of off–balance sheet lending-related financial instruments by major product, see Note 27 on page 124 of this Annual Report. More information about concentrations can be found in the following tables or discussion in the MD&A:

Wholesale exposure	Page 65
Wholesale selected industry concentrations	Page 66
Country exposure	Page 70
Consumer real estate loan portfolio by geographic location	Page 72

The table below presents both on-balance sheet and off-balance sheet wholesale- and consumer-related credit exposure as of December 31, 2005 and 2004:

	2005			2004		
December 31, (in billions)	Credit exposure[b]	On-balance sheet[b][c]	Off-balance sheet[d]	Credit exposure[b]	On-balance sheet[b][c]	Off-balance sheet[d]
Wholesale-related:						
Banks and finance companies	**$ 53.7**	**$ 20.3**	**$ 33.4**	$ 56.2	$ 25.7	$ 30.5
Real estate	**32.5**	**19.0**	**13.5**	28.2	16.7	11.5
Consumer products	**26.7**	**10.0**	**16.7**	21.4	7.1	14.3
Healthcare	**25.5**	**4.7**	**20.8**	22.0	4.5	17.5
State and municipal governments	**25.3**	**6.1**	**19.2**	19.8	4.1	15.7
All other wholesale	**389.7**	**169.5**	**220.2**	394.6	174.7	219.9
Total wholesale-related	**553.4**	**229.6**	**323.8**	542.2	232.8	309.4
Consumer-related:						
Home finance	**198.6**	**133.5**	**65.1**	177.9	124.7	53.2
Auto & education finance	**54.7**	**49.0**	**5.7**	67.9	62.7	5.2
Consumer & small business and other	**20.3**	**14.8**	**5.5**	25.4	15.1	10.3
Credit card receivables[a]	**651.0**	**71.7**	**579.3**	597.0	64.5	532.5
Total consumer-related	**924.6**	**269.0**	**655.6**	868.2	267.0	601.2
Total exposure	**$ 1,478.0**	**$ 498.6**	**$ 979.4**	$ 1,410.4	$ 499.8	$ 910.6

(a) Excludes $70.5 billion and $70.8 billion of securitized credit card receivables at December 31, 2005 and 2004, respectively.
(b) Includes HFS loans.
(c) Represents loans, derivative receivables and interests in purchased receivables.
(d) Represents lending-related financial instruments.

Note 29 – Fair value of financial instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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

- at fair value on the Consolidated balance sheets, with changes in fair value recorded each period in the Consolidated statements of income;
- at fair value on the Consolidated balance sheets, with changes in fair value recorded each period in a separate component of Stockholders' equity and as part of Other comprehensive income;
- at cost (less other-than-temporary impairments), with changes in fair value not recorded in the consolidated financial statements but disclosed in the notes thereto; or
- at the lower of cost or fair value.

The Firm has an established and well-documented process for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon internally-developed models that primarily use market-based or independent information as inputs to the valuation model. Valuation adjustments may be necessary to ensure that financial instruments are recorded at fair value. These adjustments include amounts to reflect counterparty credit quality, liquidity and concentration concerns and are based upon defined methodologies that are applied consistently over time.

- Credit valuation adjustments are necessary when the market price (or parameter) is not indicative of the credit quality of the counterparty. As few 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 a AA credit rating; thus, all counterparties are assumed to have the same credit quality. An adjustment is therefore necessary to reflect the credit quality of each derivative counterparty and to arrive at fair value. Without this adjustment, derivative positions would not be appropriately valued.

- Liquidity 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. Thus, valuation adjustments for risk of loss due to a lack of liquidity are applied to those positions to arrive at fair value. The Firm tries to ascertain the amount of uncertainty in the initial valuation based upon the liquidity or illiquidity, as the case may be, of the market in which the instrument trades and makes liquidity adjustments to the financial instruments. 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.
- Concentration valuation adjustments are necessary to reflect the cost of unwinding larger-than-normal market-size risk positions. The cost is 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. An estimate of the period needed to reduce, without market disruption, a position to a nonconcentrated level is generally based upon the relationship of the position to the average daily trading volume of that position. Without these adjustments, larger positions would be valued at a price greater than the price at which the Firm could exit the positions.

Valuation adjustments are determined based upon established policies and are controlled by a price verification group independent of the risk-taking function. Economic substantiation of models, prices, market inputs and revenue through price/input testing, as well as backtesting, is done to validate the appropriateness of the valuation methodology. Any changes to the valuation methodology are reviewed by management to ensure the changes are justified.

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, the use of different methodologies to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Certain financial instruments and all nonfinancial instruments are excluded from the scope of SFAS 107. Accordingly, the fair value disclosures required by SFAS 107 provide only a partial estimate of the fair value of JPMorgan Chase. For example, the Firm has developed long-term relationships with its customers through its deposit base and credit card accounts, commonly referred to as core deposit intangibles and credit card relationships. In the opinion of management, these items, in the aggregate, add significant value to JPMorgan Chase, but their fair value is not disclosed in this Note.

The following items describe the methodologies and assumptions used, by financial instrument, to determine fair value.

Financial assets

Assets for which fair value approximates carrying value

The Firm considers fair values of certain financial assets carried at cost – including cash and due from banks, deposits with banks, securities borrowed, short-term receivables and accrued interest receivable – to approximate their respective carrying values, due to their short-term nature and generally negligible credit risk.

Assets where fair value differs from cost

The Firm's debt, equity and derivative trading instruments are carried at their estimated fair value. Quoted market prices, when available, are used to determine the fair value of trading instruments. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of instruments with similar characteristics, or discounted cash flows.

Federal funds sold and securities purchased under resale agreements

Federal funds sold and securities purchased under resale agreements are typically short-term in nature and, as such, for a significant majority of the Firm's transactions, cost approximates carrying value. This balance sheet item also includes structured resale agreements and similar products with long-dated maturities. To estimate the fair value of these instruments, cash flows are discounted using the appropriate market rates for the applicable maturity.

Securities

Fair values of actively traded securities are determined by the secondary market, while the fair values for nonactively traded securities are based upon independent broker quotations.

Derivatives

Fair value for derivatives is determined based upon the following:

- position valuation, principally based upon liquid market pricing as evidenced by exchange-traded prices, broker-dealer quotations or related input parameters, which assume all counterparties have the same credit rating;
- credit valuation adjustments to the resulting portfolio valuation, to reflect the credit quality of individual counterparties; and
- other fair value adjustments to take into consideration liquidity, concentration and other factors.

For those derivatives valued based upon models with significant unobservable market parameters, the Firm defers the initial trading profit for these financial instruments. The deferred profit is recognized in Trading revenue on a systematic basis (typically straight-line amortization over the life of the instruments) and when observable market data becomes available.

The fair value of derivative payables does not incorporate a valuation adjustment to reflect JPMorgan Chase's credit quality.

Interests in purchased receivables

The fair value of variable-rate interests in purchased receivables approximate their respective carrying amounts due to their variable interest terms and negligible credit risk. The estimated fair values for fixed-rate interests in purchased receivables are determined using a discounted cash flow analysis using appropriate market rates for similar instruments.

Loans

Fair value for loans is determined using methodologies suitable for each type of loan:

- Fair value for the wholesale loan portfolio is estimated primarily, using the cost of credit derivatives, which is adjusted to account for the differences in recovery rates between bonds, upon which the cost of credit derivatives is based, and loans.
- Fair values for consumer installment loans (including automobile financings) and consumer real estate, for which market rates for comparable loans are readily available, are based upon discounted cash flows adjusted for prepayments. The discount rates used for consumer installment loans are current rates offered by commercial banks. For consumer real estate, secondary market yields for comparable mortgage-backed securities, adjusted for risk, are used.
- Fair value for credit card receivables is based upon discounted expected cash flows. The discount rates used for credit card receivables incorporate only the effects of interest rate changes, since the expected cash flows already reflect an adjustment for credit risk.

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

Other assets

Commodities inventory is carried at the lower of cost or fair value. For the majority of commodities inventory, fair value is determined by reference to prices in highly active and liquid markets. The fair value for other commodities inventory is determined primarily using pricing and other data derived from less liquid and developing markets where the underlying commodities are traded. This caption also includes private equity investments and MSRs. For a discussion of the fair value methodology for private equity investments, see Note 9 on page 105 of this Annual Report.

For a discussion of the fair value methodology for MSRs, see Note 15 on pages 114–116 of this Annual Report.

Financial liabilities

Liabilities for which fair value approximates carrying value

SFAS 107 requires that the fair value for deposit liabilities with no stated maturity (i.e., demand, savings and certain money market deposits) be equal to their carrying value. SFAS 107 does not allow for the recognition of the inherent funding value of these instruments.

Fair value of commercial paper, other borrowed funds, accounts payable and accrued liabilities is considered to approximate their respective carrying values due to their short-term nature.

Interest-bearing deposits

Fair values of interest-bearing deposits are estimated by discounting cash flows based upon the remaining contractual maturities of funds having similar interest rates and similar maturities.

Federal funds purchased and securities sold under repurchase agreements

Federal funds purchased and securities sold under repurchase agreements are typically short-term in nature; as such, for a significant majority of these transactions, cost approximates carrying value. This balance sheet item also includes structured repurchase agreements and similar products with long-dated maturities. To estimate the fair value of these instruments, the cash flows are discounted using the appropriate market rates for the applicable maturity.

Beneficial interests issued by consolidated VIEs

Beneficial interests issued by consolidated VIEs ("beneficial interests") are generally short-term in nature and, as such, for a significant majority of the Firm's transactions, cost approximates carrying value. The Consolidated balance sheets also include beneficial interests with long-dated maturities. The fair value of these instruments is based upon current market rates.

Long-term debt-related instruments

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

Lending-related commitments

Although there is no liquid secondary market for wholesale commitments, the Firm estimates the fair value of its wholesale lending-related commitments primarily using the cost of credit derivatives (which is adjusted to account for the difference in recovery rates between bonds, upon which the cost of credit derivatives is based, and loans) and loan equivalents (which represent the portion of an unused commitment expected, based upon the Firm's average portfolio historical experience, to become outstanding in the event an obligor defaults). The Firm estimates the fair value of its consumer commitments to extend credit based upon the primary market prices to originate new commitments. It is the change in current primary market prices that provides the estimate of the fair value of these commitments. On this basis, at December 31, 2005, the estimated fair value of the Firm's lending-related commitments was a liability of $0.5 billion, compared with $0.1 billion at December 31, 2004.

The following table presents the carrying value and estimated fair value of financial assets and liabilities valued under SFAS 107; accordingly, certain assets and liabilities that are not considered financial instruments are excluded from the table.

	2005			2004		
December 31, (in billions)	Carrying value	Estimated fair value	Appreciation/ (depreciation)	Carrying value	Estimated fair value	Appreciation/ (depreciation)
Financial assets						
Assets for which fair value approximates carrying value	**$ 155.4**	**$ 155.4**	**$ —**	$ 125.7	$ 125.7	$ —
Federal funds sold and securities purchased under resale agreements	**134.0**	**134.3**	**0.3**	101.4	101.3	(0.1)
Trading assets	**298.4**	**298.4**	**—**	288.8	288.8	—
Securities	**47.6**	**47.6**	**—**	94.5	94.5	—
Loans: Wholesale, net of allowance for loan losses	**147.7**	**150.2**	**2.5**	132.0	134.6	2.6
Consumer, net of allowance for loan losses	**264.4**	**262.7**	**(1.7)**	262.8	262.5	(0.3)
Interests in purchased receivables	**29.7**	**29.7**	**—**	31.7	31.8	0.1
Other assets	**53.4**	**54.7**	**1.3**	50.4	51.1	0.7
Total financial assets	**$ 1,130.6**	**$ 1,133.0**	**$ 2.4**	$ 1,087.3	$ 1,090.3	$ 3.0
Financial liabilities						
Liabilities for which fair value approximates carrying value	**$ 241.0**	**$ 241.0**	**$ —**	$ 228.8	$ 228.8	$ —
Interest-bearing deposits	**411.9**	**411.7**	**0.2**	385.3	385.5	(0.2)
Federal funds purchased and securities sold under repurchase agreements	**125.9**	**125.9**	**—**	127.8	127.8	—
Trading liabilities	**145.9**	**145.9**	**—**	151.2	151.2	—
Beneficial interests issued by consolidated VIEs	**42.2**	**42.1**	**0.1**	48.1	48.0	0.1
Long-term debt-related instruments	**119.9**	**120.6**	**(0.7)**	105.7	107.7	(2.0)
Total financial liabilities	**$ 1,086.8**	**$ 1,087.2**	**$ (0.4)**	$ 1,046.9	$ 1,049.0	$ (2.1)
Net appreciation			**$ 2.0**			$ 0.9

Note 30 – International operations

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

As the Firm's operations are highly integrated, estimates and subjective assumptions have been made to apportion revenue and expense between U.S. and international operations. These estimates and assumptions are consistent with the allocations used for the Firm's segment reporting as set forth in Note 31 on pages 130–131 of this Annual Report.

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

For the year ended December 31, (in millions)(a)	Revenue(b)	Expense(c)	Income before income taxes	Net income
2005				
Europe/Middle East and Africa	**$ 7,708**	**$ 5,454**	**$ 2,254**	**$ 1,547**
Asia and Pacific	**2,840**	**2,048**	**792**	**509**
Latin America and the Caribbean	**969**	**497**	**472**	**285**
Other	**165**	**89**	**76**	**44**
Total international	**11,682**	**8,088**	**3,594**	**2,385**
Total U.S.	**42,851**	**34,230**	**8,621**	**6,098**
Total	**$ 54,533**	**$ 42,318**	**$ 12,215**	**$ 8,483**
2004				
Europe/Middle East and Africa	$ 6,566	$ 4,635	$ 1,931	$ 1,305
Asia and Pacific	2,631	1,766	865	547
Latin America and the Caribbean	816	411	405	255
Other	112	77	35	25
Total international	10,125	6,889	3,236	2,132
Total U.S.	32,972	30,014	2,958	2,334
Total	$ 43,097	$ 36,903	$ 6,194	$ 4,466
2003				
Europe/Middle East and Africa	$ 6,344	$ 4,076	$ 2,268	$ 1,467
Asia and Pacific	1,902	1,772	130	91
Latin America and the Caribbean	1,000	531	469	287
Other	50	17	33	34
Total international	9,296	6,396	2,900	1,879
Total U.S.	24,088	16,960	7,128	4,840
Total	$ 33,384	$ 23,356	$ 10,028	$ 6,719

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only.
(b) Revenue is composed of Net interest income and noninterest revenue.
(c) Expense is composed of Noninterest expense and Provision for credit losses.

Note 31 – Business segments

JPMorgan Chase is organized into six major reportable business segments (the Investment Bank, Retail Financial Services, Card Services, Commercial Banking, Treasury & Securities Services and Asset & Wealth Management), as well as a Corporate segment. The segments are based upon the products and services provided or the type of customer served, and they reflect the manner in which financial information is currently evaluated by management. Results of these lines of business are presented on an operating basis. For a definition of operating basis, see the footnotes to the table below. For a further discussion concerning JPMorgan Chase's business segments, see Business segment results on pages 34–35 of this Annual Report.

In the third quarter of 2004, in connection with the Merger, business segment reporting was realigned to reflect the new business structure of the combined Firm. Treasury was transferred from the Investment Bank into Corporate. The segment formerly known as Chase Financial Services had been comprised of Chase Home Finance, Chase Cardmember Services, Chase Auto Finance, Chase Regional Banking and Chase Middle Market; as a result of the Merger, this segment is now called Retail Financial Services and is comprised of Home Finance, Auto & Education Finance, Consumer & Small Business Banking and Insurance. Chase Cardmember Services is now its own segment called Card Services, and Chase Middle Market moved into Commercial Banking. Investment Management & Private Banking was renamed Asset & Wealth Management. JPMorgan Partners, which formerly was a stand-alone business segment, was moved into Corporate. Corporate currently comprises Private Equity (JPMorgan Partners and ONE Equity Partners) and Treasury, and the

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

Year ended December 31,(b)	Investment Bank(d)			Retail Financial Services			Card Services(e)			Commercial Banking		
(in millions, except ratios)	**2005**	2004	2003	**2005**	2004	2003	**2005**	2004	2003	**2005**	2004	2003
Noninterest revenue	**$ 13,168**	$ 11,280	$ 11,017	**$ 4,625**	$ 3,077	$ 2,208	**$ 3,563**	$ 2,371	$ 1,092	**$ 986**	$ 682	$ 393
Net interest income	**1,410**	1,325	1,667	**10,205**	7,714	5,220	**11,803**	8,374	5,052	**2,610**	1,692	959
Total net revenue	**14,578**	12,605	12,684	**14,830**	10,791	7,428	**15,366**	10,745	6,144	**3,596**	2,374	1,352
Provision for credit losses	**(838)**	(640)	(181)	**724**	449	521	**7,346**	4,851	2,904	**73**	41	6
Credit reimbursement (to)/from TSS(c)	**154**	90	(36)	**—**	—	—	**—**	—	—	**—**	—	—
Merger costs	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—
Litigation reserve charge	**—**	—	100	**—**	—	—	**—**	—	—	**—**	—	—
Other noninterest expense	**9,739**	8,696	8,202	**8,585**	6,825	4,471	**4,999**	3,883	2,178	**1,872**	1,343	822
Total noninterest expense	**9,739**	8,696	8,302	**8,585**	6,825	4,471	**4,999**	3,883	2,178	**1,872**	1,343	822
Income (loss) before income tax expense	**5,831**	4,639	4,527	**5,521**	3,517	2,436	**3,021**	2,011	1,062	**1,651**	990	524
Income tax expense (benefit)	**2,173**	1,691	1,722	**2,094**	1,318	889	**1,114**	737	379	**644**	382	217
Net income (loss)	**$ 3,658**	$ 2,948	$ 2,805	**$ 3,427**	$ 2,199	$ 1,547	**$ 1,907**	$ 1,274	$ 683	**$ 1,007**	$ 608	$ 307
Average equity	**$ 20,000**	$ 17,290	$ 18,350	**$ 13,383**	$ 9,092	$ 4,220	**$ 11,800**	$ 7,608	$ 3,440	**$ 3,400**	$ 2,093	$ 1,059
Average assets	**598,118**	473,121	436,488	**226,368**	185,928	147,435	**141,933**	94,741	51,406	**56,561**	36,435	16,460
Return on average equity	**18%**	17%	15%	**26%**	24%	37%	**16%**	17%	20%	**30%**	29%	29%
Overhead ratio	**67**	69	65	**58**	63	60	**33**	36	35	**52**	57	61

(a) In addition to analyzing the Firm's results on a reported basis, management reviews the line of business results on an "operating basis," which is a non-GAAP financial measure. The definition of operating basis starts with the reported U.S. GAAP results. In the case of the Investment Bank, operating basis noninterest revenue includes, in Trading revenue, Net interest income ("NII") related to trading activities. In the case of Card Services, refer to footnote (e). These adjustments do not change JPMorgan Chase's reported net income. Operating basis also excludes Merger costs, nonoperating Litigation reserve charges and accounting policy conformity adjustments, as management believes these items are not part of the Firm's normal daily business operations (and, therefore, not indicative of trends) and do not provide meaningful comparisons with other periods. Finally, operating results reflect revenues (Noninterest revenue and NII) on a tax-equivalent basis. Refer to footnote (f) for the impact of these adjustments.

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

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

(d) Segment operating results include the reclassification of NII related to trading activities to Trading revenue within Noninterest revenue, which impacts primarily the Investment Bank. Trading-related NII reclassified to Trading revenue was $159 million, $2.0 billion and $2.1 billion in 2005, 2004 and 2003, respectively. These amounts are eliminated in Corporate/reconciling items to arrive at NII and Noninterest revenue on a reported GAAP basis for JPMorgan Chase.

(e) Operating results for Card Services exclude the impact of credit card securitizations on 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 the credit card portfolio. These adjustments are eliminated in Corporate/reconciling items to arrive at the Firm's reported GAAP results. The related securitization adjustments were as follows:

Year ended December 31, (in millions)(b)	**2005**	2004	2003
Net interest income	**$ 6,494**	$ 5,251	$ 3,320
Noninterest revenue	**(2,718)**	(2,353)	(1,450)
Provision for credit losses	**3,776**	2,898	1,870
Average assets	**67,180**	51,084	32,365

corporate support areas, which include Central Technology and Operations, Audit, Executive Office, Finance, Human Resources, Marketing & Communications, Office of the General Counsel, Corporate Real Estate and General Services, Risk Management, and Strategy and Development. Beginning January 1, 2006, TSS will report results for two divisions: TS and WSS. WSS was formed by consolidating IS and ITS.

The following table provides a summary of the Firm's segment results for 2005, 2004 and 2003 on an operating basis. The impact of credit card securitizations, Merger costs, nonoperating Litigation reserve charges and accounting policy conformity adjustments have been included in Corporate/reconciling items so that the total Firm results are on a reported basis. Finally, commencing with the first quarter of 2005, operating revenue (noninterest revenue and net interest income) for each of the segments and the Firm is presented on a tax-equivalent basis. Accordingly, revenue from tax exempt securities and investments that receive tax credits are presented in the operating results on a basis comparable to taxable securities and investments. This 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. The Corporate sector's and the Firm's operating revenue and income tax expense for the periods prior to the first quarter of 2005 have been restated to be presented similarly on a tax-equivalent basis. This restatement had no impact on the Corporate sector's or the Firm's operating earnings. Segment results for periods prior to July 1, 2004, reflect heritage JPMorgan Chase–only results and have been restated to reflect the current business segment organization and reporting classifications.

(table continued from previous page)

Treasury & Securities Services			Asset & Wealth Management			Corporate/ reconciling items[(d)(e)(f)]			Total		
2005	2004	2003	**2005**	2004	2003	**2005**	2004	2003	**2005**	2004	2003
$ 4,179	$ 3,474	$ 2,661	**$ 4,583**	$ 3,383	$ 2,482	**$ 3,598**	$ 2,069	$ 566	**$ 34,702**	$ 26,336	$ 20,419
2,062	1,383	947	**1,081**	796	488	**(9,340)**	(4,523)	(1,368)	**19,831**	16,761	12,965
6,241	4,857	3,608	**5,664**	4,179	2,970	**(5,742)**	(2,454)	(802)	**54,533**	43,097	33,384
—	7	1	**(56)**	(14)	35	**(3,766)**	(2,150)[(g)]	(1,746)	**3,483**	2,544	1,540
(154)	(90)	36	**—**	—	—	**—**	—	—	**—**	—	—
—	—	—	**—**	—	—	**722**[(h)]	1,365[(h)]	—	**722**	1,365	—
—	—	—	**—**	—	—	**2,564**	3,700	—	**2,564**	3,700	100
4,470	4,113	3,028	**3,860**	3,133	2,486	**2,024**	1,301	529	**35,549**	29,294	21,716
4,470	4,113	3,028	**3,860**	3,133	2,486	**5,310**	6,366	529	**38,835**	34,359	21,816
1,617	647	615	**1,860**	1,060	449	**(7,286)**	(6,670)	415	**12,215**	6,194	10,028
580	207	193	**644**	379	162	**(3,517)**	(2,986)	(253)	**3,732**	1,728	3,309
$ 1,037	$ 440	$ 422	**$ 1,216**	$ 681	$ 287	**$ (3,769)**	$ (3,684)	$ 668	**$ 8,483**	$ 4,466	$ 6,719
$ 1,900	$ 2,544	$ 2,738	**$ 2,400**	$ 3,902	$ 5,507	**$ 52,624**	$ 33,112	$ 7,674	**$ 105,507**	$ 75,641	$ 42,988
26,947	23,430	18,379	**41,599**	37,751	33,780	**93,540**	111,150	72,030	**1,185,066**	962,556	775,978
55%	17%	15%	**51%**	17%	5%	**NM**	NM	NM	**8%**	6%	16%
72	85	84	**68**	75	84	**NM**	NM	NM	**71**	80	65

(f) Segment operating results reflect revenues on a tax-equivalent basis with the corresponding income tax impact recorded within income tax expense. Tax-equivalent adjustments were as follows:

Year ended December 31, (in millions)[(b)]	**2005**	2004	2003
Net interest income	**$ 269**	$ 6	$ 44
Noninterest revenue	**571**	317	89
Income tax expense	**840**	323	133

These adjustments are eliminated in Corporate/reconciling items to arrive at the Firm's reported GAAP results.

(g) Includes $858 million of accounting policy conformity adjustments consisting of approximately $1.4 billion related to the decertification of the seller's retained interest in credit card securitizations, partially offset by a benefit of $584 million related to conforming wholesale and consumer provision methodologies for the combined Firm.

(h) Merger costs attributed to the lines of business for 2005 and 2004 were as follows (there were no merger costs in 2003):

Year ended December 31, (in millions)[(b)]	**2005**	2004
Investment Bank	**$ 32**	$ 74
Retail Financial Services	**133**	201
Card Services	**222**	79
Commercial Banking	**3**	23
Treasury & Securities Services	**95**	68
Asset & Wealth Management Services	**60**	31
Corporate	**177**	889

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Note 32 – Parent company

Parent company – statements of income

Year ended December 31, (in millions)[a]	2005	2004	2003
Income			
Dividends from bank and bank holding company subsidiaries	**$ 2,361**	$ 1,208	$ 2,436
Dividends from nonbank subsidiaries[b]	**791**	773	2,688
Interest income from subsidiaries	**2,369**	1,370	945
Other interest income	**209**	137	130
Other income from subsidiaries, primarily fees:			
Bank and bank holding company	**246**	833	632
Nonbank	**462**	499	385
Other income	**13**	204	(25)
Total income	**6,451**	5,024	7,191
Expense			
Interest expense to subsidiaries[b]	**846**	603	422
Other interest expense	**3,076**	1,834	1,329
Compensation expense	**369**	353	348
Other noninterest expense	**496**	1,105	747
Total expense	**4,787**	3,895	2,846
Income before income tax benefit and undistributed net income of subsidiaries	**1,664**	1,129	4,345
Income tax benefit	**852**	556	474
Equity in undistributed net income (loss) of subsidiaries	**5,967**	2,781	1,900
Net income	**$ 8,483**	$ 4,466	$ 6,719

Parent company – balance sheets

December 31, (in millions)	2005	2004
Assets		
Cash with banks, primarily with bank subsidiaries	**$ 461**	$ 513
Deposits with banking subsidiaries	**9,452**	10,703
Securities purchased under resale agreements, primarily with nonbank subsidiaries	**24**	—
Trading assets	**7,548**	3,606
Available-for-sale securities	**285**	2,376
Loans	**338**	162
Advances to, and receivables from, subsidiaries:		
Bank and bank holding company	**22,673**	19,076
Nonbank	**31,342**	34,456
Investment (at equity) in subsidiaries:		
Bank and bank holding company	**110,745**	105,599
Nonbank[b]	**21,367**	17,701
Goodwill and other intangibles	**804**	890
Other assets	**10,553**	11,557
Total assets	**$ 215,592**	$ 206,639
Liabilities and stockholders' equity		
Borrowings from, and payables to, subsidiaries[b]	**$ 16,511**	$ 14,195
Other borrowed funds, primarily commercial paper	**15,675**	15,050
Other liabilities	**7,721**	6,309
Long-term debt[c]	**68,474**	65,432
Total liabilities	**108,381**	100,986
Stockholders' equity	**107,211**	105,653
Total liabilities and stockholders' equity	**$ 215,592**	$ 206,639

Parent company – statements of cash flows

Year ended December 31, (in millions)[a]	2005	2004	2003
Operating activities			
Net income	**$ 8,483**	$ 4,466	$ 6,719
Less: Net income of subsidiaries	**9,119**	4,762	7,017
Parent company net loss	**(636)**	(296)	(298)
Add: Cash dividends from subsidiaries[b]	**2,891**	1,964	5,098
Other, net	**(130)**	(81)	(272)
Net cash provided by operating activities	**2,125**	1,587	4,528
Investing activities			
Net cash change in:			
Deposits with banking subsidiaries	**1,251**	1,851	(2,560)
Securities purchased under resale agreements, primarily with nonbank subsidiaries	**(24)**	355	99
Loans	**(176)**	407	(490)
Advances to subsidiaries	**(483)**	(5,772)	(3,165)
Investment (at equity) in subsidiaries	**(2,949)**	(4,015)	(2,052)
Other, net	**34**	11	12
Available-for-sale securities:			
Purchases	**(215)**	(392)	(607)
Proceeds from sales and maturities	**124**	114	654
Cash received in business acquisitions	**—**	4,608	—
Net cash (used in) provided by investing activities	**(2,438)**	(2,833)	(8,109)
Financing activities			
Net cash change in borrowings from subsidiaries[b]	**2,316**	941	2,005
Net cash change in other borrowed funds	**625**	(1,510)	(2,104)
Proceeds from the issuance of long-term debt	**15,992**	12,816	12,105
Repayments of long-term debt	**(10,864)**	(6,149)	(6,733)
Proceeds from the issuance of stock and stock-related awards	**682**	848	1,213
Redemption of preferred stock	**(200)**	(670)	—
Treasury stock purchased	**(3,412)**	(738)	—
Cash dividends paid	**(4,878)**	(3,927)	(2,865)
Net cash provided by (used in) financing activities	**261**	1,611	3,621
Net increase (decrease) in cash with banks	**(52)**	365	40
Cash with banks at the beginning of the year	**513**	148	108
Cash with banks at the end of the year, primarily with bank subsidiaries	**$ 461**	$ 513	$ 148
Cash interest paid	**$ 3,838**	$ 2,383	$ 1,918
Cash income taxes paid	**$ 3,426**	$ 701	$ 754

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. 2003 reflects the results of heritage JPMorgan Chase only. For a further discussion of the Merger, see Note 2 on pages 92–93 of this Annual Report.
(b) Subsidiaries include trusts that issued guaranteed capital debt securities ("issuer trusts"). As a result of FIN 46, the Parent deconsolidated these trusts in 2003. The Parent received dividends of $21 million and $15 million from the issuer trusts in 2005 and 2004, respectively. For a further discussion on these issuer trusts, see Note 17 on pages 117–118 of this Annual Report.
(c) At December 31, 2005, debt that contractually matures in 2006 through 2010 totaled $10.3 billion, $9.5 billion, $11.9 billion, $8.8 billion and $3.8 billion, respectively.