Issuer

J.P. Morgan Structured Products B.V.

(Incorporated with limited liability in The Netherlands)

Guarantor

JPMorgan Chase Bank, National Association

(Incorporated in the State of New York, United States of America)

Managers

J.P. Morgan Securities Ltd.
J.P. Morgan Securities (Asia Pacific) Limited

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This document includes particulars given in compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the Stock Exchange's Listing Rules) for the purpose of giving information with regard to the issuer, the guarantor and the structured products referred to in this document. The issuer and the guarantor accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this document misleading.

We, the issuer of our structured products, are publishing this base listing document in order to obtain a listing on the Stock Exchange of our warrants and our equity linked instruments (the ELIs). We will refer to the warrants and the ELIs as "structured products" in this document.

We will publish a supplemental listing document for each issue of structured products to set out the terms specific to that issue. If at that point the information in this base listing document (and any applicable addendum) needs to be updated, we will either include the updated information in the relevant supplemental listing document or produce a supplemental disclosure document or an addendum to this base listing document. You should read the relevant supplemental listing document and the supplemental disclosure document (if any) together with this base listing document (including any addendum) before deciding whether to buy our structured products. Neither the delivery of this base listing document nor any sale of any structured products shall under any circumstances create any implication that there has been no change in our affairs or the affairs of the guarantor or its affiliates since the date of this base listing document. You should ask the managers if any supplemental disclosure document or any later base listing document (or addendum) has been issued. You must not assume that our supplemental disclosure document contains the most recent information at any time after the date of such supplemental disclosure document. The guarantor is a member of the Federal Reserve System and its deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"). The guarantor's quarterly unaudited Consolidated Reports of Condition and Income filed with the FDIC may be obtained from the FDIC's internet website (www.fdic.gov) and its Certificate Number at the FDIC is 00628. You should also read the guarantor's most recent Consolidated Financial Statements for the three years ended 31 December 2006.

Investors are warned that the price of the structured products may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective purchasers should therefore ensure that they understand the nature of the structured products and carefully study the risk factors set out in this document and, where necessary, seek professional advice, before they invest in the structured products.

The structured products constitute general unsecured contractual obligations of the issuer and of no other person and if you purchase the structured products you are relying upon the creditworthiness of the issuer and the guarantor and have no rights under the structured products against the company which has issued the underlying securities.

The issuer and the guarantor are part of a large global financial institution and have many financial products and contracts outstanding at any given time. When purchasing the structured products, you will be relying on the creditworthiness of the issuer and the guarantor and of no one else.

The distribution of this base listing document, any supplemental listing document, any addendum and the offering, sale and delivery of structured products in certain jurisdictions may be restricted by law. You are required to inform yourselves about and to observe such restrictions. Please read Annex 3 "Purchase and Sale" in this base listing document. **The structured products have not been and will not be registered under the United States Securities Act of 1933, as amended (the Securities Act), and trading in the structured products has not been and will not be approved by the United States Commodity Futures Trading Commission under the United States Commodity Exchange Act. The structured products may not be offered or sold within the United States or to or for the account or benefit of U.S. Persons (as defined in Regulation S under the Securities Act).**

Base Listing Document dated 3 July 2007

IMPORTANT

If you are in doubt as to the contents of this base listing document, you should obtain independent professional advice.

Copies of this base listing document, the relevant supplemental listing document, the supplemental disclosure document (if any) (together with a Chinese translation of each of these documents) and other documents listed under the section "Where can I read copies of the Issuer's documentation?" in this base listing document may be inspected at the offices of J.P. Morgan Securities (Asia Pacific) Limited at 25/F, Chater House, 8 Connaught Road, Central, Hong Kong.

本基本上市文件、有關補充上市文件及補充披露文件(如有)(及以上各份文件的中譯本)連同本基本上市文件之「何處可查閱本公司文件」一節所列之其餘文件，可於J.P. Morgan Securities (Asia Pacific) Limited於香港干諾道中8號遮打大廈25樓的辦事處供查閱。

We do not give you investment advice; you must decide for yourself, after reading the listing documents for the relevant structured products and, if necessary, seeking professional advice, whether our structured products meet your investment needs.

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SUMMARY OF OUR STRUCTURED PRODUCTS

The types of structured products that we may issue include, but are not limited to: cash-settled stock warrants, cash-settled foreign stock warrants, cash-settled warrants over single unit trusts, basket warrants, index warrants and equity linked instruments. Each type of our structured products will be subject to a separate set of master terms and conditions (Conditions) either as set out in Annex 1 to this base listing document (for the structured products listed above) or as set out in the relevant supplemental listing document (for other types of structured products). For each issue of our structured products, we will publish a supplemental listing document setting out the specific terms. The specific terms set out in the relevant supplemental listing document supplement and amend the applicable set of master terms and conditions to form the legally binding terms and conditions of that issue of structured products.

We describe below the main features of the different types of our structured products.

General features of our structured products:

Issuer:	J.P. Morgan Structured Products B.V.
Guarantor:	JPMorgan Chase Bank, National Association
Guarantor's current long-term debt ratings:	AA by Standard and Poor's AA- by Fitch, Inc. Aaa by Moody's Investors Service
Ranking of our structured products:	Upon exercise, our structured products will become our direct, unconditional, unsecured and unsubordinated obligations ranking equally with all our other direct, unconditional, unsecured and unsubordinated obligations.
Guarantee:	The obligations of the guarantor under the guarantee are direct, unconditional, unsecured and unsubordinated, subject to the terms of the guarantee. You can find the form of the guarantee in Annex 2.
Liquidity provider:	J.P. Morgan Broking (Hong Kong) Limited. We will describe in each supplemental listing document our obligations to provide liquidity in our structured products.
Form:	In registered form subject to and with the benefit of a deed poll made by us and the guarantor. Each issue will be represented by a global certificate registered in the name of HKSCC Nominees Limited (or its successors) as holder and deposited within the Central Clearing and Settlement System (CCASS). We will not issue any definitive certificates for our structured products.

Use of proceeds:	We will use the proceeds from the issue of our structured products for our general working capital or any other purposes permitted under our memorandum and articles of association.
Further issues:	We can issue further structured products to form a single series with an existing issue of our structured products.
Delisting of the company/trust or companies underlying our structured products:	If the shares/units of the company/trust or the shares of any of the companies underlying a particular issue of our structured products are delisted from the Stock Exchange, we may adjust the terms of that issue as further detailed in the relevant terms and conditions of our structured products.
Adjustments upon certain events affecting the company/trust or companies or the index underlying our structured products:	If certain corporate events occur in connection with the company/trust or any of the companies underlying our structured products, or if certain events have occurred which materially modify the underlying index, we may make adjustments to the terms of that issue to account for the effect of such events. Please see the relevant terms and conditions of our structured products for further details. These events and the possible adjustments we may make are set out in detail in the applicable terms and conditions.
Governing law:	Our structured products are governed by Hong Kong law and the guarantee is governed by New York law.

SPECIFIC FEATURES OF OUR STRUCTURED PRODUCTS

Warrants:

Warrants are structured financial products, the value of which is derived from the price or value of another asset. The underlying asset may be a stock, units in funds or trusts, a basket of stocks and/or units in funds or trusts, an index, a basket of indices, currency, commodity or other asset or combination of such assets.

- Cash-settled stock/foreign stock warrants and warrants over single unit trusts:

The underlying asset of stock warrants is shares of a company or units in funds or trusts. The shares or units in funds or trusts may be listed in Hong Kong or overseas.

Generally, a physically-settled stock call warrant or a call warrant over a single unit trust gives its holders the right, but not the obligation, to purchase from the issuer, at a predetermined exercise price, a specific number of shares or units issued by a company, fund or trust.

Generally, a physically-settled stock put warrant or a put warrant over a single unit trust gives its holders the right, but not the obligation, to sell to the issuer, at a predetermined exercise price, a specific number of shares or units issued by a company, fund or trust.

Our cash-settled stock/foreign stock warrants and warrants over single unit trusts provide for cash settlement only, which means that physical delivery of the underlying shares or units will not be available as a method of settlement; instead, upon the exercise of a number of warrants with an aggregate entitlement of one share or unit, we will pay the warrantholder upon exercise a cash amount equal to the final price of the underlying share or unit less the exercise price (in the case of call warrants) or the exercise price less the final price of the underlying share or unit (in the case of put warrants) and in each case less any exercise expenses, so long as such amount is greater than zero.

- Basket warrants:

The underlying asset of basket warrants is a basket comprising shares of a number of companies.

Generally, a physically-settled basket call warrant gives its holders the right, but not the obligation, to purchase from the issuer, at a predetermined exercise price, the shares in the basket in a specified proportion.

Generally, a physically-settled basket put warrant gives its holders the right, but not the obligation, to sell to the issuer, at a predetermined exercise price, the shares in the basket in a specified proportion.

Our basket warrants provide for cash settlement only, which means that physical delivery of the underlying shares will not be available as a method of settlement; instead, we will pay the warrantholder upon exercise a cash amount equal to the sum of the weighted final prices of the underlying shares in a basket less the exercise price (in the case of call warrants) or the exercise price less the sum of the weighted final prices of the underlying shares (in the case of put warrants) and in each case less any exercise expenses, so long as such amount is greater than zero.

For our cash-settled stock/foreign stock warrants, warrants over single unit trusts and basket warrants, the final price of an underlying share or unit is determined by reference to the market closing price on each valuation date; please see the terms and conditions of our structured products for further details.

- Index warrants: The underlying asset of index warrants is an index published by an index sponsor.

  Our index call warrant gives its holders a right upon exercise to receive from us a cash amount equal to the excess (if any) of the level of an index on the date of exercise of the index call warrant over the predetermined strike level, times a predetermined amount and less any exercise expenses, converting such amount in the trading currency of the constituent stocks of the index into the settlement currency of our warrants if necessary.

  Our index put warrant gives its holders a right upon exercise to receive from us a cash amount equal to the excess (if any) of the predetermined strike level over the level of the index on the date of exercise of the index put warrant, times a predetermined amount and less any exercise expenses, converting such amount in the trading currency of the constituent stocks of the index into the settlement currency of our warrants if necessary.

  The level of the index on the date of exercise may be determined by reference to the official settlement price of an exchange traded contract relating to the index or some other means; please see the terms and conditions of our warrants for further details.

The supplemental listing document will set out the following terms specific to our warrants to supplement the applicable set of master terms and conditions in this base listing document:

Board lot	Minimum number at which our warrants trade
Shares of the company	Name and par value of underlying share (for our cash-settled stock warrants only)
Shares of the companies in the basket	Name and par value of underlying shares in the basket (for our basket warrants only)
Index	Name of the underlying index (for our index warrants only)

Index sponsor	Name of company that maintains the index and calculates and publishes the index levels (for our index warrants only)
Exercise price	Predetermined exercise price of the underlying share(s)/unit(s) on expiry date (for our stock warrants, warrants over single unit trusts and basket warrants only)
Strike level	Predetermined level of the underlying index (for our index warrants only)
Exercise amount	Number of our warrants, which is the unit reference we will use to calculate the amount we deliver to you in cash (the cash settlement amount). The exercise amount is usually one board lot
Expiry date/exercise date	Date on which the life of our warrants expires or on which our warrants are exercised
Entitlement	Number of shares/units to which a specified number of warrants relates (for our stock warrants and warrants over single unit trusts only)
Basket components	The companies in the basket, and the weighting of each company in the basket (for our basket warrants only)
Index currency amount	An amount denominated in the currency in which the constituent stocks of the index are traded, which is used in the calculation of the cash settlement amount payable upon the exercise of an exercise amount of our warrants (for our index warrants only)
American/European style	American style warrants can be exercised over a period beginning at 10:00 a.m. (Hong Kong time) on the dealing commencement date and ending at 10:00 a.m. (Hong Kong time) on the expiry date European style warrants can only be exercised at 10:00 a.m. (Hong Kong time) on the expiry date
Dealing commencement date	Listing date or date on which our warrants commence trading

Equity linked instruments (ELIs):

Our ELIs are written over the shares of a company specified in the supplemental listing document. We can issue three types of ELIs:

- Bull ELIs: When you purchase our bull ELIs, you will make an initial payment. At maturity, we will pay you a predetermined cash payment (the cash settlement amount) where the closing price of the shares of the company on the valuation date is at or above the strike level. If the closing price of the shares of the company on the valuation date is below the strike level, we will either deliver to you shares in the company (the physical settlement amount) or pay you a cash amount calculated by reference to the value of physical settlement amount.

- Bear ELIs: When you purchase our bear ELIs, you will make an initial payment. At maturity, we will pay you a predetermined cash payment (the cash settlement amount) where the closing price of the shares of the company on the valuation date is below the strike level. If the closing price of the shares of the company on the valuation date is at or above the strike level, we will either deliver to you shares in the company (the physical settlement amount) or pay you a cash amount calculated by reference to the value of physical settlement amount.

- Range ELIs: When you purchase our range ELIs, you will make an initial payment. At maturity, we will pay you a predetermined cash payment (the cash settlement amount) where the closing price of the shares of the company on the valuation date is at or above the lower strike level and below the higher strike level. If the closing price of the shares of the company on the valuation date is at or above the higher strike level, we will either deliver to you shares in the company (the physical settlement amount) or pay you a cash amount calculated by reference to the value of physical settlement amount. If the closing price of the shares of the company on the valuation date is below the lower strike level, we will either deliver to you the physical settlement amount or pay you a cash amount calculated by reference to the value of physical settlement amount.

The supplemental listing document will set out the following terms specific to our ELIs to supplement the set of master terms and conditions applicable to our ELIs in this base listing document:

Board lot	Unit in which our ELIs trade
Shares of the company	Name and par value of shares of the company underlying our ELIs
Share amount	Number of shares of the company in respect of one board lot
Maturity date	Date on which the ELIs mature
Valuation date	Date on which the closing price of the shares of the company will be used for determining the settlement amount (normally the maturity date)
Strike level	The predetermined level of the share price of the underlying shares (for our bull ELIs and bear ELIs only)
Higher strike level and lower strike level	The predetermined higher and lower strike level of the share price of the underlying shares (for our range ELIs only)
Settlement amount	The amount we deliver to you in cash (cash settlement amount) or by physical delivery of the underlying shares subject to a minimum of zero (physical settlement amount) on the maturity date
Dealing commencement date	Listing date or date on which our ELIs commence trading

MORE INFORMATION ABOUT OUR STRUCTURED PRODUCTS AND OUR LISTING DOCUMENTS

WHO IS RESPONSIBLE FOR THIS BASE LISTING DOCUMENT?

We and the guarantor accept full responsibility for the accuracy of the information contained in this base listing document.

We have included references to websites to guide you to sources of freely available information. The information on these websites does not form part of our listing document. Neither we nor the guarantor accept any responsibility for information on these websites. Such information has not been prepared for the purposes of our structured products.

Our base listing document is accurate at the date stated on the cover. You must not assume, however, that information in this base listing document is accurate at any time after the date of this base listing document.

The managers and the liquidity provider are not responsible in any way for ensuring the accuracy of our listing documents.

IS THE ISSUER OR GUARANTOR REGULATED BY THE HONG KONG MONETARY AUTHORITY OR AN OVERSEAS REGULATORY AUTHORITY OR THE SECURITIES AND FUTURES COMMISSION OF HONG KONG (SFC)?

Neither we nor the guarantor are regulated by any of the bodies referred to in Rule 15A.13(2) or (3) of the Stock Exchange's Listing Rules. The guarantor, however, is a financial holding company subject to regulation under the United States' state and federal laws, including the Bank Holding Company Act of 1956.

WHERE CAN I FIND MORE INFORMATION ABOUT THE ISSUER, THE GUARANTOR AND THE STRUCTURED PRODUCTS?

Information on our structured products is described in this base listing document and the relevant supplemental listing document.

If the information in this base listing document needs to be updated at the time we issue a supplemental listing document, we will put the updated information in the supplemental listing document or a new addendum. Please read this base listing document together with the relevant supplemental listing document and the supplemental disclosure document (if any) carefully before you decide whether to buy our structured products.

Additional and more up-to-date information regarding the guarantor may be available on the website www.jpmorganchase.com. You are cautioned that this information (if available) will be of a general nature and cannot be relied upon as being accurate and/or correct and will not have been prepared exclusively for the purposes of our structured products.

We have not authorised anyone to give you any information about our structured products other than the information in this base listing document, the relevant supplemental listing document and the supplemental disclosure document (if any).

WHEN WERE THE STRUCTURED PRODUCTS AUTHORISED?

The issue of our structured products was authorised by resolutions of our board of directors on 2 July 2007. The giving of the guarantee was authorised by resolutions of the board of directors of the guarantor on 17 January 2007 and approved by the Derivatives Product Committee of the guarantor on 15 May 2007.

WHERE CAN I READ COPIES OF THE ISSUER'S DOCUMENTATION?

You can read copies of the documents set out below by going to the offices of J.P. Morgan Securities (Asia Pacific) Limited, 25/F, Chater House, 8 Connaught Road, Central, Hong Kong. These offices are open only during normal business hours and not on Saturdays, Sundays or public holidays.

These are the documents, copies of which may be inspected upon request while any of our structured products are in issue:

- our memorandum and articles of association;
- the guarantor's memorandum and articles of association;
- our 2006 annual report which contains our financial statements for the period from 6 November 2006 (our date of incorporation) to 31 December 2006;
- the guarantor's 2005 and 2006 consolidated financial statements and any reports in the form of Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices, and when they become available;
- the guarantee dated 3 July 2007;
- the letters from our auditors, PricewaterhouseCoopers Accountants N.V., consenting to the reproduction of their reports in this base listing document;
- the letters from the guarantor's auditors, PricewaterhouseCoopers LLP, consenting to the reproduction of their reports in this base listing document;
- the Instrument pertaining to the issue of structured products; and
- this base listing document dated 3 July 2007, the relevant supplemental listing document and the supplemental disclosure document (if any) (together with a Chinese translation of each of these documents).

A reasonable fee will be charged if you want to take photocopies of any of the documents while they are on display.

Settlement of transactions between members of the Stock Exchange on any business day must take place on or before the second business day thereafter. Securities executed on the Stock Exchange would normally be settled under the continuous net settlement system in CCASS. Dealings in the structured products will take place in relevant board lots in Hong Kong dollars. For further details on transfers of structured products and their exercise or settlement, see the terms and conditions of the relevant issue of structured products.

DO I HAVE TO PAY STAMP DUTY OR OTHER LEVIES ON THE STRUCTURED PRODUCTS?

No, there is no stamp duty on issue or transfer of our structured products. The levy for the investor compensation fund is currently suspended.

However, the SFC charges a transaction levy at the rate of 0.004 per cent. on the value of the transaction of structured products and this amount is payable by each of the buyer and seller. Additionally, the Stock Exchange charges a trading fee on every purchase and sale of listed securities calculated at a rate of 0.005 per cent of the amount of the transaction and is payable by each of the buyer and seller.

You should be aware that you may be required to pay stamp taxes or other documentary charges in accordance with the laws and practices of the country where the structured products are transferred. If you are in any doubt as to your tax position, you should consult your own independent tax advisers. You should also be aware that tax regulations and their application by the relevant taxation authorities change from time to time.

HOW DO I HOLD MY STRUCTURED PRODUCTS?

Our structured products will be issued in global registered form, represented by a global certificate registered in the name of HKSCC Nominees Limited (or its successors).

We have made all necessary arrangements to enable our structured products to be admitted for deposit, clearing and settlement in CCASS. We will not issue any definitive certificates for our structured products. Our structured products will be deposited within CCASS.

If you are a CCASS investor participant, you may hold your structured products in your account with CCASS. If you do not have a CCASS account, your broker or agent (as a CCASS participant) will arrange to hold your structured products for you in an account at CCASS. We or the guarantor will make all payments on our structured products to CCASS: you will have to check your CCASS account or rely on your broker to ensure that payments on your structured products are credited to your account with your broker. Once we have made the relevant payments in this way to CCASS, we will have no further obligations for that payment, even if CCASS or your broker fails to transmit to you your share of the payment or if it was transmitted late. Any notices we or the guarantor gives in relation to our structured products will be given in the same way: you will have to rely on CCASS and/or your broker to ensure that those notices reach you.

RISK FACTORS

You should carefully consider the following information together with the other information contained in this base listing document and in the applicable supplemental listing document before purchasing our structured products of any series.

This section highlights only some of the risks of dealing in the structured products but their inclusion in this document does not mean these are the only significant or relevant risks of dealing in our structured products.

There are risks associated with investing in our structured products; our structured products are volatile instruments

Our structured products are structured financial instruments, their value may fall as rapidly as they may rise and you may sustain a total loss in your investment. Your investment in our structured products involves risks. Before investing in any of our structured products, you should consider whether our structured products are suitable for you in light of your own financial circumstances and investment objectives. Not all of these risks are described in this base listing document or a supplemental listing document. You should consider taking independent professional advice prior to making an investment in our structured products.

Structured products are complex and volatile instruments

Your investment in our structured products will be worthless if you are holding our structured products when they expire out-of-the-money – meaning that the final price or level of the underlying asset, determined in accordance with the terms and conditions of our structured products, is greater (for our put warrants or bear ELIs) or less (for our call warrants or bull ELIs) than the exercise price or strike level of our structured products.

Our structured products are complex instruments and their values at any time prior to expiry are governed by a number of factors, including but not limited to the time left till expiry, the price or level of the underlying asset compared with the exercise price or strike level of our structured products, the volatility of price or level of the underlying asset, market interest rate movements, our and the guarantor's financial condition and the market's view of our and the guarantor's credit quality. The values of our structured products may rise or fall rapidly over a short time due to changes in one or more factors. The interplay of these different factors also means that the effect on the value of our structured products from the change in one factor may offset or accentuate the effect from the change in another factor. The value or level of the underlying assets (and some of the other relevant factors) can also be unpredictable: it may change suddenly and in large magnitude or not change at all. You may risk losing your entire investment if the price or level of the underlying assets do not move in your anticipated direction. You should also note that, assuming all other factors are held constant, the value of structured products will decline over time.

The cash settlement amount of our structured products if calculated at any time prior to expiry may typically be less than the market price of such structured products at that time. The difference will reflect, among other things, a "time value" for the structured products which depends on a number of interrelated factors including those specified above.

Your ability to realise your investment in our structured products is dependent on the trading market for our structured products

Where our structured products are not exercisable prior to the expiry date, the only way you may be able to realise the value of your investment in our structured products is to dispose of them either in the on-exchange market or over-the-counter market. If you dispose of your investment in our structured products before expiry in this way, the amount you will receive will depend on the price you are able to obtain from the market for our structured products. That price may depend on the quantity of our structured products you are trying to sell. The market price of our structured products may not be equal to the value of our structured products, and changes in the price of our structured products may not correspond (in direction and/or magnitude) with changes in the value of our structured products.

The liquidity provider appointed for our structured products will upon request provide bid and/or offer prices for our structured products on the Stock Exchange and may (but is not obliged to) provide such prices at other times too, but under certain circumstances it may not provide bid and/or offer prices even if requested. You should refer to the section regarding liquidity provider in the relevant supplemental listing document for further details. The prices provided by our liquidity provider are influenced by, among other things, the supply and demand of our structured products for a particular series in the market, and may not correspond with the values of such structured products or changes in such values.

You should note that the prices available in the market for our structured products may also come from other participants in the market, although we cannot predict if and to what extent a secondary market may develop for our structured products or whether that market will be liquid or illiquid. The fact that a particular series of structured products is listed does not necessarily lead to greater liquidity. In addition, no assurance can be given that the listing of any particular series of our structured products will be maintained. If our structured products of a particular series cease to be listed, they may not be transacted through the Stock Exchange or at all, and they may even be terminated early. Off-exchange transactions may involve greater risks than on-exchange transactions. You may be unable to find any buyer for your holdings of our structured products on the Stock Exchange if the value of the structured products falls below HK$0.01.

Only the liquidity provider appointed for our structured products is obliged to provide bid and/or offer prices for our structured products (subject to the terms set out in the relevant supplemental listing document), and at times it may be the only source of bid and/or offer prices for our structured products.

The liquidity of any series of our structured products may also be affected by restrictions on offers and sales of our structured products in some jurisdiction including the restrictions described in Annex 3 “Purchase and Sale” to this base listing document.

If trading in the underlying asset is suspended, trading in our structured products may also be suspended for a similar period.

You must rely on our and the guarantor’s creditworthiness; our obligations are not deposit liability or debt obligations

Our structured products are not secured on any assets. Our structured products represent our general contractual obligations and will rank equally with our other general unsecured obligations. The number of structured products outstanding at any given time may be substantial. When purchasing our structured products, you will be relying upon our and the guarantor’s creditworthiness and of no one else. We do not intend to create upon ourselves a deposit liability or a debt obligation by issue of any structured products.

You have no rights in the underlying assets and the market price for our structured products may fluctuate differently from that of the underlying assets

Our structured products are financial instruments issued by us and are separate from the underlying assets. You have no rights under our structured products against (i) any company, trust or fund which issues or comprises the underlying assets of the relevant issue of structured products or (ii) the trustee or the manager of any underlying asset that is a trust or a fund or (iii) the sponsor of any underlying asset that is an index. In addition, buying our structured products is not the same as buying the underlying assets or having a direct investment in the underlying assets. You will not be entitled to have voting rights, rights to receive dividends or distributions or any other rights under the underlying shares. As mentioned, there are many factors influencing the value and/or market price of structured products, which are leveraged instruments. For example, increases in the price or level of the underlying assets may not lead to an increase in the value and/or market price of our structured products by a proportionate amount or even any increase at all; however, a decrease in the price or level of the underlying assets may lead to a greater than proportionate decrease in the value and/or market price of our structured products. There is no assurance that a change in value and/or market price of our structured products will correspond in direction and/or magnitude with the change in price or level of the underlying assets. You should recognise the complexities of utilising our structured products to hedge against the market risk associated with investing in an underlying asset.

The issuer, the trustee, the manager or the sponsor of the underlying assets will have no involvement in the offer and sale of our structured products and no obligation to you as investors in our structured products. The decisions made by them on corporate actions, such as a merger or sale of assets, or adjustment of the method for calculation of an index may also have adverse impact on the value and/or market price of our structured products.

There could be conflicts of interest arising out of our other activities which may affect our structured products

We, the guarantor and its subsidiaries and affiliates may engage in transactions (whether for their proprietary accounts, including hedging, or trading for accounts under management or otherwise) involving, as well as provide investment banking and other services to, any company or to any trustee or manager of a trust or a fund underlying our structured products or their securities and may enter into transactions with the substantial shareholders of the underlying company. Those transactions may have a positive or negative impact on the price or level of the underlying asset and in turn the value and/or market price of our structured products. We, the guarantor and its subsidiaries and affiliates may have officers who serve as directors of any of the companies underlying our structured products. Our proprietary trading activities (which include hedging of our structured products) in the underlying securities or related structured products may affect the value and/or market price of the structured products. We or the guarantor may issue other competing financial products which may affect the value and/or market price of our structured products. You should also note that potential conflicts of interest may arise from the different roles played by us, the guarantor and its subsidiaries and affiliates in connection with our structured products and the economic interests in each role may be adverse to your interests in our structured products. We or the guarantor owe no duty to you to avoid such conflicts.

We may early terminate our structured products due to illegality, force majeure or extraordinary reasons

If we determine (in good faith) that our obligations under any structured products, or if we become aware that the guarantor's performance of its obligations under the guarantee, has become unlawful or impractical, we may (with necessary approvals from regulatory authorities) decide to terminate that issue of structured products early. If this happens, we or the guarantor will pay the holder of those structured products an amount determined by the agent in its sole and absolute discretion to be the fair market value of the structured products immediately prior to such termination or otherwise as specified in the relevant supplemental listing document. Such fair market value of the structured products could be substantially less than the amount you invested and can be as low as zero.

Liquidation of underlying company or termination of underlying trust or fund

In the event of liquidation, dissolution, winding up or termination of the company, trust or fund that issues the underlying shares or units or the appointment of a receiver or administrator or analogous person to the company, trust or fund, the relevant structured products shall lapse and we, as the issuer, shall pay an amount equal to our good faith estimate (made in our sole discretion) of the value of our structured products to the holders, which may be as low as zero.

Time lag between the time of exercise and the time of determination of the settlement amount may affect the settlement amount

When exercising your structured products, there may be a time lag between the time of exercise and the time of determination of the settlement amount. Such delay could be significantly longer in the case of a market disruption event, delisting of the company that issues the underlying shares, termination of the trust or fund that issues the underlying unit or other adjustment events. The settlement amount may change significantly during any such period and may result in such settlement amount being zero.

We may adjust the terms and conditions of our structured products upon the occurrence of certain corporate events or extraordinary events affecting the underlying assets

We and/or the agent may determine that certain corporate events or extraordinary events affecting the underlying assets have occurred and may make corresponding adjustments to the terms and conditions of our structured products, including adjustments to the value or level of the underlying assets or changing the composition of the underlying assets. Such events and/or adjustments (if any) may have adverse impact on the value and/or market price of our structured products. We may also in our sole discretion adjust the entitlement of our structured products for dilution events such as stock splits and stock dividends.

However, we have no obligation to make an adjustment for every event that can affect the underlying asset. The value and/or market price of our structured products may be adversely affected by such events in the absence of an adjustment by us. If adjustments were made, we do not assure that such adjustments can negate any adverse impact of such events on the value and/or market price of our structured products.

Our determination of the occurrence of a market or settlement disruption event may affect the value and/or market price of our structured products

We and/or the agent may determine that a market or settlement disruption event has occurred. Such determination may affect the value and/or market price of our structured products, and may delay settlement in respect of our structured products.

If the agent determines that a market disruption event exists, the valuation of the underlying assets for the purpose of calculating the cash settlement amount of our structured products will be postponed. If such market disruption event exists for a continuous period of time as specified in the terms of our structured products, we and/or the agent may determine the good faith estimate of the value or level of the underlying assets that would have prevailed on the relevant postponed valuation date but for such market disruption event.

The implied volatility of our structured products may not reflect the actual volatility of the underlying asset

The market price of our structured products is determined among other factors by the supply and demand of the structured products. This price "implies" a level of volatility in the underlying asset in the sense that such level of volatility would give a theoretical value for the structured product which is equal to that price; but such level of volatility may not be equal to the actual level of volatility of the underlying asset in the past or future.

Investment in our structured products may involve exchange rate risks and interest rate risks

An investment in our structured products may involve exchange rate risks. For example, the underlying asset may be denominated in a currency other than that of our structured products, our structured products may be denominated in a currency other than the currency of your home jurisdiction and our structured products may settle in a currency other than the currency in which you wishes to receive funds. Changes in the exchange rate(s) between the currency of the underlying asset, the currency in which our structured products settle and/or the currency of your home jurisdiction may adversely affect the return of your investment in our structured products. We cannot assure that current exchange rates at the issue date of our structured products will be representative of the future exchange rates used in computing the value of our structured products. Fluctuations in exchange rates may therefore affect the value of our structured products.

An investment in our structured products may also involve interest rate risk as the intrinsic value of a structured product may be sensitive to fluctuations in interest rates. Fluctuations in the short term or long term interest rates of the currency in which our structured products are settled or the currency in which the underlying asset is denominated may affect the value and/or market price of our structured products.

Please consult your tax advisers if you are in any doubt of your tax position

You may be required to pay stamp taxes or other documentary charges in accordance with the laws and practices of the country where our structured products are transferred and such laws and practices may change from time to time. If you are in any doubt of your tax position, you should consult your own independent tax advisers.

Our structured products are issued in global registered form; you have to rely on your brokers to evidence title to your investment and to receive notices and the cash settlement amount

Our structured products are issued in global registered form and held on your behalf within a clearing system. This means that evidence of title to your interests, as well as the efficiency of ultimate delivery of the cash settlement amount, will be governed by the CCASS Rules.

Our structured products in global registered form will be registered in the name of HKSCC Nominees Limited (or its successors), which shall be treated by us as the holder of our structured products for all purposes. This means that you will not receive definitive certificates and the register will record at all times that our structured products are being held by HKSCC Nominees Limited (or its successors). You will have to rely solely upon your brokers and the statements received from your brokers to evidence title to your investments. You will also have to rely on your brokers to effectively inform you of any notices, announcements and/or meetings issued or called by us (upon receipt by those brokers as CCASS participants of the same from CCASS and ultimately from us). The Listing Rules also provide that our obligations to deliver notices, announcements and/or meetings will be complied with by a posting on the Stock Exchange website. Our obligations to deliver any cash settlement amount to you will be duly performed by the delivery of any such amount to HKSCC Nominees Limited (or its successors) as the holder. You will therefore have to rely on your brokers for the ultimate delivery of any cash settlement amount to you as the investor.

There may be limitations on the number of structured products exercisable for a particular series

We may specify for a particular series of structured products the maximum number of structured products exercisable (in the case of American style warrants) or the minimum number of structured products exercisable. You may not be able to exercise all the structured products that you may wish to exercise if the specified maximum number is exceeded, or you will have to sell your structured products or purchase additional structured products of the same series if the number of structured products you hold is fewer than the specified minimum number.

We and our guarantor do not give you any advice or credit analysis

Neither we nor the guarantor is responsible for the lawfulness of your acquisition of our structured products. We and the guarantor are not giving you any advice or credit analysis of the underlying assets. You shall be deemed to have made a representation to such effect for each purchase of our structured products of any series.

TAXATION

We have based this summary of Hong Kong and The Netherlands tax on current law and practice. It is intended to give you an overview of what Hong Kong and The Netherlands tax you might have to pay if you hold our structured products. It is not complete and we are not giving you any tax advice. You should consult your own tax adviser about the tax consequences of investing in our structured products, particularly if you are subject to special tax rules (for example, if you are a bank, dealer, insurance company or a tax-exempt entity).

HONG KONG

Withholding Tax

We are not required under current law to make any withholding on account of Hong Kong tax from payments in respect of our structured products.

Capital Gains Tax

No capital gains tax is payable in Hong Kong on any capital gains arising from a sale or disposal of our structured products.

Profits Tax

Hong Kong profits tax may be chargeable on any gains arising from a sale or disposal of our structured products where the sale or disposal is or forms part of a trade, profession or business carried on in Hong Kong and the gains are of a Hong Kong source.

Stamp Duty

Our cash-settled structured products are not subject to Hong Kong stamp duty or bearer instrument duty either when issued or on any subsequent transfer. Hong Kong stamp duty is payable if Hong Kong stocks (as defined in the Stamp Duty Ordinance) are physically delivered at maturity of the ELIs.

THE NETHERLANDS

This summary does not address the Dutch tax consequences for a holder of a structured product who holds a substantial interest in us. Generally speaking, a person holds a substantial interest if they (alone or together with their partner or other related persons) directly or indirectly holds (i) an interest of 5 percent or more of the total issued capital (or a certain class of shares) of the entity, (ii) rights to acquire, directly or indirectly, such interest or (iii) certain profit sharing rights in the entity.

Investors are advised to consult their professional advisers as to the tax consequences of purchase, ownership and disposition of the structured products.

Withholding Tax

All payments in respect of our structured products can be made free of withholding or deduction of any taxes of any nature imposed, levied, withheld or assessed in The Netherlands or any political subdivision or taxing authority thereof or therein.

Taxes on Income and Capital Gains

There is no income or capital gains tax in The Netherlands applicable to the investor of our structured products unless:

(i) the investor is or is deemed to be resident in The Netherlands, or, where the holder is an individual, such holder has elected to be treated as a resident of The Netherlands;

(ii) such income or gain is attributable to an enterprise or part thereof which is managed in The Netherlands or carried on through a permanent establishment or representative in The Netherlands; or

(iii) the investor is an individual and such income or gain qualifies as income from miscellaneous activities in The Netherlands as defined in the Dutch Income Tax Act 2001.

Gift and Inheritance Tax

Dutch gift, estate or inheritance taxes will not be levied on the transfer of structured products by way of gift by, or on the death of, an investor, unless:

(i) the investor is or is deemed to be resident in The Netherlands for the purpose of the relevant provisions;

(ii) the transfer is construed as an inheritance or gift made by, or on behalf of, a person who, at the time of the gift or death, is or is deemed to be resident in The Netherlands for the purpose of the relevant provisions; or

(iii) the structured products are attributable to an enterprise or part thereof which is managed in The Netherlands or carried on through a permanent establishment or representative in The Netherlands.

Value Added Tax

In general, no Dutch value added tax will arise in respect of payments in consideration for the issue of the structured products or in respect of the cash payment made under the structured products, or in respect of a transfer of structured products.

Other Taxes

No registration tax, customs duty, transfer tax, stamp duty or any other similar tax or duty will be payable in The Netherlands by a holder of structured products in respect of or in connection with the subscription, issue, placement, allotment, delivery or transfer of the structured products.

Eu Council Directive on Taxation of Savings Income

In accordance with EC Council Directive 2003/48/EC on the taxation of savings income, The Netherlands will provide to the tax authorities of another Member State (and certain non-EU countries and associated territories specified in that directive) details of payments of interest or other similar income paid by a person within The Netherlands to, or collected by such a person for, an individual resident in such other state.

GENERAL INFORMATION ABOUT US

History and Development

We were incorporated as a limited liability company (*besloten vennootschap met beperkte aan-sprakelijkheid*) under the laws of the Netherlands in Amsterdam, the Netherlands on 6 November 2006 to exist for an unlimited duration. We are registered at the Chamber of Commerce of Amsterdam under registered number 34259454 with registered offices at Strawinskylaan 3105 Atrium, 1077ZX Amsterdam, the Netherlands (telephone number + 31 20 406 4444).

Investment Policy

We may undertake any independent investments in our sole discretion with the proceeds (net of third party costs) of an issuance of notes, warrants or certificates.

Principal Activities

Our business will principally consist of the issuance of securitised derivatives comprising notes, warrants and certificates, including equity-linked, reverse convertible and market participation notes and the subsequent hedging of those risk positions. All issues will be subject to hedging arrangements. The proceeds of the sale of the securities will be used to enter into hedging arrangements with other JP Morgan Chase companies. We anticipate that the hedging arrangements will be sufficient to hedge ourselves against the market risk of our securities issuance activity. We will also have receipts from and make payments to other JPMorgan Chase Group companies.

Principal Markets

We expect to issue securities in the Asia Pacific region, in Europe, the Middle East, Africa and a limited number in the United States of America.

Organisational Structure

We are a wholly-owned subsidiary of J.P. Morgan International Finance Limited, which is in turn an indirect, wholly-owned subsidiary of the guarantor. The guarantor is one of the principal, wholly-owned bank subsidiaries of JPMorgan Chase & Co., a company incorporated in the State of Delaware in the United States of America. The ordinary shares of JPMorgan Chase & Co. are listed on the New York Stock Exchange with ticker "JPM" and they are also listed on the London and Tokyo Stock Exchanges. The ordinary shares of JPMorgan Chase & Co. form part of the Dow Jones Industrial Average Index of the New York Stock Exchange.

Financial and legal information on JPMorgan Chase & Co., including the most recent Form 10-K for the year ended 31 December 2006 of JPMorgan Chase & Co., and additional annual, quarterly and current reports filed with the SEC by JPMorgan Chase & Co., as they become available, may be obtained by any interested party from the SEC website (http://www.sec.gov). Further information on JPMorgan Chase & Co. and its group can be obtained from its website (http://www.jpmorganchase.com).

Trend Information

We have determined our primary objective in 2007 as the development of securitised products to be offered and sold to retail, 'high net worth' and institutional investors principally outside of the United States of America. We believe there will be continued growth in investor appetite for structured securities linked to a range of underlying reference assets including equity, credit, interest rates, commodities and funds. We therefore intend to offer a diversified range of products over the course of the coming year to cover a wide range of underlying reference assets.

Our Directors and Officers

Name	Function	Business address
Jacob Cornelis Willem van Burg	Director	Strawinskylaan 3105 Atrium, 1077ZX Amsterdam, the Netherlands
Jakob Pieter Everwijn	Director	Strawinskylaan, 3105 Atrium, 1077ZX Amsterdam, the Netherlands
Jozef Cornelis Petrus van Uffelen	Director	Strawinskylaan 3105 Atrium, 1077ZX Amsterdam, the Netherlands
Beat von Gunten	Director	Strawinskylaan 3105 Atrium, 1077ZX Amsterdam, the Netherlands

The principal outside activities of Messrs. Van Burg, Everwijn and Van Uffelen are as employees of the firm Equity Trust, a trust fiduciary company which was established in the Netherlands in 1970. All directors hold office until removed.

Subject to their duties to Equity Trust, there are no actual or potential conflicts of interest between any duties owed to us by the directors identified above and their private interests and/or outside duties.

Corporate Governance

We comply with established accepted principles of corporate governance in the Netherlands. Our board of directors conducts itself in accordance with general principles of Dutch corporate law.

Our board of directors approves each issue of securities by us and meetings are convened in the Netherlands for other matters appropriately dealt with at a company board meeting.

The Board of Directors has appointed a sub-committee to authorise and transact issuances made in connection with this document. No other sub-committees made up for specific purposes or to perform specific functions have been appointed.

Financial Information

We were incorporated on 6 November 2006 and our operations during the period from 6 November 2006 to 31 December 2006 are reflected in our audited financial statements for the period ended 31 December 2006, which are reproduced without material adjustment in this base listing document.

On an annual basis we will prepare and publish audited financial statements, which will be filed in accordance with the laws of the Netherlands. We intend to prepare and publish audited annual financial statements. We will not produce interim financial statements until required to do so by applicable law or regulations.

It is anticipated that we will have an accounting reference date of 31 December with the first full fiscal year ending 31 December 2007. Our auditors are PricewaterhouseCoopers Accountants N.V. PricewaterhouseCoopers Accountants N.V. are members of the Royal Dutch Institute of Chartered Accountants (*Koninklijk Nederlands Instituut voor Registeraccountants*).

PricewaterhouseCoopers Accountants N.V. has no material interest in us.

Capital Structure

Our authorised share capital is Euro 90,000, divided into 90,000 ordinary shares of Euro 1.00 each. At incorporation 18,000 shares were issued. By notarial deed of share issuance executed on 30 March 2007, an additional 2,000 shares were issued. The total issued and paid up share capital therefore amounts to 20,000. We do not hold any of our own shares.

Memorandum and Articles of Association

Our objects as set out in Article 3 of our Articles of Association are:

(a) to incorporate, to participate in any way whatsoever, to manage, to supervise, to operate and to promote enterprises, businesses and companies;

(b) to finance businesses and companies;

(c) to borrow, to lend and to raise funds, including the issue of bonds, promissory notes or other securities or evidence of indebtedness as well as to enter into agreements in connection with the aforementioned;

(d) to enter into swaps and any other derivative transactions whatsoever to hedge our exposure under any agreements, securities or other instruments whatsoever to which we are a party;

(e) to supply advice and to render services to enterprises and companies with which we form a group and to third parties;

(f) to render guarantees, to bind ourselves and to pledge our assets for obligations of the companies and enterprises with which we form a group and on behalf of third parties;

(g) to obtain, alienate, manage and exploit registered property and items of property in general;

(h) to trade in currencies, securities and items of property in general;

(i) to develop and trade in patent, trade marks, licenses, know how and other intellectual and industrial property-rights;

(j) to perform any and all activity of industrial, financial or commercial nature;

as well as everything pertaining to the foregoing, relating thereto or conducive thereto, all in the widest sense of the word.

J.P. MORGAN STRUCTURED PRODUCTS B.V.

Amsterdam, The Netherlands

Report for the period from
6 November 2006 to 31 December 2006

J.P. MORGAN STRUCTURED PRODUCTS B.V.

Report for the period ended 31 December 2006

Contents **Page**

J.P. MORGAN STRUCTURED PRODUCTS B.V.

Directors' report for the period ended 31 December 2006

The directors present their report and the audited financial statements for the period ended 31 December 2006.

Incorporation

J.P. Morgan Structured Products B.V. is a limited liability company incorporated on 6 November 2006 under the laws of The Netherlands. These financial statements reflect the operations of the Company during the period from 6 November 2006 to 31 December 2006.

The Company's parent undertaking is J.P. Morgan International Finance Limited which is incorporated in the state of Delaware in the United States of America.

Principal activity

The Company's main activity is the issuance of securitised derivatives comprising certificates, warrants and notes including equity linked, reverse convertible and market participation notes, and the subsequent hedging of those risk positions.

Results and dividends

The results of the Company for the period are set out on page 5. The Company's loss for the period ended 31 December 2006 is US$15,648.

The Company has not traded during the current period. The Company had no employees, other than directors, at any time during the period. Administrative expenses amounting to US$21,281 were charged by the sole director TMF Management BV for various services rendered during the period.

No dividend was paid or proposed during the period.

Events after the balance sheet date

On 29 March 2007, the Company issued 2,000 ordinary shares with a par value of €1.00 each at premium for the sum of US$500 million. The cash was subsequently placed with another JPMorgan Chase group undertaking.

Future developments

The Company's primary objective in 2007 will be the development of securitised products to be offered and sold to retail, 'high net worth' and institutional investors principally outside of the United States of America.

Financial risk management

Risk management is an inherent part of JPMorgan Chase Group (the Group) (of which the Company is a part) business activities and the Company has adopted the same risk management policies and procedures as the Group as a whole. The Group and the Company's risk management framework and governance structure are intended to provide comprehensive controls and ongoing management of its major risks. The Company exercises oversight through the Board of Directors and delegation from the Board to various sub-committees which are organised in line with the Group Risk Management policy.

An overview of the key aspects of risk management and use of financial instruments is provided below. A more detailed description of the policies and processes adopted by all Group companies may be found within the JPMorgan Chase & Co. annual report.

Financial risk management (continued)

Liquidity risk

Liquidity risk arises from the general funding needs of the Company's activities and in the management of its assets and liabilities. The Company's funding needs are provided by JPMorgan Chase Bank, N.A. or other Group companies whose liquidity management frameworks are intended to maximise liquidity access. To accomplish this, management uses a variety of liquidity risk measures that take into consideration market conditions, prevailing interest rates, liquidity needs and the desired maturity profile.

Credit Risk

Each business within JPMorgan Chase & Co. has its own independent credit risk management function, reporting to the Business executive and the Chief Credit Officer. These units are responsible for making credit decisions on behalf of the Company. They approve significant new transactions and product offerings and exercise on behalf of the directors, final authority over credit risk assessment. They are also responsible for monitoring the credit risk profile of the portfolio and reporting monthly to the Group's Operating Committee.

Market risk

Market risk represents the potential loss in value of portfolios and financial instruments caused by adverse movements in market variables such as interest and foreign exchange rates, credit spreads, and equity and commodity prices. Market Risk Management (MRM) is a function within the Group that is independent of the businesses and identifies, measures, monitors and controls market risk. MRM works in partnership with the business segments within the Group and the directors of the Company to identify market risks and to refine and monitor market risk policies and procedures. Market risk is primarily controlled through a series of limits. Since no single measure can reflect all aspects of market risk, the Group uses several measures, both statistical and non-statistical, including:

- Statistical risk measures
  - Value-at-Risk (VAR)
  - Risk identification for large exposures (RIFLE)

- Non-statistical risk measures
  - Economic value stress tests
  - Earnings-at-risk stress tests
  - Other measures of position size and sensitivity to market moves

The Group's VAR statistical measure gauges the potential loss from adverse market moves in an ordinary market environment. Through the Group's RIFLE system, risk managers identify worst-case losses that could arise from an unusual or specific event, such as a potential tax change, and estimate the probabilities of such a loss. This information is then communicated to the appropriate level of management, thereby permitting the Group and the directors to identify further earnings vulnerabilities. MRM regularly reviews and updates risk limits, and the Group's Operating Committee reviews and approves risk limits at least twice a year.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events. To monitor and control operating risk, the Group and the Company maintains a system of comprehensive policies and a control framework designed to provide a sound and well-controlled operational environment.

Directors

The directors of the Company who served during the period and up to the date of signing the financial statements were as follows:

TMF Management BV	(appointed 11 June 2006, resigned 6 March 2007)
J.C.W. van Burg	(appointed 6 March 2007)
J.P. Everwijn	(appointed 6 March 2007)
J.C.P. van Uffelen	(appointed 6 March 2007)
B. von Gunten	(appointed 6 March 2007)

J.P. MORGAN STRUCTURED PRODUCTS B.V.

Directors' report for the period ended 31 December 2006 (continued)

Registered office

Strawinskylaan 3105,
1077 ZX Amsterdam,
The Netherlands

Auditors

The auditors, PricewaterhouseCoopers Accountants N.V. were appointed on 2 March 2007 and have expressed their willingness to continue in office.

By order of the Board

Director

Director

16 May 2007

J.P. MORGAN STRUCTURED PRODUCTS B.V.

Balance sheet as at 31 December 2006

	Notes	2006 US$
Assets		
Non-current assets		
Deferred taxation	3	5,356
Current assets		
Cash and cash equivalents		23,333
Total assets		28,689
Liabilities		
Current liabilities		
Trade and other payables	4	21,457
		21,457
Equity		
Capital and reserves attributable to equity shareholders of the Company		
Share capital	5	22,880
Retained earnings		-
Loss for the period		(15,648)
		7,232
Total liabilities and equity		28,689

On behalf of the Board

Director

Director

16 May 2007

The notes on pages 8 to 10 form an integral part of these financial statements

J.P. MORGAN STRUCTURED PRODUCTS B.V.

Income statement for the period from 6 November 2006 to 31 December 2006

	Note	6 November 2006 to 31 December 2006 US$
Administrative expenses		(21,629)
Net foreign exchange gains		603
Operating loss		(21,026)
Interest and similar income		22
Loss before income tax		(21,004)
Income tax credit	6	5,356
Loss for the period attributable to equity shareholders of the Company		(15,648)

The notes on pages 8 to 10 form an integral part of the financial statements.

J.P. MORGAN STRUCTURED PRODUCTS B.V.

Statement of changes in equity for the period from 6 November 2006 to 31 December 2006

	Share capital	Retained earnings	Loss for the period	Total equity
	US$	US$	US$	US$
Balance at 6 November 2006	-	-	-	-
Issue of ordinary shares	22,880	-	-	22,880
Loss for the period	-	-	(15,648)	(15,648)
Balance at 31 December 2006	22,880	-	(15,648)	7,232

The notes on pages 8 to 10 form an integral part of the financial statements.

J.P. MORGAN STRUCTURED PRODUCTS B.V.

Cash flow statement for the period from 6 November 2006 to 31 December 2006

	2006
	US$
Cash flows from operating activities	
Loss before income tax	(21,004)
Adjustments for:	
Interest and similar income	(22)
Foreign exchange gains on operating activities	(603)
	(21,629)
Changes in working capital	
Net increase in trade and other payables	21,457
Net cash from operating activities	(172)
Cash flow from investing activities	
Interest received	22
Cash flow from financing activities	
Proceeds from issuance of ordinary shares	22,880
Net increase in cash and cash equivalents	22,730
Cash and cash equivalents at the beginning of the period	-
Effect of exchange rate adjustments	603
Cash and cash equivalents at the end of the period	23,333

The notes on pages 8 to 10 form an integral part of the financial statements.

J.P. MORGAN STRUCTURED PRODUCTS B.V.

Notes to the financial statements for the period ended 31 December 2006

1. General information

J.P. Morgan Structured Products B.V. (the Company) was incorporated on 6 November 2006 as a limited liability company under the laws of The Netherlands. These financial statements reflect the operations of the Company during the period from 6 November 2006 to 31 December 2006.

The Company's main activity is the issuance of securitised derivatives comprising certificates, warrants and notes including equity linked, reverse convertible and market participation notes, and the subsequent hedging of those risk positions.

2. Summary of significant accounting policies

(a) Accounting convention

The financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union and under the historical cost convention.

(b) Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into US dollars at rates of exchange ruling on the balance sheet date. Income and expense items denominated in foreign currencies are translated into US dollars at the average monthly rates of exchange during the period. Any gains or losses arising from translation are taken directly to the income statement.

Non-monetary items denominated in foreign currencies that are stated in historical cost are translated into US dollars at the date of the transaction.

The financial statements have been presented in US dollars as this is the currency of the primary economic environment in which the Company operates and generates net cash flows. The exchange rates used are:

Period-end exchange rate (USD/EUR)	1.31449
Average rate for the period (USD/EUR)	1.30376

(c) Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

Notes to the financial statements for the period ended 31 December 2006 (continued)

2. Summary of significant accounting policies (continued)

(d) Cash and cash equivalents

Cash and cash equivalents includes cash in hand and balances with banks, other short term liquid investments with original maturities of three months or less, and bank overdrafts.

(e) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(f) Share capital

The share capital of the Company consists of ordinary shares, classified as equity.

(g) Income recognition

Interest income is recognised on an accruals basis.

3. Deferred taxation

	Tax losses US$	Total US$
At 6 November 2006	-	-
Credit to the income statement for the period	5,356	5,356
At 31 December 2006	5,356	5,356

Deferred income tax assets have been recognised at the rate of 25.5%.

4. Trade and other payables

	2006 US$
Accrued expenses	21,457

5. Share Capital

	2006
Authorised	
90,000 ordinary shares of €1.00 each	€90,000
Issued and fully paid	
18,000 ordinary shares of €1.00 each	US$22,880

On 6 November 2006, the Company issued 18,000 ordinary shares with a par value of €1.00 each as fully paid up share capital of the Company translating to US$22,880.

J.P. MORGAN STRUCTURED PRODUCTS B.V.

Notes to the financial statements for the period ended 31 December 2006 (continued)

6. Income tax credit

	2006 US$
Deferred income tax	5,356
Loss before income tax	(21,004)
Tax credit calculated at the applicable rate in the Netherlands of 25.5%	5,356
Income tax credit	5,356

7. Related party disclosures

Related parties comprise:

(a) Directors and shareholders of the Company and companies in which they have an ownership interest;

(b) Group undertakings of the Company.

The Companies parent undertakings are detailed in note 8. There were no transactions with the parent undertakings or any other JPMorgan Chase group undertakings during the period other than equity transactions detailed in the statement of changes in equity.

There was no remuneration paid to the directors of the Company. Administrative expenses amounting to US$21,281 were charged by the sole director TMF Management BV for various services rendered during the period.

The Company had no employees, other than directors, at any time during the period.

8. Parent undertakings

The Company's immediate parent undertaking is J.P. Morgan International Finance Limited which is incorporated in the state of Delaware in the United States of America.

The Company's ultimate parent undertaking and the parent undertaking of the largest and smallest group in which the results of the Company are consolidated, is JPMorgan Chase & Co., which is also incorporated in the state of Delaware in the United States of America.

The parent groups' consolidated financial statements can be obtained from:

The Company Secretary
125 London Wall
London EC2Y 5AJ
England

9. Events after the balance sheet date

On 29 March 2007, the Company issued 2,000 ordinary shares with a par value of €1.00 each at premium for the sum of US$500 million. The cash was subsequently placed with another JPMorgan Chase group undertaking.

J.P. MORGAN STRUCTURED PRODUCTS B.V.

Other information

Profit appropriation according to the Articles of Association

The articles of association of the Company require that the allocation of profits be determined in a general meeting of the management board. Dividends may be paid only up to an amount which does not exceed the amount of the distributable part of the net assets. Dividends shall be paid after adoption of the annual accounts from which it appears that payment of dividends is permissible.

Proposed appropriation of net results

Management propose to appropriate the current period losses to the retained earnings. No dividend was paid or proposed during the period.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers Accountants N.V.
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To the General Meeting of Shareholders of
J.P. Morgan Structured Products B.V.

Auditor's report

Report on the financial statements

We have audited the accompanying financial statements 2006 of J.P. Morgan Structured Products B.V., Amsterdam which comprise the balance sheet as at 31 December 2006, the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

The directors' responsibility
The directors of the company are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the directors' report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of J.P. Morgan Structured Products B.V. as at 31 December 2006, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the directors' report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, 16 May 2007
PricewaterhouseCoopers Accountants N.V.

J.M. de Jonge RA

INFORMATION RELATING TO THE GUARANTOR

The guarantor, JPMorgan Chase Bank, National Association, is a wholly owned bank subsidiary of JPMorgan Chase & Co. which is incorporated in the State of Delaware in the United States and has its headquarters in New York. The guarantor's registered office is located at 1111 Polaris Parkway, Columbus, Ohio 43240, United States of America and its principal place of business is located at 270 Park Avenue, New York, NY 10017, United States of America (telephone number +1 212 270 6000). The guarantor is a commercial bank offering a wide range of banking services to its customers both domestically and internationally. The guarantor is chartered and its business is subject to examination and regulation by the U.S. Office of the Comptroller of the Currency, a bureau of the United States Department of the Treasury. Its powers are set forth in the United States National Bank Act and include all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes. The guarantor was organised in the legal form of a banking corporation organised under the laws of the State of New York on 26 November 1968 for an unlimited duration. On 13 November 2004, the guarantor converted from a New York state-chartered bank organised under the laws of the State of New York to a national banking association organised under the laws of the United States of America.

Chase Bank USA, National Association with its main office located in Newark, Delaware, is another principal bank subsidiary of JPMorgan Chase & Co. JPMorgan Chase & Co.'s principal nonbank subsidiary is J.P. Morgan Securities Inc. The bank and nonbank subsidiaries of JPMorgan Chase & Co. operate nationally as well as through overseas branches and subsidiaries, representative offices and affiliated banks.

As of 31 December 2006, the guarantor had total assets of $1,179.4 billion, total net loans of $416.7 billion, total deposits of $650.6 billion, and total stockholder's equity of $96.0 billion. These figures are extracted from the guarantor's unaudited Consolidated Reports of Condition and Income as at 31 December 2006, which are filed with the Federal Deposit Insurance Corporation.

The guarantor is a member of the Federal Reserve System and its deposits are insured by the Federal Deposit Insurance Corporation. Its Federal Reserve Bank Identification Number is 852218.

Additional information on JPMorgan Chase & Co., including the most recent Form 10-K for the year ended 31 December 2006 of JPMorgan Chase & Co., the 2005 Annual Report of JPMorgan Chase & Co. and additional quarterly and current reports filed with the U.S. Securities and Exchange Commission ("SEC") by JPMorgan Chase & Co., as they become available, may be obtained from the SEC internet site (http://www.sec.gov). Further information regarding JPMorgan Chase & Co. can be obtained from its website http://www.jpmorganchase.com.

Business Activities

Principal Business Activities

The guarantor's business activities are, for management reporting purposes, organised and integrated with the businesses of JPMorgan Chase & Co. and its affiliates into business segments for each line of business as well as a Corporate segment. The wholesale businesses comprise the Investment Bank, Commercial Banking, Treasury & Securities Services, and Asset Management. The consumer business comprises Retail Financial Services. Below is a description of each segment.

Investment Bank

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

Retail Financial Services

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

RFS serves customers through more than 3,000 bank branches, 8,500 ATMs and 270 mortgage offices, and through relationships with more than 15,000 auto dealerships and 4,300 schools and universities. More than 11,000 branch salespeople assist customers with checking and savings accounts, mortgage, home equity and business loans, investments and insurance across a 17-state footprint from New York to Arizona. Over 1,200 additional mortgage officers provide home loans throughout the country.

Commercial Banking

Commercial Banking ("CB") serves more than 30,000 clients, including corporations, municipalities, financial institutions and not-for-profit entities. These clients generally have annual revenues ranging from $10 million to $2 billion. Commercial bankers serve clients nationally throughout the RFS footprint and in offices located in other major markets. CB offers its clients industry knowledge, experience, a dedicated service model, comprehensive solutions and local expertise. JPMorgan Chase & Co.'s broad platform positions CB to deliver extensive product capabilities including lending, treasury services, investment banking and asset management to meet its clients' U.S. and international financial needs.

Treasury & Securities Services

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

Asset Management

With assets under supervision of $1.3 trillion, Asset Management ("AM") is a global leader in investment and wealth management. AM clients include institutions, retail investors and high-net-worth individuals in every major market throughout the world. AM offers global investment management in equities, fixed income, real estate, hedge funds, private equity and liquidity, including both money market instruments and bank deposits. AM also provides trust and estate and banking services to high-net-worth clients, and retirement services for corporations and individuals. The majority of AM's client assets are in actively managed portfolios.

Principal Markets

The consolidated group of the guarantor and its parent, JPMorgan Chase & Co. has branches in 17 states within the United States of America and clients such as corporations, financial institutions, governments and institutional investors worldwide.

Principal Establishments and Real Estate Owned

The guarantor owns and/or leases property in most major cities throughout the world including the United States of America, the United Kingdom, Europe and the Far East. In the United States of America the guarantor's property portfolio includes commercial office space and retail space owned or leased in New York City, New York and Chicago, Illinois totalling several million square feet, as well as owning or leasing significant administrative and operational facilities in Chicago; Houston and Dallas, Texas; Columbus, Ohio; Wilmington, Delaware; and Jersey City, New Jersey. The guarantor also leases approximately 2.3 million square feet of office space in the United Kingdom and owns a 350,000 square-foot operation centre. In addition, the guarantor and its subsidiaries occupy offices and other administrative and operational facilities throughout the world under various types of ownership and leasehold agreements, including 3,079 branches in the U.S.

Organisational Structure

The guarantor is one of the principal, wholly-owned bank subsidiaries of JPMorgan Chase & Co., a company incorporated in the State of Delaware in the U.S.. The ordinary shares of JPMorgan Chase & Co. are listed on the New York Stock Exchange with ticker "JPM" and they are also listed on the London and Tokyo Stock Exchanges. The ordinary shares of JPMorgan Chase & Co. form part of the Dow Jones Industrial Average Index of the New York Stock Exchange.

Trend Information

The guarantor's outlook for the remainder of 2007 should be viewed against the backdrop of the global economy, financial markets and the geopolitical environment, all of which are integrally linked together. Whilst the guarantor considers outcomes for, and has contingency plans to respond to, stress environments, its basic outlook for 2007 continues to be predicated on interest rate movements, the continuation of the favourable U.S. and international equity markets and the continued expansion of the global economy. Financial market movements and global market activity levels will continue to affect the guarantor's business volumes, investment banking revenues, general revenue growth and prospects for 2007.

Management

Directors of the guarantor

The members of the Board of Directors of the guarantor, as at December 1, 2006 and their respective offices and principal outside activities are as follows:

Name	Office	Principal activities outside JPMCB
James Dimon	Director, Chairman of the Board and Chief Executive Officer	Chairman of the Board, Chief Executive Officer and President of JPMorgan Chase & Co.
Frank Bisignano	Director	Chief Adminsitration Officer of JPMorgan Chase & Co.
Steven D. Black	Director	Co-Chief Executive Officer, Investment Bank
Michael J. Cavanagh	Director	Chief Financial Officer of JPMorgan Chase & Co.
Charles W. Scharf	Director	Chief Executive Officer, Retail Financial Services of JPMorgan Chase & Co.
James E. Staley	Director	Chief Executive Officer of Asset Management

The business address of each Director is 270 Park Avenue, New York, NY 10017, United States of America. Subject to their duties to JPMorgan Chase & Co., there are no actual or potential conflicts of interest between any duties owed to the guarantor by the directors of the guarantor identified above and their private interests and/or outside duties.

Executive Officers of the guarantor

The executives and other persons involved in the high-level management of the guarantor and their respective roles as at 1 February 2007 are as follows:

James Dimon	Chairman of the Board, Chief Executive Officer and President
Frank Bisignano	Chief Administrative Officer
Steven D. Black	Co-Chief Executive Officer, Investment Bank
John F. Bradley	Director of Human Resources
Michael J. Cavanagh	Chief Financial Officer

Stephen M. Cutler	General Counsel
Ina R. Drew	Chief Investment Officer
Samuel Todd Maclin	Head, Commercial Banking
Jay Mandelbaum	Head, Strategy and Business Development
Heidi Miller	Chief Executive Officer, Treasury & Securities Services
Charles W. Scharf	Chief Executive Officer, Retail Financial Services
Richard J. Srednicki	Chief Executive Officer, Card Services
James E. Staley	Global Head, Asset Management
William T. Winters	Co-Chief Executive Officer, Investment Bank

The business address of each of the executive officers set out above is 270 Park Avenue, New York, New York 10017, United States of America. There are no actual or potential conflicts of interest between any duties owed to the guarantor by the executive officers of the guarantor identified above and their private interests and/or outside duties.

Internal Governance and Risk Management

Risk management

Risk is an inherent part of JPMorgan Chase & Co.'s business activities. JPMorgan Chase & Co.'s risk management framework and governance structure is intended to provide comprehensive controls and ongoing management of the major risks inherent in its business activities.

JPMorgan Chase & Co.'s ability to properly identify, measure, monitor and report risk is critical to both soundness and profitability.

- **Risk identification:** Identifies risk by dynamically assessing the potential impact of internal and external factors on transactions and positions. Business and risk professionals develop appropriate mitigation strategies for the identified risks.

- **Risk measurement:** Measures risk using a variety of methodologies, including calculating probable loss, unexpected loss and value-at-risk, and by conducting stress tests and making comparisons to external benchmarks. Measurement models and related assumptions are routinely reviewed with the goal of ensuring that JPMorgan Chase & Co.'s risk estimates are reasonable and reflective of underlying positions.

- **Risk monitoring/control:** Establishes risk management policies and procedures. These policies contain approved limits by customer, product and business that are monitored on a daily, weekly and monthly basis as appropriate.

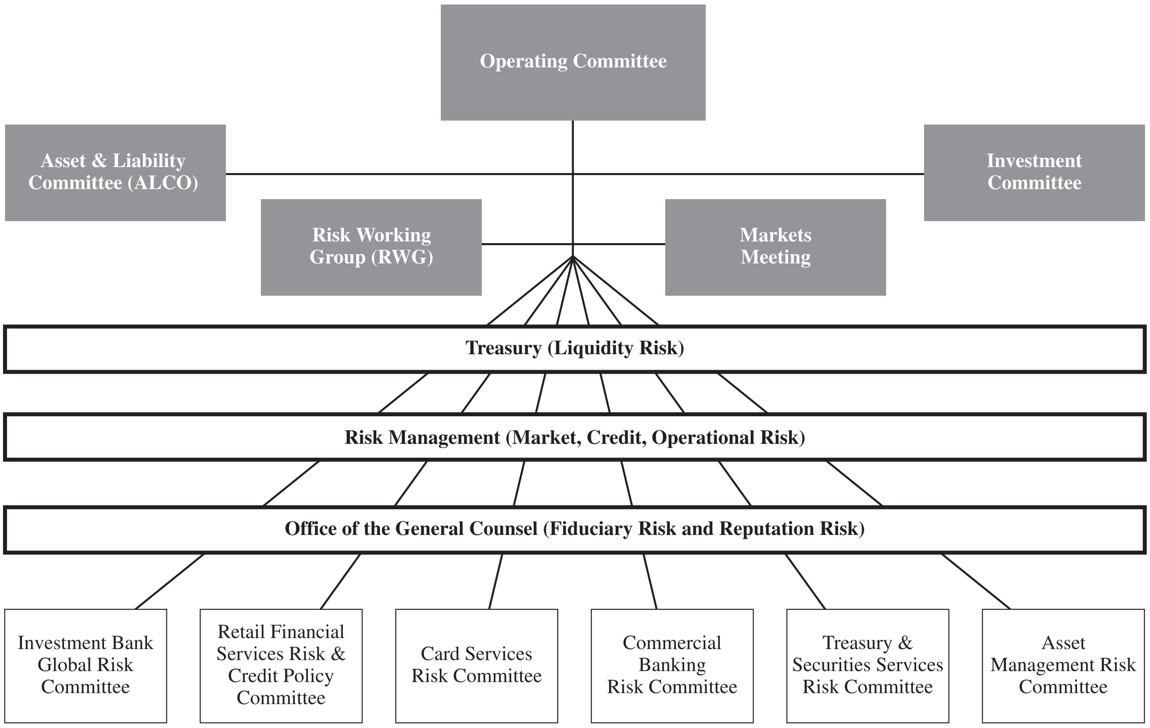
- **Risk reporting:** Risk reporting covers all lines of business and is provided to management on a daily, weekly and monthly basis as appropriate.

Risk governance

JPMorgan Chase & Co.'s risk governance structure is built upon the premise that each line of business is responsible for managing the risks inherent in its business activity. There are nine major risk types identified in the business activities of JPMorgan Chase & Co.: liquidity risk, credit risk, market risk, operational risk, reputation risk, conflict of interest risk/fiduciary risk, strategic risk, compliance risk and principal risk. As part of the risk management structure, each line of business has a Risk Committee responsible for decisions relating to risk strategy, policies and control. Where appropriate, the Risk Committees escalate risk issues to JPMorgan Chase & Co.'s Operating Committee, comprising senior officers of JPMorgan Chase & Co., or to the Risk Working Group, a subgroup of the Operating Committee. A Markets Meeting, chaired by the Chief Executive Officer, is also convened weekly to review and determine appropriate courses of action with respect to significant risk matters including, but not limited to, limits, credit, market and operational risk, large high risk transactions, hedging, reputation risk, conflicts of interest, reserve inadequacy, and issues referred to it by the Chief Risk Officer ("CRO") and lines of business.

Corporate Risk Management ("CRM"), under the direction of the CRO reporting to the President, provides a corporate-wide independent function for the control and management of risk. CRM sets standards for risk policy, procedure, measurement, and monitoring. It also makes credit and market risk decisions when elevated from the lines of business, and is a check and balance to the lines of business.

In addition, JPMorgan Chase & Co. maintains an Asset & Liability Committee ("ALCO"), which oversees interest rate, liquidity and currency risk, and capital management, as well as JPMorgan Chase & Co.'s funds transfer pricing policy, through which lines of business transfer interest rate risk to Treasury. Treasury has responsibility for ALCO policies and control and transfers aggregate risk positions to the Chief Investment Office, which has responsibility for managing the risk. There is also an Investment Committee, which reviews key aspects of JPMorgan Chase & Co.'s global M&A activities that are undertaken for its own investment account and that fall outside the scope of JPMorgan Chase & Co.'s private equity and other principal finance activities.



The Board of Directors exercises its oversight of risk management as a whole and through the Board's Risk Policy Committee and Audit Committee.

The Risk Policy Committee is responsible for oversight of management's responsibilities to assess and manage JPMorgan Chase & Co.'s risks as described above.

The Audit Committee is responsible for oversight of guidelines and policies that govern the process by which risk assessment and management is undertaken. In addition, the Audit Committee reviews with management the system of internal controls and financial reporting that is relied upon to provide reasonable assurance of compliance with JPMorgan Chase & Co.'s operational risk management processes. Both committees are responsible for oversight of reputation risk. The Chief Risk Officer and other management report on the risks of JPMorgan Chase & Co. to the Board of Directors, particularly through the Board's Risk Policy Committee and Audit Committee.

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

Report of Independent Registered Public Accounting Firm
To the Board of Directors and Stockholder of JPMorgan Chase Bank, National Association

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in stockholder's equity and comprehensive income, and cash flows present fairly, in all material respects, the financial position of JPMorgan Chase Bank, National Association and its subsidiaries (the "Company") at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 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 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.

As described in the section entitled "Restatement of the Consolidated Statements of Cash Flows" included in Note 1 to the consolidated financial statements, the Company restated its 2005 and 2004 consolidated financial statements.

PricewaterhouseCoopers LLP

April 11, 2007

CONSOLIDATED STATEMENTS OF INCOME

JPMorgan Chase Bank, National Association
(A Wholly-Owned Subsidiary of JPMorgan Chase & Co.)

Year ended December 31, (in millions)	**2006**	2005	2004[a]
Revenue			
Investment banking fees	**$ 3,026**	$ 2,290	$ 1,780
Principal transactions	**9,277**	5,960	3,654
Lending & deposit related fees	**3,415**	3,345	2,631
Asset management, administration and commissions	**7,833**	7,532	5,394
Securities gains (losses)	**(550)**	(1,463)	290
Mortgage fees and related income	**565**	1,053	863
Credit card income	**2,935**	3,064	1,732
Other income	**2,690**	1,284	635
Noninterest revenue	**29,191**	23,065	16,979
Interest income	**49,284**	35,273	22,247
Interest expense	**31,149**	19,990	10,285
Net interest income	**18,135**	15,283	11,962
Total net revenue	**47,326**	38,348	28,941
Provision for credit losses	**1,809**	1,101	534
Noninterest expense			
Compensation expense	**15,165**	12,649	10,135
Occupancy expense	**2,151**	1,927	1,735
Technology, communications and equipment expense	**3,231**	3,139	2,424
Professional & outside services	**3,030**	3,218	2,830
Marketing	**561**	497	373
Other expense	**6,805**	7,157	6,519
Amortization of intangibles	**695**	751	415
Merger costs	**271**	461	1,057
Total noninterest expense	**31,909**	29,799	25,488
Income from continuing operations before income tax expense	**13,608**	7,448	2,919
Income tax expense	**4,487**	2,563	937
Income from continuing operations	**9,121**	4,885	1,982
Income from discontinued operations	**798**	207	196
Net income	**$ 9,919**	$ 5,092	$ 2,178

(a) 2004 results include six months of the combined JPMorgan Chase Bank, N.A.'s results and six months of heritage JPMorgan Chase Bank, N.A. results.

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

CONSOLIDATED BALANCE SHEETS

JPMorgan Chase Bank, National Association
(A Wholly-Owned Subsidiary of JPMorgan Chase & Co.)

December 31, (in millions, except share data)	2006	2005
Assets		
Cash and due from banks	$ 37,841	$ 35,280
Deposits with banks	13,412	20,886
Federal funds sold and securities purchased under resale agreements	201,458	177,017
Securities borrowed	42,784	43,842
Trading assets (including assets pledged of $62,581 at December 31, 2006, and $54,225 at December 31, 2005)	284,282	221,837
Securities:		
Available-for-sale (including assets pledged of $45,032 at December 31, 2006, and $17,614 at December 31, 2005)	88,429	37,036
Held-to-maturity (fair value: $60 at December 31, 2006, and $80 at December 31, 2005)	58	77
Interests in purchased receivables	—	29,740
Loans	421,833	365,991
Allowance for loan losses	(5,170)	(4,857)
Loans, net of Allowance for loan losses	416,663	361,134
Accrued interest and accounts receivable	22,564	13,735
Premises and equipment	7,986	8,102
Goodwill	25,939	23,499
Other intangible assets:		
Mortgage servicing rights	7,546	6,452
Purchased credit card relationships	190	91
All other intangibles	3,887	3,935
Other assets	26,351	31,322
Total assets	**$ 1,179,390**	$ 1,013,985
Liabilities		
Deposits:		
U.S. offices:		
Noninterest-bearing	$ 139,234	$ 141,522
Interest-bearing	307,836	265,343
Non-U.S. offices:		
Noninterest-bearing	7,773	7,552
Interest-bearing	185,623	138,193
Total deposits	640,466	552,610
Federal funds purchased and securities sold under repurchase agreements	157,309	104,722
Other borrowed funds	14,664	10,200
Trading liabilities	125,035	124,236
Accounts payable, accrued expenses and other liabilities (including the Allowance for lending-related commitments of $523 at December 31, 2006, and $397 at December 31, 2005)	62,235	41,660
Beneficial interests issued by consolidated variable interest entities	11,802	37,995
Long-term debt (including structured notes accounted for at fair value of $24,149 at December 31, 2006)	71,256	55,612
Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities	613	600
Total liabilities	**1,083,380**	927,635
Commitments and contingencies (see Note 26 on pages 45–46 of these consolidated financial statements)		
Stockholder's equity		
Preferred stock ($1 par value; authorized 15,000,000 shares; no shares outstanding)	—	—
Common stock ($12 par value; authorized 148,765,000 shares; outstanding 148,761,243 shares)	1,785	1,785
Capital surplus	60,431	59,504
Retained earnings	34,721	25,711
Accumulated other comprehensive income (loss)	(927)	(650)
Total stockholder's equity	**96,010**	86,350
Total liabilities and stockholder's equity	**$ 1,179,390**	$ 1,013,985

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY AND COMPREHENSIVE INCOME

JPMorgan Chase Bank, National Association
(A Wholly-Owned Subsidiary of JPMorgan Chase & Co.)

Year ended December 31, (in millions)	2006	2005	2004[(a)]
Common stock			
Balance at beginning and end of year	**$ 1,785**	$ 1,785	$ 1,785
Capital surplus			
Balance at beginning of year	**59,504**	58,290	16,318
Capital contribution of Bank One National Association (Columbus) and Bank One, National Association (Chicago) from JPMorgan Chase & Co.	**(155)**	177	41,636
Cash capital contribution from JPMorgan Chase & Co.	**14**	789	700
Other noncash capital contributions from JPMorgan Chase & Co.	**1,068**	248	136
Liquidating cash dividends paid to JPMorgan Chase & Co. by Bank One, National Association (Chicago)	**—**	—	(500)
Balance at end of year	**60,431**	59,504	58,290
Retained earnings			
Balance at beginning of year	**25,711**	20,968	19,590
Cumulative effect of change in accounting principles	**172**	—	—
Balance at beginning of year, adjusted	**25,883**	20,968	19,590
Net income	**9,919**	5,092	2,178
Cash dividends paid to JPMorgan Chase & Co.	**(1,000)**	(500)	(800)
Net internal legal entity mergers	**(81)**	151	—
Balance at end of year	**34,721**	25,711	20,968
Accumulated other comprehensive income (loss)			
Balance at beginning of year	**(650)**	(403)	(202)
Other comprehensive income (loss)	**154**	(247)	(201)
Adjustment to initially apply SFAS 158	**(431)**	—	—
Balance at end of year	**(927)**	(650)	(403)
Total stockholder's equity	**$ 96,010**	$ 86,350	$ 80,640
Comprehensive income			
Net income	**$ 9,919**	$ 5,092	$ 2,178
Other comprehensive income (loss)	**154**	(247)	(201)
Comprehensive income	**$ 10,073**	$ 4,845	$ 1,977

(a) 2004 results include six months of the combined JPMorgan Chase Bank, N.A.'s results and six months of heritage JPMorgan Chase Bank, N.A. results.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

JPMorgan Chase Bank, National Association
(A Wholly-Owned Subsidiary of JPMorgan Chase & Co.)

Year ended December 31, (in millions)	2006	(Restated) 2005	(Restated) 2004[a]
Operating activities			
Net income	**$ 9,919**	$ 5,092	$ 2,178
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Provision for credit losses	**1,809**	1,101	534
Depreciation and amortization	**2,080**	3,187	2,856
Amortization of intangibles	**695**	751	415
Deferred tax benefit	**(1,555)**	(1,324)	(435)
Investment securities (gains) losses	**550**	1,463	(290)
Private equity unrealized (gains) losses	**29**	(79)	27
Gains on disposition of businesses	**(1,123)**	—	—
Originations and purchases of loans held-for-sale	**(174,379)**	(108,611)	(88,755)
Proceeds from sales and securitizations of loans held-for-sale	**167,988**	102,602	95,413
Net change in:			
Trading assets	**(55,089)**	20,365	(55,336)
Securities borrowed	**1,058**	(20,196)	(3,903)
Accrued interest and accounts receivable	**(8,385)**	1,512	(1,394)
Other assets	**2,831**	(4,687)	(17,621)
Trading liabilities	**(5,696)**	(23,733)	40,027
Accounts payable, accrued expenses and other liabilities	**9,391**	(216)	11,188
Other operating adjustments	**3,420**	—	(17)
Net cash used in operating activities	**(46,457)**	(22,773)	(15,113)
Investing activities			
Net change in:			
Deposits with banks	**7,763**	11,827	(15,767)
Federal funds sold and securities purchased under resale agreements	**(24,837)**	(62,174)	(9,528)
Held-to-maturity securities:			
Proceeds	**19**	33	66
Available-for-sale securities:			
Proceeds from maturities	**23,509**	28,624	41,114
Proceeds from sales	**120,830**	80,160	113,615
Purchases	**(197,374)**	(76,388)	(161,488)
Proceeds from sales and securitizations of loans held-for-investment	**14,466**	13,432	7,097
Originations and other changes in loans, net	**(52,342)**	(39,413)	(14,325)
Net cash received (used) in business dispositions or acquisitions	**(5,330)**	(2,517)	13,297
All other investing activities, net	**1,014**	2,748	3,759
Net cash used in investing activities	**(112,282)**	(43,668)	(22,160)
Financing activities			
Net change in:			
Deposits	**86,165**	29,343	45,950
Federal funds purchased and securities sold under repurchase agreements	**52,587**	18,586	3,278
Other borrowed funds	**4,561**	5,256	(3,559)
Proceeds from the issuance of long-term debt and trust preferred capital debt securities	**34,639**	32,203	19,515
Repayments of long-term debt and trust preferred capital debt securities	**(22,031)**	(21,895)	(11,885)
Liquidating cash dividend paid to JPMorgan Chase & Co. by Bank One, National Association (Chicago)	**—**	—	(500)
Cash dividends paid	**(1,000)**	(500)	(800)
All other financing activities, net	**6,180**	5,233	(459)
Net cash provided by financing activities	**161,101**	68,226	51,540
Effect of exchange rate changes on cash and due from banks	**199**	(385)	184
Net increase in cash and due from banks	**2,561**	1,400	14,451
Cash and due from banks at the beginning of the year	**35,280**	33,880	19,429
Cash and due from banks at the end of the year	**$ 37,841**	$ 35,280	$ 33,880
Cash interest paid	**$ 29,599**	$ 19,064	$ 11,408
Cash income taxes paid[b]	**$ 4,088**	$ 4,357	$ 1,367

Note: In 2006, JPMorgan Chase Bank, N.A. exchanged selected corporate trust businesses for The Bank of New York's consumer, business banking and middle-market banking businesses. The fair values of the noncash assets acquired and transferred were \$2.12 billion and \$1.66 billion, respectively. The fair values of noncash assets acquired and liabilities assumed by JPMorgan Chase Bank, N.A. in connection with the merger of JPMorgan Chase & Co. with Bank One Corporation in 2004 were \$277.2 billion and \$247.9 billion, respectively.

(a) 2004 results include six months of the combined JPMorgan Chase Bank, N.A.'s results and six months of heritage JPMorgan Chase Bank, N.A. results.

(b) Includes \$2.7 billion paid to JPMorgan Chase & Co. in 2006. No payments were made to JPMorgan Chase & Co. in 2005 and 2004; for further information regarding the tax sharing arrangement process with related parties prior to 2006, see Note 23 on pages 43–44 of these consolidated financial statements.

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

Note 1 – Basis of presentation

JPMorgan Chase Bank, National Association ("JPMorgan Chase Bank, N.A.), is a wholly-owned bank subsidiary of JPMorgan Chase & Co. ("JPMorgan Chase"). JPMorgan Chase Bank, N.A. offers a wide range of banking services to its customers both domestically and internationally.

JPMorgan Chase Bank, N.A. is chartered by the Office of the Comptroller of the Currency ("OCC"), a bureau of the United States Department of the Treasury. JPMorgan Chase Bank, N.A. 's main office is located in Columbus, Ohio, and it has branches in 17 states. JPMorgan Chase Bank, N.A. was organized in the legal form of a banking corporation under the laws of the State of New York on November 26, 1968, for an unlimited duration. On November 13, 2004, JPMorgan Chase Bank, N.A. converted from a New York State banking corporation to a national banking association ("Conversion").

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

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

Consolidation

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

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

SPEs are an important part of the financial markets, providing market liquidity by facilitating investors' access to specific portfolios of assets and risks. For example, they are critical to the functioning of the mortgage- and asset-backed securities and commercial paper markets. SPEs may be organized as trusts, partnerships or corporations and are typically 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 JPMorgan Chase Bank, N.A.'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 no longer to meet the QSPE criteria. JPMorgan Chase Bank, N.A. primarily follows the QSPE model for securitizations of its residential and commercial mortgages, credit card loans and automobile loans. For further details, see Note 15 on pages 28–32 of these consolidated financial statements.

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

FIN 46R requires a variable interest holder (i.e., a counterparty to a VIE) to consolidate the VIE if that party will absorb a majority of the expected losses of the VIE, receive the majority of the expected residual returns of the VIE, or both. This party is considered the primary beneficiary. In making this determination, JPMorgan Chase Bank, N.A. 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, JPMorgan Chase Bank, N.A. 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 16 on pages 33–35 of these consolidated financial statements.

Investments in companies that are considered to be voting-interest entities under FIN 46R in which JPMorgan Chase Bank, N.A. 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 JPMorgan Chase Bank, N.A.'s share of income or loss is included in Other income.

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

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

Use of estimates in the preparation of consolidated financial statements

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

Foreign currency translation

JPMorgan Chase Bank, N.A. revalues assets, liabilities, revenues and expenses denominated in foreign (i.e., non-U.S.) currencies into U.S. dollars using applicable exchange rates.

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

Statements of cash flows

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

Accounting for certain hybrid financial instruments

SFAS 155 applies to certain "hybrid financial instruments" which are financial instruments that contain embedded derivatives. The standard establishes a requirement to evaluate beneficial interests in securitized financial assets to determine if the interests represent freestanding derivatives or are hybrid financial instruments containing embedded derivatives requiring bifurcation. SFAS 155 also permits an irrevocable election for fair value measurement of any hybrid financial instrument containing an embedded derivative that otherwise would require bifurcation under SFAS 133. The fair value election can be applied to existing instruments on an instrument-by-instrument basis at the date of adoption and can be applied to new instruments on a prospective basis.

JPMorgan Chase Bank, N.A. adopted SFAS 155 effective January 1, 2006. JPMorgan Chase Bank, N.A. has elected to fair value all instruments issued, acquired or modified after December 31, 2005, that are required to be bifurcated under SFAS 133, as amended by SFAS 138, SFAS 149 and SFAS 155. In addition, JPMorgan Chase Bank, N.A. elected to fair value certain structured notes existing as of December 31, 2005, resulting in a $22 million cumulative effect increase to Retained earnings. The cumulative effect adjustment included gross unrealized gains of $29 million and gross unrealized losses of $7 million.

The substantial majority of the structured notes to which the fair-value election has been applied are classified in Long-term debt on the Consolidated balance sheets. The change in fair value associated with structured notes is classified within Principal transactions revenue on the Consolidated statements of income. For a discussion of Principal transactions and Long-term debt, see Notes 5 and 20 on pages 12 and 39–40, respectively, of these consolidated financial statements.

Significant accounting policies

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

Business changes and developments	Note 3	Page 10
Principal transactions activities	Note 5	Page 12
Other noninterest revenue	Note 6	Page 13
Pension and other postretirement employee benefit plans	Note 8	Page 14
Employee stock-based incentives	Note 9	Page 20
Noninterest expense	Note 10	Page 23
Securities	Note 11	Page 23
Securities financing activities	Note 12	Page 25
Loans	Note 13	Page 26
Allowance for credit losses	Note 14	Page 27
Loan securitizations	Note 15	Page 28
Variable interest entities	Note 16	Page 33
Goodwill and other intangible assets	Note 17	Page 35
Premises and equipment	Note 18	Page 38
Long-term debt	Note 20	Page 39
Income taxes	Note 23	Page 43
Commitments and contingencies	Note 26	Page 45
Accounting for derivative instruments and hedging activities	Note 27	Page 46
Off–balance sheet lending-related financial instruments and guarantees	Note 28	Page 47
Fair value of financial instruments	Note 30	Page 50

Restatement of the Consolidated Statements of Cash Flows

JPMorgan Chase Bank, N.A. has restated the Consolidated statements of cash flows for the annual periods of 2005 and 2004. The restatements will not affect JPMorgan Chase Bank, N.A.'s Consolidated statements of income, Consolidated balance sheets or Consolidated statements of changes in stockholder's equity and comprehensive income for any of the affected periods. Accordingly, JPMorgan Chase Bank, N.A.'s historical revenues, net income, total assets and regulatory capital remain unchanged.

The restatements result solely from the misclassification of cash flows related to certain residential mortgages and other loans that had been originated or purchased with the intent to sell. The cash flows from these loans had been classified as investing activities. However, in accordance with Statement of Financial Accounting Standards No. 102, "Statement of Cash Flows--Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale," cash flows from these loans should have been, and in the future will be, classified as operating activities, rather than investing activities. Accordingly, the restatements will solely affect the classification of these activities and the subtotals of cash flows from operating and investing activities presented in the affected Consolidated statements of cash flows, but they will have no impact on the net increase (decrease) in total Cash and due from banks set forth in the Consolidated statements of cash flows for any of the previously reported periods.

The Consolidated statements of cash flows for the years ended December 31, 2005 and 2004, as previously reported and as restated, are reflected on the following page.

JPMorgan Chase Bank, National Association
(A Wholly-Owned Subsidiary of JPMorgan Chase & Co.)

	2005		2004[(a)]	
Year ended December 31, (in millions)	As previously reported	**Restated**	As previously reported	**Restated**
Operating activities				
Net income	$ 5,092	**$ 5,092**	$ 2,178	**$ 2,178**
Adjustments to reconcile net income to net cash (used in) provided by operating activities:				
Provision for credit losses	1,101	**1,101**	534	**534**
Depreciation and amortization	3,938	**3,187**	3,271	**2,856**
Amortization of intangibles	—	**751**	—	**415**
Deferred tax benefit	(1,324)	**(1,324)**	(435)	**(435)**
Investment securities (gains) losses	1,463	**1,463**	(290)	**(290)**
Private equity unrealized (gains) losses	(79)	**(79)**	27	**27**
Originations and purchases of loans held-for-sale	—	**(108,611)**	—	**(88,755)**
Proceeds from sales and securitizations of loans held-for-sale	—	**102,602**	—	**95,413**
Net change in:				
Trading assets	20,365	**20,365**	(55,336)	**(55,336)**
Securities borrowed	(20,196)	**(20,196)**	(3,903)	**(3,903)**
Accrued interest and accounts receivable	1,512	**1,512**	(1,394)	**(1,394)**
Other assets	(4,687)	**(4,687)**	(17,621)	**(17,621)**
Trading liabilities	(23,733)	**(23,733)**	40,027	**40,027**
Accounts payable, accrued expenses and other liabilities	(216)	**(216)**	11,188	**11,188**
Other operating adjustments	—	**—**	(17)	**(17)**
Net cash used in operating activities	(16,764)	**(22,773)**	(21,771)	**(15,113)**
Investing activities				
Net change in:				
Deposits with banks	11,827	**11,827**	(15,767)	**(15,767)**
Federal funds sold and securities purchased under resale agreements	(62,174)	**(62,174)**	(9,528)	**(9,528)**
Held-to-maturity securities:				
Proceeds	33	**33**	66	**66**
Available-for-sale securities:				
Proceeds from maturities	28,624	**28,624**	41,114	**41,114**
Proceeds from sales	80,160	**80,160**	113,615	**113,615**
Purchases	(76,388)	**(76,388)**	(161,488)	**(161,488)**
Proceeds from sales and securitizations of loans held-for-investment	115,706	**13,432**	102,320	**7,097**
Originations and other changes in loans, net	(147,696)	**(39,413)**	(102,890)	**(14,325)**
Net cash received (used) in business dispositions or acquisitions	(2,517)	**(2,517)**	13,297	**13,297**
All other investing activities, net	2,748	**2,748**	3,759	**3,759**
Net cash used in investing activities	(49,677)	**(43,668)**	(15,502)	**(22,160)**
Financing activities				
Net change in:				
Deposits	29,343	**29,343**	45,950	**45,950**
Federal funds purchased and securities sold under repurchase agreements	18,586	**18,586**	3,278	**3,278**
Other borrowed funds	5,256	**5,256**	(3,559)	**(3,559)**
Proceeds from the issuance of long-term debt and trust preferred capital debt securities	32,203	**32,203**	19,515	**19,515**
Repayments of long-term debt and trust preferred capital debt securities	(21,895)	**(21,895)**	(11,885)	**(11,885)**
Liquidating cash dividend paid to JPMorgan Chase & Co. by Bank One, National Association (Chicago)	—	**—**	(500)	**(500)**
Cash dividends paid	(500)	**(500)**	(800)	**(800)**
All other financing activities, net	5,233	**5,233**	(459)	**(459)**
Net cash provided by financing activities	68,226	**68,226**	51,540	**51,540**
Effect of exchange rate changes on cash and due from banks	(385)	**(385)**	184	**184**
Net increase in cash and due from banks	1,400	**1,400**	14,451	**14,451**
Cash and due from banks at the beginning of the year	33,880	**33,880**	19,429	**19,429**
Cash and due from banks at the end of the year	$ 35,280	**$ 35,280**	$ 33,880	**$ 33,880**
Cash interest paid	$ 19,064	**$ 19,064**	$ 11,408	**$ 11,408**
Cash income taxes paid	$ 4,357	**$ 4,357**	$ 1,367	**$ 1,367**

Note: The fair values of noncash assets acquired and liabilities assumed by JPMorgan Chase Bank, N.A. in connection with the merger of JPMorgan Chase & Co. with Bank One Corporation in 2004 were $277.2 billion and $247.9 billion, respectively.

(a) 2004 results include six months of the combined JPMorgan Chase Bank, N.A.'s results and six months of heritage JPMorgan Chase Bank, N.A. results.

Note 2 – Accounting and Reporting Developments

Accounting for share-based payments

Effective January 1, 2006, JPMorgan Chase Bank, N.A. adopted SFAS 123R and all related interpretations using the modified prospective transition method. SFAS 123R requires all share-based payments to employees, including employee stock options and stock-settled stock appreciation right ("SARs"), to be measured at their grant date fair values. For additional information related to SFAS 123R, see Note 9 on pages 20–22 of these consolidated financial statements.

Accounting for certain hybrid financial instruments – an amendment of FASB Statements No. 133 and 140

In February 2006, the FASB issued SFAS 155, which applies to certain "hybrid financial instruments" which are defined as financial instruments that contain embedded derivatives. The new standard establishes a requirement to evaluate beneficial interests in securitized financial assets to determine if the interests represent freestanding derivatives or are hybrid financial instruments containing embedded derivatives requiring bifurcation. It also permits an irrevocable election for fair value remeasurement of any hybrid financial instrument containing an embedded derivative that otherwise would require bifurcation under SFAS 133. JPMorgan Chase Bank, N.A. adopted this standard effective January 1, 2006. For additional information related to SFAS 155, see Note 1 on pages 6-8 of these consolidated financial statements.

Accounting for servicing of financial assets

In March 2006, the FASB issued SFAS 156, which is effective as of the beginning of the first fiscal year beginning after September 15, 2006, with early adoption permitted. JPMorgan Chase Bank, N.A. elected to adopt the standard effective January 1, 2006. The standard permits an entity a one-time irrevocable election to adopt fair value accounting for a class of servicing assets. JPMorgan Chase Bank, N.A. has defined MSRs as one class of servicing assets for this election. For additional information related to JPMorgan Chase Bank, N.A.'s adoption of SFAS 156 with respect to MSRs, see Note 17 on pages 35–38 of these consolidated financial statements.

Postretirement benefit plans

In September 2006, the FASB issued SFAS 158, which requires recognition in the Consolidated balance sheets of the overfunded or underfunded status of defined benefit postretirement plans, measured as the difference between the fair value of plan assets and the amount of the benefit obligation. JPMorgan Chase Bank, N.A. adopted SFAS 158 on a prospective basis on December 31, 2006, for those plans it accounts for as single-employer plans. SFAS 158 has no impact either on the measurement of plan assets or benefit obligations, or on how JPMorgan Chase Bank, N.A. determines its net periodic benefit costs. For additional information related to SFAS 158, see Note 8 on pages 14–19 of these consolidated financial statements.

Accounting for uncertainty in income taxes

In July 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in income taxes recognized under SFAS 109. FIN 48 addresses the recognition and measurement of tax positions taken or expected to be taken, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosure. JPMorgan Chase Bank N.A. adopted and applied FIN 48 under the transition provisions to all of its income tax positions at the required effective date of January 1, 2007, resulting in a $531 million cumulative effect increase to Retained earnings, a reduction in Goodwill of $113 million and a $644 million decrease in the liability for income taxes.

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

In July 2006, the FASB issued FSP FAS 13-2. FSP FAS 13-2 requires the recalculation of returns on leveraged leases if there is a change or projected change in the timing of cash flows relating to income taxes generated by a leveraged lease. JPMorgan Chase Bank, N.A. adopted FSP FAS 13-2 at the required effective date of January 1, 2007. Implementation of FSP FAS 13-2 did not have a material impact on JPMorgan Chase Bank, N.A.'s financial position or results of operations.

Fair value measurements – adoption of SFAS 157

In September 2006, the FASB issued SFAS 157, which is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about assets and liabilities measured at fair value. The new standard provides a consistent definition of fair value which focuses on exit price and prioritizes, within a measurement of fair value, the use of market-based inputs over entity-specific inputs. The standard also establishes a three-level hierarchy for fair value measurements based on the transparency of inputs to the valuation of an asset or liability as of the measurement date. SFAS 157 nullifies the guidance in EITF 02-3 which required deferral of profit at inception of a derivative transaction in the absence of observable data supporting the valuation technique. The standard also eliminates large position discounts for financial instruments quoted in active markets and requires consideration of JPMorgan Chase Bank, N.A.'s own credit quality when valuing liabilities.

JPMorgan Chase Bank, N.A. chose early adoption for SFAS 157 effective January 1, 2007, and recorded a cumulative effect increase to Retained earnings of $252 million primarily related to the release of profit previously deferred in accordance with EITF 02-3. In order to determine the amount of this transition adjustment and to confirm that JPMorgan Chase Bank, N.A.'s valuation policies are consistent with exit price as prescribed by SFAS 157, JPMorgan Chase Bank, N.A. reviewed its derivative valuations in consideration of all available evidence including recent transactions in the marketplace, indicative pricing services and the results of back-testing similar transaction types. In addition, JPMorgan Chase Bank, N.A. recognized a benefit of $103 million in Net income relating to the incorporation, commencing in the first quarter of 2007, of an adjustment to the valuation of JPMorgan Chase Bank, N.A.'s derivative liabilities and other liabilities measured at fair value that reflects the credit quality of JPMorgan Chase Bank, N.A.

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

In February 2007, the FASB issued SFAS 159, which is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. SFAS 159 provides the option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments, and written loan commitments. Under SFAS 159, fair value is used for both the initial and subsequent measurement of the designated assets, liabilities and commitments, with the changes in fair value recognized in Net income. JPMorgan Chase Bank, N.A. chose early adoption for SFAS 159 effective January 1, 2007, and recorded a cumulative effect increase to Retained earnings of $176 million. The primary elections related to structured notes and loans warehoused in the investment banking business, and to prime mortgage loans held in warehouse in the retail business.

Note 3 – Business changes and developments

Parent Company Merger with Bank One Corporation

Bank One Corporation merged with and into JPMorgan Chase (the "Parent Company Merger") on July 1, 2004. As a result of the Parent Company 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 Parent Company Merger. Key objectives of the Parent Company Merger were to provide JPMorgan Chase with a more balanced business mix and greater geographic diversification. The Parent Company 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 Parent Company Merger was $58.5 billion. Additional information regarding the Parent Company Merger is provided in JPMorgan Chase & Co.'s Annual Report on Form 10-K for the year ended December 31, 2006.

Immediately after JPMorgan Chase Bank, N.A.'s Conversion on November 13, 2004, as discussed in Note 1, two of JPMorgan Chase & Co.'s principal bank subsidiaries, Bank One, National Association, Columbus, Ohio (Bank One Columbus), and Bank One, National Association, Chicago, Illinois (Bank One Chicago) were merged with and into JPMorgan Chase Bank, N.A. (the "Bank Merger"). In accordance with SFAS 141, the Bank Merger was accounted for retroactive to July 1, 2004, using the fair values of the assets and liabilities that were "pushed down" as a result of the Parent Company Merger. Accordingly, Bank One Columbus' and Bank One Chicago's results of operations were included in JPMorgan Chase Bank, N.A.'s results effective July 1, 2004. Therefore, JPMorgan Chase Bank, N.A.'s results of operations for the 12 months ended December 31, 2004, reflect six months of the combined JPMorgan Chase Bank, N.A. and six months of heritage JPMorgan Chase Bank, N.A. results.

Condensed statement of net assets acquired

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

(in millions)	July 1, 2004
Assets	
Cash and cash equivalents	**$ 13,685**
Securities	**53,387**
Interests in purchased receivables	**30,184**
Loans, net of Allowance for loan losses	**123,533**
Goodwill and Other intangible assets	**25,335**
All other assets	**44,736**
Total assets	**$ 290,860**
Liabilities	
Deposits	**$ 166,980**
Short-term borrowings	**8,933**
All other liabilities	**48,922**
Long-term debt	**23,047**
Total liabilities	**247,882**
Net assets acquired	**$ 42,978**

Acquired, identified intangible assets

Components of the fair value of acquired, identified 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
Other credit card–related intangibles	253	4.6	Up to 10
Other customer relationship intangibles	740	4.6–10.5	Up to 20
Subtotal	4,643	5.1	Up to 20
Indefinite-lived asset management intangibles	315	NA	NA
Total	$ 4,958		

Unaudited pro forma condensed combined financial information

The following unaudited pro forma condensed combined financial information presents the results of operations of JPMorgan Chase Bank, N.A. had the Bank Merger taken place at January 1, 2004.

Year ended December 31, (in millions)	2004
Noninterest revenue	$ 20,595
Net interest income	15,802
Total net revenue	36,397
Provision for credit losses	602
Noninterest expense	30,043
Income from continuing operations before income tax expense	5,752
Income from continuing operations (after-tax)	3,405
Income from discontinued operations (after-tax)	196
Net income	$ 3,601

Other business events

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

On October 1, 2006, JPMorgan Chase Bank, N.A. completed the acquisition of The Bank of New York Company, Inc.'s ("The Bank of New York") consumer, business banking and middle-market banking businesses in exchange for selected corporate trust businesses plus a cash payment of $150 million. This acquisition added 339 branches and more than 400 ATMs, and it significantly strengthens JPMorgan Chase Bank, N.A.'s retail distribution network in the New York Tri-State area. The Bank of New York businesses acquired were valued at a premium of $2.3 billion; JPMorgan Chase Bank, N.A.'s corporate trust businesses that were transferred (i.e., trustee, paying agent, loan agency and document management services) were valued at a premium of $1.7 billion. JPMorgan Chase Bank, N.A. also may make a future payment to The Bank of New York of up to $50 million depending on certain new account openings. This acquisition included the transfer of approximately $7.7 billion in loans and $12.9 billion in deposits from The Bank of New York. JPMorgan Chase Bank, N.A. also recognized core deposit intangibles of $485 million which will be amortized using an accelerated method over a 10-year period. JPMorgan Chase Bank, N.A. recorded an after-tax gain of $647 million related to this transaction in 2006.

Collegiate Funding Services

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

Sears Canada credit card business

On November 15, 2005, JPMorgan Chase Bank, N.A. purchased Sears Canada Inc.'s ("Sears Canada") credit card operation, including both private-label card accounts and co-branded Sears MasterCard® accounts, aggregating approximately 10 million accounts with $2.2 billion (CAD$2.5 billion) in on-balance sheet and securitized loans. Sears Canada and JPMorgan Chase Bank, N.A. entered into an ongoing arrangement under which JPMorgan Chase Bank, N.A. 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 Bank, N.A. and First Data Corp. completed the integration of the companies' jointly owned Chase Merchant Services and Paymentech merchant businesses, to be operated under the name Chase Paymentech Solutions, LLC. The joint venture is 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 Bank, N.A.'s ownership interest in this joint venture is accounted for in accordance with the equity method of accounting.

Cazenove

On February 28, 2005, JPMorgan Chase Bank, N.A. and Cazenove Group plc ("Cazenove") formed a business partnership which combined Cazenove's investment banking business and JPMorgan Chase Bank, N.A.'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 Bank, N.A. purchased the Electronic Financial Services ("EFS") business from Citigroup.

Other internal transfers of legal entities under common control

On October 20, 2006, JPMorgan Chase & Co. contributed its wholly-owned subsidiary, Banc One Trust Company, National Association ("BOTC"), to JPMorgan Chase Bank, N.A. BOTC is a banking subsidiary. At the time of the transfer BOTC had approximately $1.3 billion of assets, primarily consisting of $665 million of goodwill and $469 million of loans.

On March 20, 2006, JPMorgan Chase & Co. sold its wholly-owned subsidiary, DNT Asset Trust ("DNT"), to JPMorgan Chase Bank, N.A., for $4.2 billion in cash. DNT's principal activities are trust, fiduciary and custody activities, and investments in real estate investment trusts. At the time of the transfer DNT had approximately $5.0 billion of assets, primarily consisting of $4.1 billion of intercompany loans.

On March 18, 2005, JPMorgan Chase & Co. contributed its wholly-owned subsidiary, Banc One Management Corporation ("BOMC"), to JPMorgan Chase Bank, N.A. BOMC's principal activity is management services. At the time of the transfer BOMC had approximately $542 million of assets, which were primarily premises and equipment.

In addition to the above transfers, in 2006 and 2005 JPMorgan Chase & Co. transferred various other wholly-owned subsidiaries to JPMorgan Chase Bank, N.A. The total assets for these subsidiaries in 2006 were $111 million, which were primarily loans and goodwill. In 2005 total assets for these subsidiaries were $339 million, which were primarily available-for-sale securities.

In 2006 and 2005 JPMorgan Chase Bank, N.A. transferred various wholly-owned subsidiaries to JPMorgan Chase & Co. The total assets for these subsidiaries were $77 million and $148 million in 2006 and 2005, respectively. These assets were primarily loans.

The internal transfers of the above legal entities were accounted for at historical cost in accordance with SFAS 141. However, all of the transfers were reflected in the financial statements prospectively, and not as of the beginning of all periods presented, because the impact of these transfers was not material to JPMorgan Chase Bank, N.A's financial statements for any of the years ended December 31, 2006, 2005 or 2004.

Note 4 – Discontinued operations

The transfer of selected corporate trust businesses to The Bank of New York (see Note 3 on pages 10–11) includes the trustee, paying agent, loan agency and document management services businesses. JPMorgan Chase Bank, N.A. recognized an after-tax gain of $647 million on this transaction. The results of operations of these corporate trust businesses are currently reported as discontinued operations. Condensed financial information of the corporate trust business follows:

Selected income statements data

Year ended December 31, (in millions)	2006	2005	2004[a]
Other noninterest revenue	**$ 310**	$ 390	$ 381
Net interest income	**264**	276	234
Gain on sale of discontinued operations	**1,122**	—	—
Total net revenue	**1,696**	666	615
Noninterest expense	**324**	325	293
Income from discontinued operations before income taxes	**1,372**	341	322
Income tax expense	**574**	134	126
Income from discontinued operations	**$ 798**	$ 207	$ 196

(a) 2004 results include six months of the combined JPMorgan Chase Bank, N.A.'s results and six months of heritage JPMorgan Chase Bank, N.A. results.

The following is a summary of the assets and liabilities associated with the selected corporate trust businesses that were transferred to The Bank of New York as of October 1, 2006.

Selected balance sheet data (in millions)	October 1, 2006
Goodwill and other intangibles	$ 305
Other assets	547
Total assets	$ 852
Deposits	$ 24,011
Other liabilities	547
Total liabilities	$ 24,558

JPMorgan Chase Bank, N.A. will provide certain transitional services to The Bank of New York for a defined period of time after the closing date. The Bank of New York will compensate JPMorgan Chase Bank, N.A. for these transitional services.

Note 5 – Principal transactions

Principal transactions is a new caption, effective January 1, 2006, in the Consolidated statements of income. Principal transactions revenue primarily consists of: realized and unrealized gains and losses from trading activities (including physical commodities inventories that are accounted for at the lower of cost or fair value) and changes in fair value associated with structured notes to which the SFAS 155 fair value election has been applied. Also included are Private equity gains and losses. The prior-period presentation of Trading revenue and Private equity gains (losses) has been reclassified to this new caption.

Reclassification of transaction costs expense

In 2006 JPMorgan Chase Bank, N.A. reclassified certain transaction costs in the investment banking business that were previously reported within Principal transactions and Asset management, administration, and commissions revenues, to Professional and outside services expense. Amounts have been reclassified for all periods presented, which were $433 million, $380 million and $321 million for 2006, 2005 and 2004, respectively. The reclassification did not affect Income from continuing operations and Net income as reported in JPMorgan Chase Bank, N.A.'s Consolidated statements of income in any period.

Trading assets and liabilities

Trading assets include debt and equity securities held for trading purposes that JPMorgan Chase Bank, N.A. owns ("long" positions). Trading liabilities include debt and equity securities that JPMorgan Chase Bank, N.A. has sold to other parties but does not own ("short" positions). JPMorgan Chase Bank, N.A. 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. Loans are classified as trading where positions are bought and sold to make profits from short-term movements in price. Trading positions are carried at fair value on the Consolidated balance sheets.

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

December 31, (in millions)	2006	2005
Trading assets		
Debt and equity instruments:		
U.S. government and federal agency obligations	**$ 12,885**	$ 8,233
U.S. government-sponsored enterprise obligations	**7,029**	2,192
Obligations of state and political subdivisions	**27**	25
Certificates of deposit, bankers' acceptances and commercial paper	**4,860**	2,542
Debt securities issued by non-U.S. governments	**58,388**	48,662
Corporate securities and other	**149,935**	113,606
Total debt and equity instruments	**233,124**	175,260
Derivative receivables:[a][b]		
Interest rate	**26,673**	25,516
Foreign exchange	**4,231**	2,851
Equity	**5,740**	5,233
Credit derivatives	**6,027**	3,977
Commodity	**8,487**	9,000
Total derivative receivables	**51,158**	46,577
Total trading assets	**$ 284,282**	$ 221,837
Trading liabilities		
Debt and equity instruments[c]	**$ 69,689**	$ 75,681
Derivative payables:[a][b]		
Interest rate	**21,673**	24,111
Foreign exchange	**5,561**	3,054
Equity	**16,042**	11,108
Credit derivatives	**6,233**	3,020
Commodity	**5,837**	7,262
Total derivative payables	**55,346**	48,555
Total trading liabilities	**$ 125,035**	$ 124,236

(a) 2005 has been adjusted to reflect more appropriate product classifications of certain balances.
(b) Included in Trading assets and Trading liabilities are the reported receivables (unrealized gains) and payables (unrealized losses), respectively, related to derivatives. These amounts include the derivative assets and liabilities net of cash received and paid of $23.0 billion and $18.8 billion at December 31, 2006, and $26.7 billion and $18.9 billion at December 31, 2005, respectively, under legally enforceable master netting agreements.
(c) Primarily represents securities sold, not yet purchased.

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

Year ended December 31, (in millions)	2006	2005	2004[b]
Trading assets – debt and equity instruments	**$ 211,828**	$ 176,106	$ 142,408
Trading assets – derivative receivables	**54,603**	54,242	55,769
Trading liabilities – debt and equity instruments[a]	**$ 81,297**	$ 77,501	$ 65,406
Trading liabilities – derivative payables	**55,206**	52,983	50,341

(a) Primarily represents securities sold, not yet purchased.
(b) 2004 results include six months of the combined JPMorgan Chase Bank, N.A.'s results and six months of heritage JPMorgan Chase Bank, N.A. results.

Note 6 – Other noninterest revenue

Investment banking fees

This revenue category includes advisory and equity and debt underwriting fees. Advisory fees are recognized as revenue when the related services have been performed. Underwriting fees are recognized as revenue when JPMorgan Chase Bank, N.A. 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. JPMorgan Chase Bank, N.A. 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)	**2006**	2005	2004[(a)]
Underwriting:			
Equity	**$ 699**	$ 443	$ 322
Debt	**1,643**	1,223	1,048
Total Underwriting	**2,342**	1,666	1,370
Advisory	**684**	624	410
Total	**$ 3,026**	$ 2,290	$ 1,780

(a) 2004 results include six months of the combined JPMorgan Chase Bank, N.A.'s results and six months of heritage JPMorgan Chase Bank, N.A. results.

Lending & deposit related fees

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

Asset management, administration and commissions

This revenue category includes fees from investment management and related services, custody, brokerage services, insurance premiums and commissions and other products. These fees are recognized over the period in which the related service is provided.

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. Valuation changes in the mortgage pipeline, warehouse, MSR asset and corresponding risk management instruments are recognized in 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 17 on pages 35–38 of these consolidated financial statements.

Credit card income

The income related to credit cards primarily results from a participation arrangement with a bank affiliate of JPMorgan Chase Bank, N.A. that commenced during 2004 and from the acquired Sears Canada credit card business. This revenue category includes interchange income from credit and debit cards and servicing fees earned in connection with securitization activities. Volume-related payments to partners and expenses for rewards programs are netted against interchange income. Expenses related to rewards programs are recorded when the rewards are earned by the customer. Other fee revenues are recognized as earned, except for annual fees, which are deferred with direct loan origination costs and recognized on a straight-line basis over the 12-month period to which they pertain.

Note 7 – Interest income and Interest expense

Details of Interest income and Interest expense were as follows:

Year ended December 31, (in millions)	**2006**	2005[(b)]	2004[(b)(c)]
Interest Income			
Loans	**$ 27,155**	$ 20,386	$ 12,217
Securities	**3,901**	2,678	3,034
Trading assets	**7,015**	5,832	4,495
Federal funds sold and securities purchased under resale agreements	**7,544**	3,718	1,323
Securities borrowed	**1,794**	966	332
Deposits with banks	**1,223**	760	555
Interests in purchased receivables[(a)]	**652**	933	291
Total Interest Income	**49,284**	35,273	22,247
Interest expense			
Interest-bearing deposits	**16,939**	10,050	4,410
Short-term and other liabilities	**10,966**	6,967	4,397
Long-term debt	**2,101**	1,764	1,026
Beneficial interests issued by consolidated VIEs	**1,143**	1,209	452
Total interest expense	**31,149**	19,990	10,285
Net Interest income	**18,135**	15,283	11,962
Provision for credit losses	**1,809**	1,101	534
Net Interest Income after Provision for credit losses	**$ 16,326**	$ 14,182	$ 11,428

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

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

(c) 2004 results include six months of the combined JPMorgan Chase Bank, N.A.'s results and six months of heritage JPMorgan Chase Bank, N.A. results.

Note 8 – Pension and other postretirement employee benefit plans

Defined benefit plans

Substantially all of JPMorgan Chase Bank, N.A.'s U.S. employees are eligible to participate in JPMorgan Chase & Co.'s consolidated qualified, noncontributory, U.S. defined benefit pension plan. In addition, qualifying U.S. employees are provided postretirement medical and life insurance benefits through JPMorgan Chase & Co. These JPMorgan Chase & Co. plans are discussed in the JPMorgan Chase & Co. pension and OPEB plans section below.

JPMorgan Chase Bank, N.A. provides pension benefits to qualifying employees in various non-U.S. locations and other postretirement employee benefits ("OPEB") to qualifying U.K. employees. The U.K. OPEB plan is unfunded. JPMorgan Chase Bank, N.A. also offers certain qualifying employees the ability to participate in a defined benefit pension plan not subject to Title IV of the Employee Retirement Income Security Act ("Excess Retirement Plan"). The Excess Retirement Plan is a nonqualified, noncontributory U.S. defined benefit pension plan whereby the employees earn pay and interest credits on compensation amounts above the maximum stipulated by law under a qualified plan. The plan is unfunded.

JPMorgan Chase Bank, N.A.'s defined benefit pension plans are accounted for in accordance with SFAS 87 and SFAS 88, and the U.K. OPEB plan is accounted for in accordance with SFAS 106. In September 2006, the FASB issued SFAS 158, which requires companies to recognize on their Consolidated balance sheets the overfunded or underfunded status of their defined benefit postretirement plans, measured as the difference between the fair value of plan assets and the benefit obligation. SFAS 158 requires unrecognized amounts (e.g., net actuarial loss and prior service costs) to be recognized in Accumulated other comprehensive income ("AOCI") and that these amounts be adjusted as they are subsequently recognized as components of net periodic benefit cost based upon the current amortization and recognition requirements of SFAS 87 and SFAS 106. JPMorgan Chase Bank, N.A. prospectively adopted SFAS 158 as required on December 31, 2006, which resulted in a charge to AOCI of $431 million.

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

For JPMorgan Chase Bank, N.A.'s non-U.S. defined benefit pension plans, fair value is used to determine the expected return on plan assets. Amortization of net actuarial gains and losses is included in annual net periodic benefit cost if, as of the beginning of the year, the net actuarial gain or loss exceeds 10 percent of the greater of the projected benefit obligation or the fair value of the plan assets. Any excess, as well as prior service costs, are amortized over the average future service period of defined benefit pension plan participants, which for the Excess Retirement Plan is currently 10 years and for the non-U.S. defined benefit pension plans is the period appropriate for the affected plan. For the U.K. OPEB plan, any excess net actuarial gains and losses also are amortized over the average life expectancy of benefit recipients, which is currently 17 years.

It is JPMorgan Chase Bank, N.A.'s policy to fund the U.S. defined benefit pension plan in amounts sufficient to meet the requirements for benefit payments. The estimated amount of 2007 contributions to the U.S. plan is $32 million. It is JPMorgan Chase Bank, N.A.'s policy to fund the non-U.S. defined benefit pension plans in amounts sufficient to meet the requirements under applicable employee benefit and local tax laws. The estimated amount of 2007 contributions to the non-U.S. plans is $118 million.

Defined contribution plans

JPMorgan Chase Bank, N.A.'s employees may also participate in several defined contribution plans offered by JPMorgan Chase & Co. in the U.S. and by JPMorgan Chase Bank, N.A in certain non-U.S. locations, all of which are administered in accordance with applicable local laws and regulations. The most significant of these plans is The JPMorgan Chase 401(k) Savings Plan (the "401(k) Savings Plan"), which covers substantially all U.S. employees. The 401(k) Savings Plan allows employees to make pretax contributions to tax-deferred investment portfolios. The JPMorgan Chase Common Stock Fund, which is an investment option under the 401(k) Savings Plan, is a nonleveraged employee stock ownership plan. JPMorgan Chase Bank, N.A. matches eligible employee contributions up to a certain percentage of benefits-eligible compensation per pay period, subject to plan and legal limits. Employees begin to receive matching contributions after completing a one-year service requirement and are immediately vested in JPMorgan Chase Bank, N.A.'s contributions when made. Employees with total annual cash compensation of $250,000 or more are not eligible for matching contributions. The 401(k) Savings Plan also permits discretionary profit-sharing contributions for certain employees, subject to a specified vesting schedule.

The following tables present the funded status, changes in the benefit obligations and plan assets, accumulated benefit obligations, and AOCI amounts reported on the Consolidated balance sheets for JPMorgan Chase Bank, N.A.'s U.S. and non-U.S. defined benefit pension and OPEB plans:

As of or for the year ended December 31, (in millions)	Defined benefit pension plans U.S. 2006	U.S. 2005	Non-U.S. 2006	Non-U.S. 2005	U.K. OPEB plan 2006	U.K. OPEB plan 2005
Change in benefit obligation						
Benefit obligation, beginning of year	**$ (277)**	$ (299)	**$ (2,378)**	$ (1,969)	**$ (44)**	$ (43)
Cazenove business partnership	**—**	—	**—**	(291)	**—**	—
Benefits earned during the year	**(3)**	(4)	**(37)**	(25)	**—**	—
Interest cost on benefit obligations	**(15)**	(17)	**(120)**	(104)	**(2)**	(2)
Plan amendments	**—**	—	**2**	—	**—**	—
Liabilities of newly material plans[a]	**—**	—	**(154)**	—	**—**	—
Employee contributions	**NA**	NA	**(2)**	—	**—**	—
Actuarial gain (loss)	**(45)**	2	**(23)**	(310)	**(2)**	(7)
Benefits paid	**39**	40	**68**	66	**2**	3
Curtailments	**—**	1	**2**	—	**—**	—
Settlements	**—**	—	**37**	—	**—**	—
Special termination benefits	**—**	—	**(1)**	—	**—**	—
Foreign exchange impact and other	**—**	—	**(311)**	255	**(6)**	5
Benefit obligation, end of year	**$ (301)**	$ (277)	**$ (2,917)**	$ (2,378)	**$ (52)**	$ (44)
Change in plan assets						
Fair value of plan assets, beginning of year	**$ —**	$ —	**$ 2,223**	$ 1,889	**$ —**	$ —
Cazenove business partnership	**—**	—	**—**	252	**—**	—
Actual return on plan assets	**—**	—	**94**	308	**—**	—
Employer contributions	**39**	40	**241**	78	**2**	3
Employee contributions	**—**	—	**2**	—	**—**	—
Assets of newly material plans[a]	**—**	—	**67**	—	**—**	—
Benefits paid	**(39)**	(40)	**(68)**	(66)	**(2)**	(3)
Settlements	**—**	—	**(37)**	—	**—**	—
Foreign exchange impact and other	**—**	—	**291**	(238)	**—**	—
Fair value of plan assets, end of year	**$ —**	$ —	**$ 2,813**	$ 2,223	**$ —**	$ —
Funded (unfunded) status	**$ (301)**	$ (277)	**$ (104)**	$ (155)	**$ (52)**	$ (44)
Unrecognized amounts:						
Net actuarial loss	**NA**[c]	3	**NA**[c]	599	**NA**[c]	(6)
Prior service cost (credit)	**NA**[c]	1	**NA**[c]	3	**NA**[c]	—
Net amount recognized in the Consolidated balance sheets[b]	**$ (301)**	$ (273)	**$ (104)**	$ 447[d]	**$ (52)**	$ (50)
Accumulated benefit obligation, end of year	**$ (293)**	$ (272)	**$ (2,849)**	$ (2,303)	**NA**	NA

(a) Reflects adjustments related to pension plans in Germany and Switzerland, which have defined benefit pension obligations that were not previously measured under SFAS 87 due to immateriality.
(b) Net amount recognized is recorded in Other assets for prepaid pension costs or in Accounts payable, accrued expenses and other liabilities for accrued pension costs.
(c) Under SFAS 158, and as noted in the following table, amounts that were previously reported as part of prepaid or accrued pension costs are now reported within AOCI.
(d) At December 31, 2005, Accrued pension costs related to non-U.S. defined benefit pension plans that JPMorgan Chase Bank, N.A. elected not to prefund fully totaled $164 million.

Amounts recognized in Accumulated other comprehensive Income

	Defined benefit pension plans								
	U.S.			Non-U.S.			U.K. OPEB plan		
December 31, 2006 (in millions)	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Net actuarial loss[a]	**$ 49**	**$ 19**	**$ 30**	$ 668	$ 265	$ 403	$ (4)	$ (2)	$ (2)
Prior service cost (credit)	**—**	**—**	**—**	—	—	—	—	—	—
Total recognized in Accumulated other comprehensive Income[b]	**$ 49**	**$ 19**	**$ 30**	$ 668	$ 265	$ 403	$ (4)	$ (2)	$ (2)

(a) For defined benefit pension plans, the net actuarial loss is primarily the result of declines in discount rates in recent years, partially offset by asset gains. Other factors that contribute to this net actuarial loss include demographic experience, which differs from expectations, and changes in other actuarial assumptions.
(b) JPMorgan Chase Bank, N.A. will amortize losses of $52 million from AOCI into net periodic benefit cost, before tax, in 2007 related to the non-US defined benefit pension plans; amortization for the U.S. defined benefit plan is not material.

The following table presents the incremental effect of applying SFAS 158 on individual line items on the Consolidated balance sheets.

December 31, 2006 (in millions)	Before application of SFAS 158	SFAS 158 adjustments	After application of SFAS 158
Line item			
Other assets	$ 26,685	$ (661)	$ 26,024[a]
Total assets	1,180,051	(661)	1,179,390
Accounts payable, accrued expenses and other liabilities	62,465	(230)	62,235[b]
Total liabilities	1,083,610	(230)	1,083,380
Accumulated other comprehensive income (loss)	(496)	(431)	(927)
Total liabilities and stockholder's equity	1,180,051	(661)	1,179,390

(a) Includes overfunded defined benefit pension plans of $49 million.
(b) Includes underfunded defined benefit pension and OPEB plans of $506 million.

The following table presents the components of net periodic benefit costs reported in the Consolidated statements of income for JPMorgan Chase Bank, N.A.'s U.S. and non-U.S. defined benefit pension and OPEB plans:

	Defined benefit pension plans								
	U.S.			Non-U.S.			U.K. OPEB plan		
Year ended December 31, (in millions)	**2006**	2005	2004[b][c]	**2006**	2005	2004[b][c]	**2006**	2005	2004[b]
Components of net periodic benefit cost									
Benefits earned during the period	**$ 3**	$ 4	$ 9	**$ 37**	$ 25	$ 17	**$ —**	$ —	$ —
Interest cost on benefit obligations	**15**	17	16	**120**	104	87	**2**	2	2
Expected return on plan assets	**—**	—	—	**(122)**	(109)	(90)	**—**	—	—
Amortization:									
Net actuarial loss	**—**	—	1	**45**	38	44	**—**	(1)	(1)
Prior service cost	**—**	—	1	**—**	1	1	**—**	—	—
Curtailment loss	**—**	—	1	**1**	—	—	**—**	—	—
Settlement loss	**—**	—	—	**4**	—	(1)	**—**	—	—
Special termination benefits	**—**	—	—	**1**	—	11	**—**	—	—
Subtotal	**18**	21	28	**86**	59	69	**2**	1	1
Other defined benefit pension plans[a]	**—**	—	—	**11**	23	3	**NA**	NA	NA
Total defined benefit plans	**18**	21	28	**97**	82	72	**2**	1	1
Total defined contribution plans	**203**	185	145	**198**	147	98	**NA**	NA	NA
Total pension and OPEB cost included in Compensation expense	**$ 221**	$ 206	$ 173	**$ 295**	$ 229	$ 170	**$ 2**	$ 1	$ 1

(a) Includes immaterial non-U.S. defined benefit pension plans.
(b) 2004 results include six months of the combined JPMorgan Chase Bank, N.A.'s results and six months of the heritage JPMorgan Chase Bank, N.A.results.
(c) Effective July 1, 2004, JPMorgan Chase Bank, N.A. assumed the obligations of heritage Bank One's pension plans. These plans were similar to those of heritage JPMorgan Chase Bank, N.A. The heritage Bank One plans were merged into the JPMorgan Chase Bank, N.A. plans effective December 31, 2004.

Plan assumptions

JPMorgan Chase Bank, N.A.'s expected long-term rate of return for its non-U.S. defined benefit pension plans 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. Returns on asset classes are developed using a forward-looking building-block approach and are not strictly based upon historical returns. For the U.K. defined benefit pension plan, which represents the most significant of JPMorgan Chase Bank, N.A.'s non-U.S. defined benefit pension plans, the expected long-term rate of return on 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 2006 and 2005, the discount rate used in determining the benefit obligation under the U.S. Excess Retirement Plan was selected by reference to the yield on a portfolio of bonds with redemption dates and coupons that closely match 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 rates for the U.K. defined benefit pension and OPEB plans represent rates from the yield curve of the year-end iBoxx £ corporate AA 15-year-plus bond index with durations corresponding to those of the underlying benefit obligations.

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 U.S. and non-U.S. defined benefit pension and U.K. OPEB plans.

	U.S.		Non-U.S.	
December 31,	**2006**	2005	**2006**	2005
Weighted-average assumptions used to determine benefit obligations				
Discount rate:				
Defined benefit pension plans	**5.95%**	5.70%	**2.25-5.10%**	2.00-4.70%
OPEB plan	**NA**	NA	**5.10**	4.70
Rate of compensation increase	**4.00**	4.00	**3.00-4.00**	3.00-3.75
Health care cost trend rate:				
Assumed for next year	**NA**	NA	**6.63**	7.50
Ultimate	**NA**	NA	**4.00**	4.00
Year when rate will reach ultimate	**NA**	NA	**2010**	2010

	U.S.			Non-U.S.		
Year ended December 31,	**2006**	2005	2004	**2006**	2005	2004
Weighted-average assumptions used to determine net periodic benefit costs						
Discount rate:						
Defined benefit pension plans	**5.70%**	5.75%	6.00%	**2.00-4.70%**	2.00-5.30%	2.00-5.75%
OPEB plan	**NA**	NA	NA	**4.70**	5.30	5.40
Expected long-term rate of return on plan assets:						
Defined benefit pension plans	**NA**	NA	NA	**3.25-5.50**	3.25-5.75	3.00-6.50
OPEB plan	**NA**	NA	NA	**NA**	NA	NA
Rate of compensation increase	**4.00**	4.00	4.25-4.50	**3.00-3.75**	1.75-3.75	1.75-3.75
Health care cost trend rate:						
Assumed for next year	**NA**	NA	NA	**7.50**	7.50	6.50
Ultimate	**NA**	NA	NA	**4.00**	4.00	4.00
Year when rate will reach ultimate	**NA**	NA	NA	**2010**	2010	2009

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

For the year ended December 31, 2006 (in millions)	1-Percentage-point increase	1-Percentage-point decrease
Effect on total service and interest costs	**$ —**	$ —
Effect on postretirement obligation	**7**	(6)

At December 31, 2006, JPMorgan Chase Bank, N.A. increased the discount rates used to determine its benefit obligations for the Excess Retirement Plan based upon current market interest rates. The interest crediting rate assumption at December 31, 2006, used to determine pension benefits changed primarily due to changes in market interest rates. The assumed rate of compensation increase remained at 4.00% as of December 31, 2006. These changes will not have a material impact to the expense in 2007. The most significant change to the assumptions used to determine net periodic benefit costs in 2006 from the prior year were lower discount rates for JPMorgan Chase Bank, N.A.'s non-U.S. plans, both defined benefit pension and OPEB, due to lower market interest rates, resulting in $23 million higher compensation expense in 2006 compared with 2005.

JPMorgan Chase Bank, N.A.'s non-U.S. plans defined benefit pension plan expenses are sensitive to changes in the discount rate. A 25–basis point decline in the discount rates for the non-U.S. plans would result in an increase in the 2007 non-U.S. defined benefit pension and OPEB plan expenses of approximately $19 million.

Investment strategy and asset allocation

The investment policy for JPMorgan Chase Bank, N.A.'s 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. Plan assets are managed by a combination of internal and external investment managers and are rebalanced to within approved ranges, to the extent economically practical. Assets of the non-U.S. defined benefit pension plans are held in various trusts and are invested in well-diversified portfolios of equity, fixed income and other securities. As of December 31, 2006, the assets used to fund the non-U.S. defined benefit pension 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 approved range/target allocation by asset category, for the U.K. defined benefit pension plan only, as plans outside the U.K. are not significant.

	Defined benefit pension plans		
	Non-U.S.		
	Target	% of plan assets	
December 31,	Allocation	**2006**	2005
Asset category			
Debt securities	73%	**70%**	75%
Equity securities	26	**26**	24
Real estate	—	**1**	1
Alternatives	1	**3**	—
Total	100%	**100%**	100%

The following table presents JPMorgan Chase Bank, N.A.'s actual rate of return on plan assets for the non-U.S. defined benefit pension plans:

	Non-U.S.		
December 31,	**2006**	2005	2004
Actual rate of return:			
Defined benefit pension plans	**2.80-7.30%**	2.70-15.90%	2.30-10.50%

Expected 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.

Year ended December 31, (in millions)	U.S. defined benefit pension plan	Non-U.S. defined benefit pension plans	U.K. OPEB plan
2007	$ 32	$ 83	$ 3
2008	32	81	3
2009	32	88	3
2010	32	93	3
2011	31	97	4
Years 2012–2016	141	533	19

JPMorgan Chase & Co. pension and OPEB plans

JPMorgan Chase Bank, N.A.'s. U.S. employees participate in JPMorgan Chase & Co.'s consolidated qualified, noncontributory defined benefit pension plan. In addition, qualifying U.S. employees may receive medical and life insurance benefits that are provided through JPMorgan Chase & Co.'s U.S. OPEB plan. Benefits vary with length of service and date of hire and provide for limits on JPMorgan Chase Bank, N.A.'s share of covered medical benefits. The medical benefits are contributory, while the life insurance benefits are noncontributory. Pension expense and postretirement medical and life insurance benefit expense for these plans is determined based upon participation and effected through an intercompany charge from JPMorgan Chase & Co.

JPMorgan Chase Bank, N.A. was charged $211 million, $218 million and $196 million in 2006, 2005 and 2004, for its share of the U.S. qualified defined benefit pension plan expense; and it was charged $6 million, $(10) million and $18 million in 2006, 2005 and 2004, for its share of the U.S. OPEB expense. Consolidated disclosures of information about the pension and OPEB plans of JPMorgan Chase & Co, including funded status, components of benefit cost and weighted-average actuarial assumptions are included in Note 7 of JPMorgan Chase & Co.'s 2006 Annual Report on Form 10-K.

Note 9 – Employee stock-based incentives

JPMorgan Chase Bank, N.A.'s employees receive annual incentive compensation based on their performance, the performance of their business and JPMorgan Chase & Co.'s consolidated operating results. JPMorgan Chase Bank, N.A.'s employees participate, to the extent they meet minimum eligibility requirements, in various benefit plans sponsored by JPMorgan Chase & Co. Information in addition to that which is presented below is provided in JPMorgan Chase & Co.'s Annual Report on Form 10-K for the year ended December 31, 2006.

Effective January 1, 2006, JPMorgan Chase Bank, N.A., adopted SFAS 123R and all related interpretations using the modified prospective transition method. SFAS 123R requires all share-based payments to employees, including employee stock options and stock-settled stock appreciation rights ("SARs"), to be measured at their grant date fair values. Results for prior periods have not been restated.

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

Upon adopting SFAS 123R, JPMorgan Chase Bank, N.A. began to recognize in the Consolidated statements of income compensation expense for unvested stock options previously accounted for under APB 25. Additionally, JPMorgan Chase Bank, N.A. recognized as compensation expense an immaterial cumulative effect adjustment resulting from the SFAS 123R requirement to estimate forfeitures at the grant date instead of recognizing them as incurred. Finally, JPMorgan Chase Bank, N.A. revised its accounting policies for share-based payments granted to retirement-eligible employees under SFAS 123R. Prior to adopting SFAS 123R, JPMorgan Chase Bank, N.A.'s accounting policy for share-based payment awards granted to retirement-eligible employees was to recognize compensation cost over the award's stated service period. For awards granted to retirement-eligible employees in 2006, JPMorgan Chase Bank, N.A. recognized compensation expense on the grant date without giving consideration to the impact of post employment restrictions. In the first quarter of 2006, JPMorgan Chase Bank, N.A. also began to accrue the estimated cost of stock awards granted to retirement-eligible employees in January 2007.

Employee stock-based awards

Restricted stock, restricted stock units ("RSUs"), stock options, and SARs have been granted to certain JPMorgan Chase Bank, N.A. employees.

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

Restricted stock and RSUs are granted by JPMorgan Chase & Co. 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 JPMorgan Chase & Co. restricted stock is entitled to voting rights and dividends on JPMorgan Chase & Co. 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 JPMorgan Chase & Co. common stock during the period the RSU is outstanding. Effective January 2005, the equity portion of JPMorgan Chase & Co.'s annual incentive awards were granted primarily in the form of RSUs. JPMorgan Chase & Co. also periodically grants discretionary share-based payment awards, primarily in the form of both employee stock options and SARs.

Under the LTI Plans, stock options and SARs have been granted with an exercise price equal to JPMorgan Chase & Co.'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. JPMorgan Chase & Co.'s share-based compensation awards generally vest in multiple tranches.

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

In December 2005, JPMorgan Chase & Co. 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 for JPMorgan Chase Bank, N.A. was approximately $97.5 million, and was recognized as Compensation expense in 2005. JPMorgan Chase & Co. believed that at the time the options were accelerated they had limited economic value since the exercise price of the accelerated options was $51.22 and the closing price of JPMorgan Chase& Co.'s common stock on the effective date of the acceleration was $39.69.

Restricted stock and RSU activity

Compensation expense for restricted stock and RSUs is measured based upon the number of shares granted multiplied by JPMorgan Chase & Co.'s stock price at the grant date, and is recognized in Net income as previously described. The following table summarizes JPMorgan Chase Bank, N.A.'s restricted stock and RSU activity for 2006:

Restricted stock and RSU activity

Year ended December 31, 2006 (in thousands, except weighted average data)	Number of Shares	Weighted-average grant date fair value
Outstanding, January 1	**54,801**	**$ 35.35**
Granted	**28,038**	**39.34**
Lapsed[(a)]	**(22,360)**	**31.12**
Forfeited	**(5,236)**	**40.95**
Transfers	**1,371**	**33.34**
Restricted stock/RSUs outstanding December 31	**56,614**	**$ 38.43**

(a) Lapsed awards represent awards granted in prior years for which, in the case of restricted stock, restrictions have lapsed; and, in the case of RSUs, the awards have been converted into common stock.

The total fair value of shares that vested during the years ended December 31, 2006 and 2005 was $871 million and $731 million, respectively.

Employee stock option and SARs activity

Compensation expense, which is measured at the grant date as the fair value of employee stock options and SARs, is recognized in Net income as described above. The following table summarizes JPMorgan Chase Bank, N.A.'s employee stock option and SARs activity for the year ended December 31, 2006, including awards granted to key employees and awards granted in prior years under broad-based plans:

Year ended December 31, 2006 (in thousands, except weighted-average data)	Number of options/SARs	Weighted-average exercise price	Weighted-average remaining contractual life (in years)	Aggregate intrinsic value
Outstanding, January 1	**348,019**	**$ 38.60**		
Granted	**12,531**	**45.75**		
Exercised	**(54,710)**	**29.80**		
Forfeited	**(2,819)**	**36.02**		
Canceled	**(7,024)**	**47.42**		
Transfers	**(6,439)**	**42.34**		
Outstanding, December 31	**289,558**	**$ 40.31**	4.3	$ 2,599,245
Exercisable, December 31	**242,521**	**40.62**	3.8	2,129,012

The weighted-average grant date per share fair value of stock options and SARs granted during the years ended December 31, 2006 and 2005 was $10.86 and $10.50, respectively. The total intrinsic value of options exercised during the years ended December 31, 2006 and 2005 was $778 million and $310 million, respectively.

Impact of adoption of SFAS 123R

During 2006, the incremental expense related to JPMorgan Chase Bank, N.A.'s adoption of SFAS123R was $506 million. This amount represents an accelerated recognition of costs that would otherwise have been incurred in future periods. Also as a result of adopting SFAS 123R, JPMorgan Chase Bank, N.A.'s Income from continuing operations (pretax) for the year ended December 31, 2006,was lower by $506 million, and Income from continuing operations (after-tax), as well as Net income, for the year ended December 31, 2006, was lower by $314 million, than if JPMorgan Chase Bank, N.A. had continued to account for share-based compensation under APB 25 and SFAS 123.

JPMorgan Chase Bank, N.A. recognized compensation expense related to its various employee stock-based incentive awards of $1.6 billion (including the $506 million incremental impact of adopting SFAS 123R), $1.0 billion and $779 million for the years ended December 31, 2006, 2005 and 2004, respectively, in its Consolidated statements of income. At December 31, 2006, approximately $690 million (pretax) of compensation cost related to unvested awards has not yet been charged to Net income. That cost is expected to be amortized into compensation expense over a weighted-average period of 1.2 years. JPMorgan Chase Bank, N.A. does not capitalize any compensation cost related to share-based compensation awards to employees.

Cash flows and tax benefits

The total income tax benefit related to stock-based compensation arrangements recognized in JPMorgan Chase Bank, N.A.'s Consolidated statements of income for the years ended December 31, 2006, 2005 and 2004, was $662 million, $414 million and $311 million, respectively. Pursuant to a tax sharing arrangement between JPMorgan Chase Bank, N.A. and JPMorgan Chase & Co., excess tax benefits related to share-based compensation awards, determined in accordance with SFAS 123R, are recorded by JPMorgan Chase & Co. In addition, the above compensation expense allocated to JPMorgan Chase Bank, N. A was cash-settled in accordance with the aforementioned tax sharing arrangement through cash payments made by JPMorgan Chase Bank, N. A. to JPMorgan Chase & Co.

Comparison of the fair and intrinsic value measurement methods

The following table presents JPMorgan Chase Bank, N.A.'s Net income as reported, and as if all 2005 and 2004 share-based payment awards were accounted for at fair value. All 2006 awards were accounted for at fair value.

Year ended December 31, (in millions)	2005	2004[(a)]
Net income as reported	$ 5,092	$ 2,178
Add: Employee stock-based compensation expense included in reported Net income, net of related tax effects	620	467
Deduct: Employee stock-based compensation expense determined under the fair value method for all awards, net of related tax effects	(679)	(600)
Pro forma Net income	$ 5,033	$ 2,045

(a) 2004 results include six months of the combined JPMorgan Chase Bank, N.A.'s results and six months of heritage JPMorgan Chase Bank, N.A. results.

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

Year ended December 31,	**2006**	2005	2004
Weighted-average annualized valuation assumptions			
Risk-free interest rate	**5.11%**	4.25%	3.44%
Expected dividend yield	**2.89**	3.79	3.59
Expected common stock price volatility	**23**	37	41
Expected life (in years)	**6.8**	6.8	6.7

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

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

Note 10 – Noninterest expense

Merger costs

JPMorgan Chase Bank, N.A.'s allocated costs associated with the Parent Company Merger and The Bank of New York transaction are reflected in the Merger costs caption of the Consolidated statements of income. A summary of such costs, by expense category, is shown in the following table for 2006, 2005 and 2004.

Year ended December 31, (in millions)	**2006**	2005	2004[c]
Expense category			
Compensation	**$ 51**	$ 220	$ 391
Occupancy	**24**	(87)	434
Technology and communications and other	**182**	328	232
Bank of New York transaction[a]	**14**	—	—
Total[b]	**$ 271**	$ 461	$ 1,057

(a) Represents Compensation and Technology and communications and other.
(b) With the exception of occupancy-related write-offs, all of the costs in the table require the expenditure of cash.
(c) 2004 results include six months of the combined JPMorgan Chase Bank, N.A. results and six months of heritage JPMorgan Chase Bank, N.A. results.

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

Year ended December 31, (in millions)	**2006**	2005	2004[b]
Liability balance, beginning of period	**$ 306**	$ 552	$ —
Recorded as merger costs	**257**	461	1,057
Liability utilized	**(408)**	(707)	(505)
Liability balance, end of period	**$ 155**[a]	$ 306	$ 552

(a) Excludes $21 million related to The Bank of New York transaction.
(b) 2004 results include six months of the combined JPMorgan Chase Bank, N.A's results and six months of heritage JPMorgan Chase Bank, N.A. results.

Note 11 – Securities

Securities are classified as AFS, Held-to-maturity ("HTM") or Trading. Trading securities are discussed in Note 5 on page 12 of these consolidated financial statements. Securities are classified primarily as AFS when purchased as part of JPMorgan Chase Bank, N.A.'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 gains (losses) on the Consolidated statements of income. Securities that JPMorgan Chase Bank, N.A. 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. JPMorgan Chase Bank, N.A. has not classified new purchases of securities as HTM for the past several years.

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

Year ended December 31, (in millions)	**2006**	2005	2004[a]
Realized gains	**$ 375**	$ 99	$ 506
Realized losses	**(925)**	(1,562)	(216)
Net realized Securities gains (losses)	**$ (550)**	$ (1,463)	$ 290

(a) 2004 results include six months of the combined JPMorgan Chase Bank, N.A.'s results and six months of heritage JPMorgan Chase Bank, N.A. results.

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

	2006				2005			
December 31, (in millions)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale securities								
U.S. government and federal agency obligations:								
U.S. treasuries	**$ 2,038**	**$ —**	**$ 23**	**$ 2,015**	$ 4,061	$ 23	$ —	$ 4,084
Mortgage-backed securities	**32**	**2**	**1**	**33**	14	1	—	15
Agency obligations	**78**	**8**	**—**	**86**	145	16	1	160
U.S. government-sponsored enterprise obligations	**75,410**	**334**	**460**	**75,284**	21,540	8	579	20,969
Obligations of state and political subdivisions	**381**	**13**	**1**	**393**	419	20	2	437
Debt securities issued by non-U.S. governments	**6,150**	**7**	**52**	**6,105**	5,507	11	18	5,500
Corporate debt securities	**610**	**1**	**3**	**608**	313	8	3	318
Equity securities	**1,278**	**125**	**1**	**1,402**	1,195	104	6	1,293
Other, primarily asset-backed securities[a]	**2,502**	**3**	**2**	**2,503**	4,247	16	3	4,260
Total available-for-sale securities	**$ 88,479**	**$ 493**	**$ 543**	**$ 88,429**	$ 37,441	$ 207	$ 612	$ 37,036
Held-to-maturity securities[b]								
Total held-to-maturity securities	**$ 58**	**$ 2**	**$ —**	**$ 60**	$ 77	$ 3	$ —	$ 80

(a) Includes collateralized mortgage obligations of private issuers.
(b) Consists primarily of mortgage-backed securities issued by U.S. government-sponsored entities.

The following tables present the fair value and gross unrealized losses for AFS securities by aging category at December 31:

	Securities with gross unrealized losses					
	Less than 12 months		12 months or more			
December 31, 2006 (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	**$ 2,013**	**$ 23**	**$ —**	**$ —**	**$ 2,013**	**$ 23**
Mortgage-backed securities	**8**	**1**	**—**	**—**	**8**	**1**
Agency obligations	**—**	**—**	**—**	**—**	**—**	**—**
U.S. government-sponsored enterprise obligations	**17,877**	**262**	**6,930**	**198**	**24,807**	**460**
Obligations of state and political subdivisions	**—**	**—**	**100**	**1**	**100**	**1**
Debt securities issued by non-U.S. governments	**3,141**	**13**	**2,354**	**39**	**5,495**	**52**
Corporate debt securities	**387**	**3**	**—**	**—**	**387**	**3**
Equity securities	**17**	**1**	**—**	**—**	**17**	**1**
Other, primarily asset-backed securities	**1,556**	**1**	**82**	**1**	**1,638**	**2**
Total securities with gross unrealized losses	**$ 24,999**	**$ 304**	**$ 9,466**	**$ 239**	**$ 34,465**	**$ 543**

	Securities with gross unrealized losses					
	Less than 12 months		12 months or more			
December 31, 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	$ 407	$ —	$ 2	$ —	$ 409	$ —
Mortgage-backed securities	—	—	—	—	—	—
Agency obligations	18	1	—	—	18	1
U.S. government-sponsored enterprise obligations	7,533	233	10,793	346	18,326	579
Obligations of state and political subdivisions	123	1	38	1	161	2
Debt securities issued by non-U.S. governments	2,775	17	72	1	2,847	18
Corporate debt securities	124	2	35	1	159	3
Equity securities	—	—	11	6	11	6
Other, primarily asset-backed securities	172	—	142	3	314	3
Total securities with gross unrealized losses	$ 11,152	$ 254	$ 11,093	$ 358	$ 22,245	$612

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

Included in the $543 million of gross unrealized losses on AFS securities at December 31, 2006, was $239 million of unrealized losses that have existed for a period greater than 12 months. These securities are predominately rated AAA and the unrealized losses primarily are due to overall increases in market interest rates and not concerns regarding the underlying credit of the issuers. The majority of the securities with unrealized losses aged greater than 12 months are obligations of U.S. government-sponsored enterprises and have a fair value at December 31, 2006, that is within 3% of their amortized cost basis.

The following table presents the amortized cost, estimated fair value and average yield at December 31, 2006, of JPMorgan Chase Bank, N.A.'s AFS and HTM securities by contractual maturity:

	Available-for-sale securities			Held-to-maturity securities		
By remaining maturity at December 31, 2006 (in millions, except rates)	Amortized cost	Fair value	Average yield[(b)]	Amortized cost	Fair value	Average yield[(b)]
Due in one year or less	$ 6,713	$ 6,703	2.75%	$ —	$ —	—%
Due after one year through five years	3,617	3,577	3.83	—	—	—
Due after five years through 10 years	1,116	1,107	4.73	44	46	6.91
Due after 10 years[(a)]	77,033	77,042	5.72	14	14	6.59
Total securities	$ 88,479	$ 88,429	5.41%	$ 58	$ 60	6.84%

(a) Includes securities with no stated maturity. Substantially all of JPMorgan Chase Bank, N.A.'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.
(b) The average yield is based upon amortized cost balances at year end. Yields are derived by dividing interest income by total amortized cost. Taxable-equivalent yields are used where applicable.

Note 12 – Securities financing activities

JPMorgan Chase Bank, N.A. enters into resale agreements, repurchase agreements, securities borrowed transactions and securities loaned transactions, primarily to finance JPMorgan Chase Bank, N.A.'s inventory positions, acquire securities to cover short positions and settle other securities obligations. JPMorgan Chase Bank, N.A. 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 Bank, N.A. takes possession of securities purchased under resale agreements. On a daily basis, JPMorgan Chase Bank, N.A. monitors the market value of the underlying collateral, primarily of U.S. and non-U.S. government and agency securities that it has received from its counterparties, and requests additional collateral when necessary.

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

Securities borrowed and securities lent are recorded at the amount of cash collateral advanced or received. Securities borrowed consist primarily of government and equity securities. JPMorgan Chase Bank, N.A. 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)	2006	2005
Securities purchased under resale agreements	$ 160,896	$ 149,513
Securities borrowed	42,784	43,842
Securities sold under repurchase agreements	$ 137,918	$ 82,553
Securities loaned	7,601	12,747

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

At December 31, 2006, JPMorgan Chase Bank, N.A. had received securities as collateral that could be repledged, delivered or otherwise used with a fair value of approximately $223 billion. This collateral was generally obtained under resale or securities-borrowing agreements. Of these securities, approximately $199 billion were repledged, delivered or otherwise used, generally as collateral under repurchase agreements, securities lending agreements or to cover short sales.

Note 13 – Loans

Loans that are originated or purchased by JPMorgan Chase Bank, N.A. and that management has the intent and ability to hold for the foreseeable future are reported at the principal amount outstanding, net of the Allowance for loan losses, unearned income and any net deferred loan fees. Loans that are either originated or purchased by JPMorgan Chase Bank, N.A. and that management intends to sell or to securitize are classified as held-for-sale and are carried at the lower of cost or fair value, with valuation changes recorded in Noninterest revenue. Gains or losses on held-for-sale loans are also recorded in Noninterest 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.

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

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

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

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

December 31, (in millions)	2006	2005
U.S. wholesale loans:		
Commercial and industrial	**$ 75,664**	$ 68,984
Real estate	**14,153**	13,547
Financial institutions	**14,183**	11,457
Lease financing receivables	**1,989**	1,993
Other	**9,935**	14,122
Total U.S. wholesale loans	**115,924**	110,103
Non-U.S. wholesale loans:		
Commercial and industrial	**42,007**	27,574
Real estate	**1,146**	1,475
Financial institutions	**19,191**	7,952
Lease financing receivables	**601**	644
Other	**145**	—
Total non-U.S. wholesale loans	**63,090**	37,645
Total wholesale loans:		
Commercial and industrial	**117,671**	96,558
Real estate[a]	**15,299**	15,022
Financial institutions	**33,374**	19,409
Lease financing receivables	**2,590**	2,637
Other	**10,080**	14,122
Total wholesale loans	**179,014**	147,748
Total consumer loans:		
Home equity	**85,730**	73,573
Mortgage	**59,114**	57,871
Auto loans and leases	**38,648**	41,192
All other loans	**27,063**	18,027
Credit card receivables[b]	**32,264**	27,580
Total consumer loans	**242,819**	218,243
Total loans[c][d]	**$ 421,833**	$ 365,991

(a) 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.
(b) Includes billed finance charges and fees net of an allowance for uncollectible amounts.
(c) Loans are presented net of unearned income and net deferred loan fees of $795 million and $1.3 billion at December 31, 2006 and 2005, respectively.
(d) Includes loans held-for-sale (primarily related to securitization and syndication activities) of $53.7 billion and $32.4 billion at December 31, 2006 and 2005, respectively.

The following table reflects information about JPMorgan Chase Bank, N.A.'s loan sales:

Year ended December 31, (in millions)	2006	2005[a]	2004[a][b]
Net gains on sales of loans (including lower of cost or fair value adjustments)	**$ 527**	$ 339	$ 401

(a) Prior periods have been revised to reflect the current presentation.
(b) 2004 results include six months of the combined JPMorgan Chase Bank, N.A.'s results and six months of heritage JPMorgan Chase Bank, N.A. results.

Impaired loans

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

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

December 31, (in millions)	2006	2005
Impaired loans with an allowance	$ 622	$ 1,093
Impaired loans without an allowance[(a)]	66	79
Total Impaired loans	$ 688	$ 1,172
Allowance for impaired loans under SFAS 114[(b)]	153	256

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

Year ended December 31, (in millions)	2006	2005	2004[(a)]
Average balance of impaired loans during the year	$ 989	$ 1,473	$ 1,878
Interest income recognized on impaired loans during the year	2	5	8

(a) 2004 results include six months of the combined JPMorgan Chase Bank, N.A.'s results and six months of heritage JPMorgan Chase Bank, N.A. results.

Note 14 – Allowance for credit losses

JPMorgan Chase Bank, N.A.'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 JPMorgan Chase Bank, N.A.'s loan portfolio as of December 31, 2006, 2005 and 2004. Management also computes an allowance for wholesale lending-related commitments using a methodology similar to that used for the wholesale loans.

The table below summarizes JPMorgan Chase Bank, N.A.'s reporting of its allowance for credit losses:

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

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 probability of default and loss given 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 JPMorgan Chase Bank, N.A.'s process of extending credit as of December 31, 2006, 2005 and 2004. Management establishes an asset-specific allowance for lending-related commitments that are considered impaired and computes a formula-based allowance for performing wholesale lending-related commitments. These are computed using a methodology similar to that used for the wholesale loan portfolio, modified for expected maturities and probabilities of drawdown.

At least quarterly, the allowance for credit losses is reviewed by the Chief Risk Officer, the Chief Financial Officer and the Controller of JPMorgan Chase, and discussed with the Risk Policy and Audit Committees of the Board of Directors of JPMorgan Chase. As of December 31, 2006, JPMorgan Chase Bank, N.A. deemed the allowance for credit losses to be appropriate (i.e., sufficient to absorb losses that are inherent in the portfolio, including those not yet identifiable).

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

Year ended December 31, (in millions)	2006	2005	2004[e]
Allowance for loan losses at January 1	**$ 4,857**	$ 5,313	$ 3,151
Addition resulting from the Bank Merger, July 1, 2004	**—**	—	2,859
Gross charge-offs	**(2,025)**	(2,366)	(2,283)
Gross recoveries	**565**	714	569
Net charge-offs	**(1,460)**	(1,652)	(1,714)
Provision for loan losses:			
Provision excluding accounting policy conformity	**1,690**	1,193	313
Accounting policy conformity	**—**	—	563[f]
Total Provision for loan losses	**1,690**	1,193	876
Other	**83**[a][b]	3	141[b]
Allowance for loan losses at December 31	**$ 5,170**[c]	$ 4,857[d]	$ 5,313[g]

(a) Primarily relates to loans acquired in The Bank of New York transaction.
(b) Includes the transfer of the allowance between affiliates under common control and JPMorgan Chase Bank, N.A., which is primarily related to loans that were transferred among such entities.
(c) Includes $51 million of asset-specific and $5.1 billion of formula-based allowance. Included within the formula-based allowance was $3.6 billion related to a statistical calculation and an adjustment to the statistical calculation of $1.5 billion.
(d) Includes $203 million of asset-specific and $4.7 billion of formula-based allowance. Included within the formula-based allowance was $3.4 billion related to a statistical calculation (including $339 million related to Hurricane Katrina), and an adjustment to the statistical calculation of $1.3 billion.
(e) 2004 results include six months of the combined JPMorgan Chase Bank, N.A.'s results and six months of heritage JPMorgan Chase Bank, N.A. results.
(f) Represents an increase of $779 million as a result of the decertification of heritage Bank One seller's interest in credit card securitizations, partially offset by a reduction of $216 million to conform provision methodologies.
(g) Includes $469 million of asset-specific and $4.8 billion of formula-based allowance. Included within the formula-based allowance was $3.3 billion related to a statistical calculation and an adjustment to the statistical calculation of $1.5 billion.

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

Year ended December 31, (in millions)	2006	2005	2004[c]
Allowance for lending-related commitments at January 1	**$ 397**	$ 491	$ 324
Addition resulting from the Bank Merger, July 1, 2004	**—**	—	509
Provision for lending-related commitments:			
Provision excluding accounting policy conformity	**119**	(92)	(115)
Accounting policy conformity	**—**	—	(227)[d]
Total provision for lending-related commitments	**119**	(92)	(342)
Other[a]	**7**	(2)	—
Allowance for lending-related commitments at December 31[b]	**$ 523**	$ 397	$ 491

(a) 2006 amount relates to The Bank of New York transaction.
(b) 2006 includes $33 million of asset-specific and $490 million of formula-based allowance. 2005 includes $60 million of asset-specific and $337 million of formula-based allowance. 2004 includes $130 million of asset-specific and $361 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 JPMorgan Chase Bank, N.A.'s results and six months of heritage JPMorgan Chase Bank, N.A. results.
(d) Represents a reduction of $227 million to conform provision methodologies in the wholesale portfolio.

Note 15 – Loan securitizations

JPMorgan Chase Bank, N.A. securitizes and sells a variety of its consumer and wholesale loans. Consumer activities include securitizations of residential real estate, credit card and automobile loans that are originated or purchased by JPMorgan Chase Bank, N.A.'s retail and credit card businesses. Wholesale activities include securitizations of purchased residential real estate loans and commercial loans (primarily real estate–related) originated by the investment banking business.

JPMorgan Chase Bank, N.A.–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 6 of these consolidated financial statements); accordingly, the assets and liabilities of securitization-related QSPEs are not reflected in JPMorgan Chase Bank, N.A.'s Consolidated balance sheets (except for retained interests, as described below) but are included on the balance sheet of the QSPE purchasing the assets. Assets held by JPMorgan Chase Bank, N.A.–sponsored securitization-related QSPEs as of December 31, 2006 and 2005, were as follows:

December 31, (in billions)	2006	2005
Consumer activities		
Credit card receivables[a]	**$ 35.3**	$ 39.2
Automobile loans[a]	**3.8**	3.9
Residential mortgage receivables	**40.7**	29.8
Wholesale activities		
Residential mortgages	**42.9**	11.2
Commercial and other[b][c]	**87.1**	61.0
Total	**$ 209.8**	$ 145.1

(a) For credit card receivables and automobile loans the amounts reflected represent the percentage of JPMorgan Chase Bank, N.A.'s sponsorship of the total assets held by the QSPEs.
(b) Co-sponsored securitizations include non-JPMorgan Chase Bank, N.A. originated assets.
(c) Commercial and other consists of commercial loans (primarily real estate) and non-mortgage consumer receivables purchased from third parties.

JPMorgan Chase Bank, N.A. records a loan securitization as a sale when the accounting criteria for a sale are met. Those criteria are: (1) the transferred assets are legally isolated from JPMorgan Chase Bank, N.A.'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) JPMorgan Chase Bank, N.A. does not maintain effective control via an agreement to repurchase the transferred assets before their maturity or have the ability to unilaterally cause the holder to return the transferred assets.

For loan securitizations that meet the accounting sales criteria, the gains or losses recorded depend, in part, on the carrying amount of the loans sold and are allocated between the loans sold and the retained interests, based upon their relative fair values at the date of sale. Gains on securitizations are reported in Noninterest revenue. When quoted market prices for the retained interests are not available, JPMorgan Chase Bank, N.A. 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.

Interests in the securitized loans may be retained by JPMorgan Chase Bank, N.A. in the form of senior or subordinated interest-only strips, senior and subordinated tranches, and escrow accounts. The classification of retained interests is dependent upon several factors, including the type of interest (e.g., whether the retained interest is represented by a security certificate) and when it was retained, due to the adoption of SFAS 155. JPMorgan Chase Bank, N.A. has elected to fair value all interests in securitized loans retained after December 31, 2005, that have an embedded derivative required to be bifurcated under SFAS 155; these retained interests are classified primarily as Trading assets. Retained interests from wholesale activities are classified as Trading assets. For consumer activities, senior and subordinated retained interests represented by a security certificate are classified as AFS. Retained interests not represented by a security certificate are classified in Other assets. For those retained interests that are subject to prepayment risk (such that JPMorgan Chase Bank, N.A. may not recover substantially all of its investment) but are not required to be bifurcated under SFAS 155, the retained interests are recorded at fair value; subsequent adjustments are reflected in Net income or in Other comprehensive income (loss). Retained interests classified as AFS are subject to the impairment provisions of EITF 99-20.

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

2006, 2005 and 2004 Securitization activity

The following table summarizes new securitization transactions that were completed during 2006, 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, 2006 (in millions, except rates and where otherwise noted)	Consumer activities Credit card	 Automobile	 Residential mortgage	Wholesale activities Residential mortgage	 Commercial and other
Principal securitized	**$ 3,894**	**$ 2,027**	**$ 16,803**	**$ 30,810**	**$ 13,858**
Pretax gains (losses)	**27**	**2**	**85**	**161**	**129**
Cash flow information:					
Proceeds from securitizations	**$ 3,894**	**$ 1,487**	**$ 16,754**	**$ 31,083**	**$ 14,343**
Servicing fees collected	**35**	**2**	**18**	**—**	**1**
Other cash flows received	**160**	**—**	**—**	**—**	**—**
Proceeds from collections reinvested in revolving securitizations	**61,076**	**—**	**—**	**—**	**—**
Key assumptions (rates per annum):					
Prepayment rate[(a)]	**20.0–22.2% PPR**	**1.4-1.5% ABS**	**18.2–24.6% CPR**	**—% CPR**	**0.0–36.2% CPR**
Weighted-average life (in years)	**0.4**	**1.4–1.9**	**3.0–3.6**	**—**	**1.5–6.1**
Expected credit losses[(b)]	**3.3–4.2%**	**0.3–0.7%**	**—%**	**—%**	**0.0–0.9%**
Discount rate	**12.0%**	**7.6–7.8%**	**8.4–12.7%**	**—%**	**3.8–14.0%**

Year ended December 31, 2005 (in millions, except rates and where otherwise noted)	Consumer activities Credit card	 Automobile	 Residential mortgage	Wholesale activities Residential mortgage	 Commercial and other
Principal securitized	$ 6,058	$ 2,445	$ 18,125	$ 11,399	$ 11,118
Pretax gains (losses)	46	8[(c)]	21	(11)	109
Cash flow information:					
Proceeds from securitizations	$ 6,058	$ 1,704	$ 18,093	$ 11,494	$ 11,211
Servicing fees collected	37	2	17	—	—
Other cash flows received	119	—	—	—	3
Proceeds from collections reinvested in revolving securitizations	51,748	—	—	—	—
Key assumptions (rates per annum):					
Prepayment rate[(a)]	16.7–20.0% PPR	1.5% ABS	9.1–12.1% CPR	—% CPR	0.0–50.0% CPR
Weighted-average life (in years)	0.4–0.5	1.4–1.5	5.6–6.7	—	1.0–4.4
Expected credit losses[(b)]	4.7–5.7%	0.6–0.7%	—%	—%	—%
Discount rate	12.0%	6.3–7.3%	13.0–13.3%	—%	0.6–0.9%

Year ended December 31, 2004[(d)] (in millions, except rates and where otherwise noted)	Consumer activities Credit card	Automobile	Residential mortgage	Wholesale activities[(e)]
Principal securitized	$ 3,094	$ 1,040	$ 6,153	$ 8,756
Pretax gains (losses)	22	(3)	26	127
Cash flow information:				
Proceeds from securitizations	$ 3,094	$ 1,037	$ 6,162	$ 8,422
Servicing fees collected	11	1	12	3
Other cash flows received	47	—	—	16
Proceeds from collections reinvested in revolving securitizations	31,561	—	—	—
Key assumptions (rates per annum):				
Prepayment rate[(a)]	15.5–16.7% PPR	1.5% ABS	—% CPR	17.0–50.0% CPR
Weighted-average life (in years)	0.5–0.6	1.8	—	2.0–4.0
Expected credit losses[(b)]	5.5–5.8%	0.6%	—%	0.0–3.0%
Discount rate	12.0%	4.1%	—%	0.6–5.0%

(a) CPR: constant prepayment rate; PPR: principal payment rate; ABS: absolute prepayment speed.
(b) Expected credit losses for prime residential mortgage and certain wholesale securitizations are minimal and are incorporated into other assumptions.
(c) The auto securitization gain of $8 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) 2004 results include six months of the combined JPMorgan Chase Bank, N.A.'s results and six months of heritage JPMorgan Chase Bank, N.A. results.
(e) Delineation between Residential mortgage and Commercial and other is not available for 2004.

At both December 31, 2006 and 2005, JPMorgan Chase Bank, N.A. had, with respect to its credit card master trusts, $8.2 billion and $10.3 billion, respectively, related to undivided interests, and $1.0 billion and $881 million, 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 JPMorgan Chase Bank, N.A. to maintain a minimum undivided interest of 4% to 12% of the principal receivables in the trusts. JPMorgan Chase Bank, N.A. maintained an average undivided interest in principal receivables in the trusts of approximately 22% for 2006 and 22% for 2005.

JPMorgan Chase Bank, N.A. also maintains escrow accounts up to predetermined limits for some credit card and automobile securitizations, to cover the unlikely event of deficiencies in cash flows owed to investors. The amounts available in such escrow accounts are recorded in Other assets and, as of December 31, 2006, amounted to $68 million and $44 million for credit card and automobile securitizations, respectively; as of December 31, 2005, these amounts were $322 million and $60 million for credit card and automobile securitizations, respectively.

JPMorgan Chase Bank, N.A. retains servicing responsibilities for all originated and for certain purchased residential mortgage, credit card and automobile loan securitizations and for certain commercial activity securitizations it sponsors, and receives servicing fees based upon the securitized loan balance plus certain ancillary fees. JPMorgan Chase Bank, N.A. 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 17 on pages 35–38 of these consolidated financial statements.

In addition to the amounts reported for securitization activity on the previous page, JPMorgan Chase Bank, N.A. sold residential mortgage loans totaling $53.7 billion, $52.5 billion and $65.7 billion during 2006, 2005 and 2004, respectively, primarily as GNMA, FNMA and Freddie Mac mortgage-backed securities; these sales resulted in pretax gains of $251 million, $293 million and $58 million, respectively.

The table below summarizes other retained securitization interests, which are primarily subordinated or residual interests, and are carried at fair value on JPMorgan Chase Bank, N.A.'s Consolidated balance sheets:

December 31, (in millions)	**2006**	2005
Consumer activities		
Credit card[(a)]	**$ 221**	$ 195
Automobile[(a)(b)]	**128**	101
Residential mortgage[(a)]	**36**	16
Wholesale activities		
Commercial and other	**6**	20
Total	**$ 391**	$ 332

(a) Pretax unrealized gains recorded in Stockholder's equity that relate to retained securitization interests on consumer activities totaled $1.1 million and $0.9 million for credit card; $2.9 million and $3.9 million for automobile; and $2.4 million and $1.2 million for residential mortgage at December 31, 2006 and 2005, respectively.
(b) In addition to the automobile retained interest amounts noted above, JPMorgan Chase Bank, N.A. also retained senior securities totaling $167 million and $319 million at December 31, 2006 and 2005, respectively, that are classified as AFS securities. These securities are valued using quoted market prices and therefore are not included in the key economic assumption and sensitivities table that follows.

The table below outlines the key economic assumptions used to determine the fair value of JPMorgan Chase Bank, N.A.'s retained interests in its securitizations at December 31, 2006 and 2005, respectively; and it outlines the sensitivities of those fair values to immediate 10% and 20% adverse changes in those assumptions:

Year ended December 31, 2006 (in millions, except rates and where otherwise noted)	Consumer activities Credit card	 Automobile	 Residential mortgage	Wholesale activities Commercial and other
Weighted-average life (in years)	**0.4–0.5**	**1.1**	**3.4**	**3.8**
Prepayment rate	**17.5–20.4%** **PPR**	**1.4%** **ABS**	**19.3%** **CPR**	**0.00%**[(a)] **CPR**
Impact of 10% adverse change	**$ (22)**	**$ (1)**	**$ (3)**	**$ —**
Impact of 20% adverse change	**(43)**	**(2)**	**(5)**	**—**
Loss assumption	**3.5–4.1%**	**0.7%**	**0.0%**[(b)]	**0.0%**
Impact of 10% adverse change	**$ (35)**	**$ (3)**	**$ —**	**$ —**
Impact of 20% adverse change	**(70)**	**(5)**	**—**	**—**
Discount rate	**12.0%**	**7.6%**	**8.4%**	**4.7%**
Impact of 10% adverse change	**$ (1)**	**$ (1)**	**$ (2)**	**$ —**
Impact of 20% adverse change	**(1)**	**(2)**	**(3)**	**—**

Year ended December 31, 2005 (in millions, except rates and where otherwise noted)	Consumer activities Credit card	 Automobile	 Residential Mortgage	Wholesale activities Commercial and other
Weighted-average life (in years)	0.4–0.7	1.2	3.5	0.2–4.1
Prepayment rate	11.9–20.8% PPR	1.5% ABS	20.1% CPR	0.0–50.0%[(a)] CPR
Impact of 10% adverse change	$ (19)	$ —	$ (1)	$ (1)
Impact of 20% adverse change	(38)	(2)	(1)	(2)
Loss assumption	3.2–8.1%	0.7%	0.0%[(b)]	0.0%
Impact of 10% adverse change	$ (31)	$ (3)	$ —	$ —
Impact of 20% adverse change	(62)	(6)	—	—
Discount rate	6.9–12.0%	7.2%	12.7%	0.2–4.7%
Impact of 10% adverse change	$ (1)	$ (1)	$ (1)	$ —
Impact of 20% adverse change	(1)	(2)	(1)	—

(a) Prepayment risk on certain wholesale retained interests for commercial and other are minimal and are incorporated into other assumptions.
(b) Expected credit losses for prime residential mortgage are minimal and are incorporated into other assumptions.

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

Expected static-pool net credit losses include actual incurred losses plus projected net credit losses, divided by the original balance of the outstandings comprising the securitization pool. The table below displays the expected static-pool net credit losses for 2006, 2005 and 2004, based upon automobile securitizations occurring in that year:

	Loans securitized in:(a)		
Automobile	**2006**	2005	2004(b)
December 31, 2006	**0.6%**	0.7%	0.7%
December 31, 2005	**NA**	0.9	0.8
December 31, 2004	**NA**	NA	1.1

(a) Static-pool losses are not applicable to credit card securitizations due to their revolving structure. Residential mortgage securitizations are not included as the credit losses do not have a material impact on JPMorgan Chase Bank, N.A.'s retained interests.
(b) 2004 results include six months of the combined JPMorgan Chase Bank, N.A.'s results and six months of heritage JPMorgan Chase Bank, N.A. results.

The table below presents information about delinquencies, net charge-offs (recoveries) and components of reported and securitized financial assets at December 31, 2006 and 2005:

	Total Loans		Nonaccrual and 90 days or more past due(d)		Net loan charge-offs Year ended	
December 31, (in millions)	**2006**	2005	**2006**	2005	**2006**	2005
Home Equity	**$ 85,730**	$ 73,573	**$ 423**	$ 397	**$ 143**	$ 141
Mortgage	**59,114**	57,871	**769**	414	**52**	21
Auto loans and leases	**38,648**	41,192	**118**	168	**226**	257
All other loans	**27,063**	18,027	**322**	279	**139**	128
Credit card receivables	**32,264**	27,580	**488**	398	**918**	1,218
Total consumer loans	**242,819**	218,243	**2,120(e)**	1,656(e)	**1,478**	1,765
Total wholesale loans	**179,014**	147,748	**418**	1,004	**(18)**	(113)
Total loans reported	**421,833**	365,991	**2,538**	2,660	**1,460**	1,652
Securitized consumer loans:						
Residential mortgage(a)	**4,180**	2,219	**1**	10	**1**	4
Automobile	**3,706**	3,869	**7**	8	**11**	12
Credit card	**26,977**	28,608	**386**	294	**894**	1,512
Total consumer loans securitized	**34,863**	34,696	**394**	312	**906**	1,528
Securitized wholesale activities:						
Residential mortgage(a)	**26,366**	4,787	**544**	4	**13**	—
Commercial and other	**13,756**	2,153	**6**	—	**3**	—
Total securitized wholesale activities	**40,122**	6,940	**550**	4	**16**	—
Total loans securitized(b)	**74,985**	41,636	**944**	316	**922**	1,528
Total loans reported and securitized(c)	**$ 496,818**	$ 407,627	**$ 3,482**	$ 2,976	**$ 2,382**	$ 3,180

(a) Includes $21.8 billion and $4.8 billion of outstanding principal balances on securitized sub-prime 1–4 family residential mortgage loans as of December 31, 2006 and 2005, respectively.
(b) Total assets held in securitization-related SPEs were $209.8 billion and $145.1 billion at December 31, 2006 and 2005, respectively. The $75.0 billion and $41.6 billion of loans securitized at December 31, 2006 and 2005, respectively, excludes: $126.3 billion and $92.8 billion of securitized loans, in which JPMorgan Chase Bank, N.A.'s only continuing involvement is the servicing of the assets; $8.2 billion and $10.3 billion of seller's interests in credit card master trusts; and $0.3 billion and $0.4 billion of escrow accounts and other assets, respectively.
(c) Represents both loans on the Consolidated balance sheets and loans that have been securitized, but excludes loans for which JPMorgan Chase Bank, N.A.'s only continuing involvement is servicing of the assets.
(d) Includes nonperforming HFS loans of $120 million and $136 million at December 31, 2006 and 2005, respectively.
(e) Excludes nonperforming assets related to (i) loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by U.S. government agencies and U.S. government-sponsored enterprises of $1.2 billion and $1.1 billion at December 31, 2006 and 2005, respectively, and (ii) education loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of $0.2 billion at December 31, 2006. These amounts for GNMA and education loans are excluded, as reimbursement is proceeding normally.

Note 16 – Variable interest entities

Refer to Note 1 on page 6 of these consolidated financial statements for a further description of JPMorgan Chase Bank, N.A.'s policies regarding consolidation of variable interest entities.

JPMorgan Chase Bank, N.A.'s principal involvement with VIEs occurs in the following manner:

- Investment banking: Utilizes VIEs to assist clients in accessing the financial markets in a cost-efficient manner by providing the flexibility relating to price, yield and desired risk. There are two broad categories of transactions involving VIEs in investment banking: (1) multi-seller conduits and (2) client intermediation; both are discussed below. JPMorgan Chase Bank, N.A. also securitizes loans through QSPEs, to create asset-backed securities, as further discussed in Note 15 on pages 28–32 of these consolidated financial statements.
- Asset management: Provides investment management services to a limited number of JPMorgan Chase Bank, N.A.'s mutual funds deemed VIEs. JPMorgan Chase Bank, N.A. 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, JPMorgan Chase Bank, N.A.'s relationships with such funds are not considered significant variable interests under FIN 46R.
- Trust and custody: Provides trustee and custodial services to a number of VIEs. These services are similar to those provided to non-VIEs. JPMorgan Chase Bank, N.A. earns market-based fees for services provided. Such relationships are not considered significant variable 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 connection with JPMorgan Chase Bank, N.A.'s investment banking activities. JPMorgan Chase Bank, N.A. 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. Such relationships are not considered significant variable interests under FIN 46R.

As noted above, there are two broad categories of investment banking transactions involving VIEs with which JPMorgan Chase Bank, N.A. is involved: multi-seller conduits and client intermediation.

Multi-seller conduits

JPMorgan Chase Bank, N.A. 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 companies are separate bankruptcy-remote companies in the business of purchasing interests in, and making loans secured by, receivable pools and other financial assets pursuant to agreements with customers. The companies 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 Bank, N.A. 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 enable the conduit to receive a liquidity rating of at least 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. The liquidity facilities are typically in the form of asset purchase agreements and are generally structured such that the liquidity is provided by JPMorgan Chase Bank, N.A. purchasing, or lending against, a pool of nondefaulted, performing assets. Deal-specific liquidity facilities are the primary source of liquidity support for the conduits.

JPMorgan Chase Bank, N.A. also provides vehicles with program-wide liquidity, in the form of revolving and short-term lending commitments, 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, JPMorgan Chase Bank, N.A. provides limited credit enhancement in the form of standby letters of credit.

In June 2006, JPMorgan Chase Bank, N.A. restructured four multi-seller conduits that it administers: each conduit issued a capital note that was acquired by an independent third-party investor who absorbs the majority of the expected losses of the respective conduit whose note it had purchased. In determining the primary beneficiary of the conduits, JPMorgan Chase Bank, N.A. used a Monte Carlo–based model to size the expected losses and considered the relative rights and obligations of each of the variable interest holders. As a result of the restructuring, JPMorgan Chase Bank, N.A. deconsolidated approximately $33 billion of assets and liabilities as of June 30, 2006. The following table summarizes JPMorgan Chase Bank, N.A.'s involvement with Bank-administered multi-seller conduits:

	Consolidated		Nonconsolidated		Total	
December 31, (in billions)	**2006**	2005	**2006**	2005	**2006**	2005
Total commercial paper issued by conduits	**$ 3.4**	$ 35.2	**$ 44.1**	$ 8.9	**$ 47.5**	$ 44.1
Commitments						
Asset-purchase agreements	**$ 0.5**	$ 47.9	**$ 66.0**	$ 14.3	**$ 66.5**	$ 62.2
Program-wide liquidity commitments	**1.0**	5.0	**4.0**	1.0	**5.0**	6.0
Program-wide limited credit enhancements	**—**	1.3	**1.6**	1.0	**1.6**	2.3
Maximum exposure to loss[(a)]	**1.0**	48.4	**67.0**	14.8	**68.0**	63.2

(a) JPMorgan Chase Bank, N.A.'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 JPMorgan Chase Bank, N.A. provides liquidity support) of $43.9 billion and $41.6 billion at December 31, 2006 and 2005, respectively, plus contractual but undrawn commitments of $24.1 billion and $21.6 billion at December 31, 2006 and 2005, respectively. Certain of JPMorgan Chase Bank, N.A.'s administered multi-seller conduits were deconsolidated as of June 30, 2006; the assets deconsolidated were approximately $33 billion. Since JPMorgan Chase Bank, N.A. provides credit enhancement and liquidity to JPMorgan Chase Bank, N.A. administered multi-seller conduits, the maximum exposure is not adjusted to exclude exposure that would be absorbed by third-party liquidity providers.

JPMorgan Chase Bank, N.A. views its credit exposure to multi-seller conduit transactions as limited. This is because, for the most part, JPMorgan Chase Bank, N.A. is not required to fund under the liquidity facilities if the assets in the VIE are in default. Additionally, JPMorgan Chase Bank, N.A.'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 JPMorgan Chase Bank, N.A.'s liquidity facilities.

Client intermediation

As a financial intermediary, JPMorgan Chase Bank, N.A. is involved in structuring VIE transactions to meet investor and client needs. JPMorgan Chase Bank, N.A. intermediates various types of risks (including fixed income, equity and credit), typically using derivative instruments as further discussed below. In certain circumstances, JPMorgan Chase Bank, N.A. also provides liquidity and other support to the VIEs to facilitate the transaction. JPMorgan Chase Bank, N.A.'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 JPMorgan Chase Bank, N.A. is exposed. JPMorgan Chase Bank, N.A. intermediates principally with the following types of VIEs: credit-linked note vehicles and municipal bond vehicles.

JPMorgan Chase Bank, N.A. 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 JPMorgan Chase Bank, N.A. 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 Bank, N.A.

JPMorgan Chase Bank, N.A. provides liquidity to municipal bond vehicles that allow tax-exempt investors to finance their investments at short-term tax-exempt rates. For vehicles in which JPMorgan Chase Bank, N.A. owns the residual interests in these programs, JPMorgan Chase Bank, N.A. consolidates the VIE. The VIE purchases fixed-rate, longer-term highly rated municipal bonds by issuing puttable floating-rate certificates and inverse floating-rate certificates; the investors that purchase the inverse floating-rate certificates are exposed to the residual losses of the VIE (the "residual interests"). For vehicles in which JPMorgan Chase Bank, N.A. owns the residual interests, JPMorgan Chase Bank, N.A. consolidates the VIE. In vehicles in which third-party investors own the residual interests, JPMorgan Chase Bank, N.A.'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. JPMorgan Chase Bank, N.A. 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, 2006 and 2005, were as follows:

December 31, (in billions)	2006	2005
Credit-linked note vehicles[(a)]	**$ 20.2**	$ 13.5
Municipal bond vehicles[(b)]	**11.6**	8.1

(a) Assets of $1.8 billion reported in the table above were recorded on JPMorgan Chase Bank, N.A.'s Consolidated balance sheets at December 31, 2006 and 2005, due to contractual relationships held by JPMorgan Chase Bank, N.A. that relate to collateral held by the VIE.

(b) Total amounts consolidated due to JPMorgan Chase Bank, N.A. owning residual interests were $460 million and $459 million at December 31, 2006 and 2005, respectively, and are reported in the table. Total liquidity commitments were $8.9 billion and $5.8 billion at December 31, 2006 and 2005, respectively. JPMorgan Chase Bank, N.A.'s maximum credit exposure to all municipal bond vehicles was $9.4 billion and $6.3 billion at December 31, 2006 and 2005, respectively.

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

Consolidated VIE assets

The following table summarizes JPMorgan Chase Bank, N.A.'s total consolidated VIE assets, by classification, on the Consolidated balance sheets, as of December 31, 2006 and 2005:

December 31, (in billions)	2006[(d)]	2005
Consolidated VIE assets[(a)]		
Securities purchased under resale agreements[(b)]	**$ 8.0**	$ 2.6
Trading assets[(c)]	**5.5**	4.9
Investment securities	**0.2**	1.9
Interests in purchased receivables	**—**	29.6
Loans[(b)]	**15.9**	8.1
Other assets	**2.9**	0.4
Total consolidated assets	**$ 32.5**	$ 47.5

(a) JPMorgan Chase Bank, N.A. also holds $3.5 billion and $3.9 billion of assets, at December 31, 2006 and 2005, 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 15 on pages 28–32 of these consolidated financial statements.

(b) Includes activity conducted by JPMorgan Chase Bank, N.A. in a principal capacity, primarily in investment banking.

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

(d) Certain multi-seller conduits administered by JPMorgan Chase Bank, N.A. were deconsolidated as of June 30, 2006; the assets deconsolidated consisted of $29 billion of Interests in purchased receivables, $3 billion of Loans and $1 billion of investment securities.

Interests in purchased receivables included interests in receivables purchased by Bank-administered conduits, which had been consolidated in accordance with FIN 46R. Interests in purchased receivables were carried at cost and reviewed to determine whether an other-than-temporary impairment existed.

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 Bank, N.A. See Note 20 on page 39 of these consolidated financial statements for the maturity profile of FIN 46R long-term beneficial interests.

FIN 46(R)-6 Transition

In April 2006, the FASB issued FSP FIN 46(R)-6, which requires an analysis of the design of a VIE in determining the variability to be considered in the application of FIN 46(R). JPMorgan Chase Bank, N.A. adopted the guidance in FSP FIN 46(R)-6 prospectively on July 1, 2006. The adoption of FSP FIN 46(R)-6 did not significantly change the way in which JPMorgan Chase Bank, N.A. evaluated its interests in VIEs under FIN 46(R); thus, it had an immaterial impact on JPMorgan Chase Bank, N.A.'s consolidated financial statements.

Note 17 – Goodwill and other intangible assets

Goodwill is not amortized. It is instead tested for impairment in accordance with SFAS 142. 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)	2006	2005
Goodwill	**$ 25,939**	$ 23,499
Mortgage servicing rights	**7,546**	6,452
Purchased credit card relationships	**190**	91
All other intangibles:		
Other credit card–related intangibles	**$ 251**	$ 83
Core deposit intangibles	**2,621**	2,705
Other intangibles	**1,015**	1,147
Total All other intangible assets	**$ 3,887**	$ 3,935

Goodwill

Goodwill arises from business combinations, and is primarily the product of JPMorgan Chase Bank, N.A.'s acquisition activities, representing the excess of the cost of an acquired entity over the net fair value amounts assigned to assets acquired and liabilities assumed; and transfers of legal entities under common control. The $2.4 billion increase in Goodwill primarily resulted from: the addition of $1.8 billion of goodwill from The Bank of New York transaction; an increase of $688 million resulting from the internal transfer of legal entities under common control (as described in Note 3, page 10, the transfers were not reflected as of the beginning of all periods presented due to their immaterial impact on the consolidated financial statements of JPMorgan Chase Bank, N.A.); and $510 million of goodwill resulting from the acquisition of Collegiate Funding Services. The increases from acquisitions and transfers of legal entities under common control were offset partially by a reduction to Goodwill: resulting from purchase accounting adjustments related to the acquisition of the Sears Canada credit card business; of $200 million due to the sale of selected corporate trust businesses to The Bank of New York; and of $70 million related to reclassifying net assets of a subsidiary as held-for-sale.

Mortgage servicing rights

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

The amount initially capitalized as MSRs represents the amount paid to third parties to acquire MSRs or is the estimate of fair value, if retained upon the sale or securitization of mortgage loans. JPMorgan Chase Bank, N.A. estimates the fair value of MSRs for initial capitalization and ongoing valuation using an option-adjusted spread ("OAS") model, which projects MSR cash flows over multiple interest rate scenarios in conjunction with JPMorgan Chase Bank, N.A.'s proprietary prepayment model, and then discounts these cash flows at risk-adjusted rates. The model considers portfolio characteristics, contractually specified servicing fees, prepayment assumptions, delinquency rates, late charges, other ancillary revenues, and costs to service, and other economic factors. JPMorgan Chase Bank, N.A. compares fair value estimates and assumptions to observable market data where available and to recent market activity and actual portfolio experience.

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

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

For the years ended December 31, 2005 and 2004, MSRs were accounted for under SFAS 140, using a lower of cost or fair value approach. Under this approach, MSRs were amortized as a reduction of the actual servicing income received in proportion to, and over the period of, the estimated future net servicing income stream of the underlying mortgage loans. For purposes of evaluating and measuring impairment of MSRs, JPMorgan Chase Bank, N.A. stratified the portfolio on the basis of the predominant risk characteristics, which are loan type and interest rate. Any indicated impairment was recognized as a reduction in revenue through a valuation allowance, which represented the extent to which the carrying value of an individual stratum exceeded its estimated fair value. Any gross carrying value and related valuation allowance amounts which were not expected to be recovered in the foreseeable future, based upon the interest rate scenario, were considered to be other-than-temporary.

Prior to the adoption of SFAS 156, JPMorgan Chase Bank, N.A. designated certain derivatives used to risk manage MSRs (e.g., a combination of swaps, swaptions and floors) as SFAS 133 fair value hedges of benchmark interest rate risk. SFAS 133 hedge accounting allowed the carrying value of the hedged MSRs to be adjusted through Net income in the same period that the change in value of the hedging derivatives was recognized through Net income. The designated hedge period was daily. In designating the benchmark interest rate, JPMorgan Chase Bank, N.A. considered the impact that the change in the benchmark rate had on the prepayment speed estimates in determining the fair value of the MSRs. Hedge effectiveness was assessed using a regression analysis of the change in fair value of the MSRs as a result of changes in benchmark interest rates and of the change in the fair value of the designated derivatives. The valuation adjustments to both the MSRs and SFAS 133 derivatives were recorded in Mortgage fees and related income. With the election to apply fair value accounting to the MSRs under SFAS 156, SFAS 133 hedge accounting is no longer necessary. For a further discussion of derivative instruments and hedging activities, see Note 27 on pages 46–47 of these consolidated financial statements.

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

Year ended December 31, (in millions, except rates and where otherwise noted)	2006
Balance at beginning of period after valuation allowance	**$ 6,452**
Cumulative effect of change in accounting principle	**230**
Fair value at beginning of period	**6,682**
Originations of MSRs	**1,512**
Purchase of MSRs	**627**
Total additions	**2,139**
Sales	**—**
Change in valuation due to inputs and assumptions[a]	**165**
Other changes in fair value[b]	**(1,440)**
Fair value at December 31	**$ 7,546**
Weighted-average prepayment speed assumption (CPR)	**17.02%**
Impact on fair value of 10% adverse change	**$ (381)**
Impact on fair value of 20% adverse change	**(726)**
Weighted-average discount rate	**9.32%**
Impact on fair value of 10% adverse change	**$ (254)**
Impact on fair value of 20% adverse change	**(491)**
Contractual service fees, late fees and other ancillary fees included in Mortgage fees and related income	**$ 2,038**
Third-party Mortgage loans serviced at December 31 (in billions)	**$ 527**

CPR: Constant prepayment rate.

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

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

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

The following table summarizes MSR activity for the years ended December 31, 2005 and 2004, during which MSRs were accounted for under SFAS 140.

Years ended December 31, (in millions, except rates and where otherwise noted)	2005[c]	2004[d]
Balance at January 1	$ 6,111	$ 6,159
Originations of MSRs	1,301	1,089
Purchase of MSRs	596	668
Total additions	1,897	1,757
Bank Merger	NA	90
Sales	—	(3)
Other-than-temporary impairment	(1)	(149)
Amortization	(1,295)	(1,297)
SFAS 133 hedge valuation adjustments	90	(446)
Balance at December 31	6,802	6,111
Less: valuation allowance[a]	350	1,031
Balance at December 31, after valuation allowance	$ 6,452	$ 5,080
Estimated fair value at December 31	$ 6,682	$ 5,124
Weighted-average prepayment speed assumption (CPR)	17.56%	17.29%
Weighted-average discount rate	9.68%	7.93%
Valuation allowance at January 1	$ 1,031	$ 1,378
Other-than-temporary impairment[b]	(1)	(149)
SFAS 140 impairment (recovery) adjustment	(680)	(198)
Valuation allowance at December 31	$ 350	$ 1,031
Contractual service fees, late fees and other ancillary fees included in Mortgage fees and related income	$ 1,769	$ 1,721
Third-party Mortgage loans serviced at December 31 (in billions)	$ 468	$ 431

(a) The valuation allowance in the preceding table at December 31, 2005 and 2004, represented the extent to which the carrying value of MSRs exceeded the estimated fair value for its applicable SFAS 140 strata. Changes in the valuation allowance were the result of the recognition of impairment or the recovery of previously recognized impairment charges due to changes in market conditions during the period.

(b) JPMorgan Chase Bank, N.A. recorded an other-than-temporary impairment of its MSRs of $1 million and $149 million in 2005 and 2004, respectively, which permanently reduced the gross carrying value of the MSRs and the related valuation allowance. The permanent reduction precluded subsequent reversals. This write-down had no impact on the results of operations or financial condition of JPMorgan Chase Bank, N.A.

(c) During the fourth quarter of 2005, JPMorgan Chase Bank, N.A. began valuing MSRs using an option-adjusted spread ("OAS") valuation model. Prior to the fourth quarter of 2005, MSRs were valued using cash flows and discount rates determined by a "static" or single interest rate path valuation model.

(d) 2004 results include six months of the combined JPMorgan Chase Bank, N.A.'s results and six months of heritage JPMorgan Chase Bank, N.A. results.

CPR: Constant prepayment rate

Purchased credit card relationships and All other intangible assets
During 2006, Purchased credit card relationship intangibles increased by $99 million from acquisitions of private-label portfolios and purchase accounting adjustments related to the 2005 acquisition of the Sears Canada credit card business, offset partially by $33 million of amortization expense. During 2006, All other intangible assets declined by $48 million, primarily as a result of amortization expense and a reduction of $105 million related to the transfer of selected corporate trust businesses to The Bank of New York, offset partially by an increase in core deposit intangibles of $485 million resulting from the acquisition of The Bank of New York's consumer, business banking and middle-market banking businesses, and further purchase accounting adjustments related to the 2005 acquisition of the Sears Canada credit card business. Except for $315 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 JPMorgan Chase Bank, N.A.'s other acquired intangible assets are subject to amortization.

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

December 31, (in millions)	2006 Gross amount	2006 Accumulated amortization	2006 Net carrying value	2005 Gross amount	2005 Accumulated amortization	2005 Net carrying value
Purchased credit card relationships	**$ 225**	**$ 35**	**$ 190**	$ 93	$ 2	$ 91
All other intangibles:						
Other credit card–related intangibles	**300**	**49**	**251**	133	50	83
Core deposit intangibles	**4,281**	**1,660**	**2,621**	3,797	1,092	2,705
Other intangibles[(a)]	**1,310**	**295**[(b)]	**1,015**	1,393	246[(b)]	1,147

(a) Amounts at December 31, 2006, exclude, and amounts at December 31,2005, include, other intangibles and related accumulated amortization of selected corporate trust businesses related to the transaction with The Bank of New York.
(b) Includes $8 million and $11 million of amortization expense related to servicing assets on securitized automobile loans for the years ended December 31, 2006 and 2005, respectively.

Amortization expense

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

Year ended December 31, (in millions)	2006	2005	2004[(b)]
Purchased credit card relationships	**$ 33**	$ 2	$ —
All other intangibles:			
Other credit card–related intangibles	**(1)**	30	20
Core deposit intangibles	**568**	623	330
Other intangibles[(a)]	**95**	96	65
Total amortization expense	**$ 695**	$ 751	$ 415

(a) Amortization expense related to the aforementioned selected corporate trust businesses were reported in Income from discontinued operations for all periods presented.
(b) 2004 results include six months of the combined JPMorgan Chase Bank, N.A.'s results and six months of heritage JPMorgan Chase Bank, N.A. results.

Future amortization expense

The following table presents estimated future amortization expense related to credit card relationships, core deposits and All other intangible assets at December 31, 2006:

Year ended December 31, (in millions)	Purchased credit card relationships	Other credit card-related intangibles	Core deposit intangibles	All other intangible assets	Total
2007	$ 29	$ 3	$ 555	$ 86	$ 673
2008	27	10	479	78	594
2009	24	16	397	71	508
2010	22	23	336	61	442
2011	20	28	293	53	394

Note 18 – Premises and equipment

Premises and equipment, including leasehold improvements, are carried at cost less accumulated depreciation and amortization. JPMorgan Chase Bank, N.A. computes depreciation using the straight-line method over the estimated useful life of an asset. For leasehold improvements, JPMorgan Chase Bank, N.A. uses the straight-line method computed over the lesser of the remaining term of the leased facility or 10 years. JPMorgan Chase Bank, N.A. 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 Bank, N.A. 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 19 – Deposits

At December 31, 2006 and 2005, time deposits in denominations of $100,000 or more were as follows:

December 31,(in millions)	**2006**	2005
U.S.	**$ 81,243**	$ 58,855
Non-U.S.	**53,743**	37,110
Total	**$ 134,986**	$ 95,965

At December 31, 2006, the maturities of time deposits were as follows:

December 31, 2006 (in millions)	U.S.	Non-U.S.	Total
2007	$ 102,469	$ 61,945	$ 164,414
2008	2,692	769	3,461
2009	1,200	669	1,869
2010	617	605	1,222
2011	621	486	1,107
After 5 years	675	4,423	5,098
Total	$ 108,274	$ 68,897	$ 177,171

Note 20 – Long-term debt

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

By remaining maturity at December 31, 2006 (in millions, except rates)		2006 Under 1 year	2006 1–5 years	2006 After 5 years	2006 **Total**	2005 Total
Long-term debt issued to unrelated parties						
Senior debt:[a]	Fixed rate	$ 2,158	$ 4,080	$ 2,749	**$ 8,987**	$ 6,712
	Variable rate	14,705	19,578	5,202	**39,485**	30,077
	Interest rates[b]	3.59–5.57%	2.43–17.00%	1.76–9.00%	**1.76–17.00%**	2.10–17.00%
Subordinated debt:	Fixed rate	$ —	$ 828	$ 3,197	**$ 4,025**	$ 1,130
	Variable rate	—	—	1,150	**1,150**	—
	Interest rates[b]	—%	6.13–6.70%	4.38–8.25%	**4.38–8.25%**	6.13–8.25%
	Subtotal	$ 16,863	$ 24,486	$ 12,298	**$ 53,647**	$ 37,919
Long-term debt payable to JPMorgan Chase & Co. and affiliates						
	Fixed rate	$ 434	$ 600	$ 6,400	**$ 7,434**	$ 7,518
	Variable rate	—	—	10,175	**10,175**	10,175
	Interest rates[b]	1.51–6.70%	6.25–6.63%	5.62–9.00%	**1.51–9.00%**	1.51–9.00%
	Subtotal	$ 434	$ 600	$ 16,575	**$ 17,609**	$ 17,693
Total long-term debt		$ 17,297	$ 25,086	$ 28,873	**$ 71,256**[d][e][f][g]	$ 55,612
FIN 46R long-term beneficial interests:[c]						
	Fixed rate	$ 7	$ 2	$ 423	**$ 432**	$ 465
	Variable rate	63	129	7,367	**7,559**	1,889
	Interest rates[b]	5.85–7.12%	1.73–6.50%	3.26–12.79%	**1.73–12.79%**	0.51–12.79%
Total FIN 46R long-term beneficial interests		$ 70	$ 131	$ 7,790	**$ 7,991**	$ 2,354

(a) Included are various equity-linked or other indexed instruments. Embedded derivatives separated from hybrid securities in accordance with SFAS 133 are reported at fair value and shown net with the host contract on the Consolidated balance sheets. Changes in fair value of separated derivatives are recorded in Principal transactions revenue. Hybrid securities which JPMorgan Chase Bank, N.A. has elected to measure at fair value in accordance with SFAS 155 are classified in the line item of the host contract on the Consolidated balance sheets; changes in fair values are recorded in Principal transactions revenue in the Consolidated statements of income.

(b) The interest rates shown are the range of contractual rates in effect at year end, including non-U.S. dollar-fixed- and variable-rate issuances, which excludes the effects of the associated derivative instruments used in SFAS 133 hedge accounting relationships if applicable. The use of these derivative instruments modifies JPMorgan Chase Bank, N.A.'s exposure to the contractual interest rates disclosed in the table above. Including the effects of the SFAS 133 hedge accounting derivatives, the range of modified rates in effect at December 31, 2006, for total long-term debt was 1.76% to 17.00%, versus the contractual range of 1.51% 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, 2006, long-term debt aggregating $9.2 billion was redeemable at the option of JPMorgan Chase Bank, N.A., 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 2006 is $17.3 billion in 2007, $10.2 billion in 2008, $4.4 billion in 2009, $5.8 billion in 2010 and $4.7 billion in 2011.

(f) Includes $1.9 billion of outstanding zero-coupon notes at December 31, 2006. The aggregate principal amount of these notes at their respective maturities was $3.2 billion.

(g) Includes $24.1 billion of outstanding structured notes accounted for at fair value under SFAS 155.

The weighted-average contractual interest rate for total Long-term debt was 4.80% and 4.32% as of December 31, 2006 and 2005, respectively. In order to modify exposure to interest rate and currency exchange rate movements, JPMorgan Chase Bank, N.A. 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 JPMorgan Chase Bank, N.A.'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 3.34% and 4.27% as of December 31, 2006 and 2005, respectively.

JPMorgan Chase Bank, N.A. has guaranteed certain debt of its subsidiaries, including both long-term debt and structured notes sold as part of JPMorgan Chase Bank, N.A.'s trading activities. These guarantees rank on a parity with all of JPMorgan Chase Bank, N.A.'s other unsecured and unsubordinated indebtedness. Guaranteed liabilities totaled $29.8 and $9.1 billion at December 31, 2006 and 2005, respectively.

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

At December 31, 2006, JPMorgan Chase Bank, N.A. had 2 wholly owned Delaware statutory business trusts ("issuer trusts") that had issued guaranteed capital debt securities.

The junior subordinated deferrable interest debentures issued by JPMorgan Chase Bank, N.A. to the issuer trusts were reflected in JPMorgan Chase Bank, N.A.'s Consolidated balance sheets in the Liabilities section under the caption "Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities" (i.e., trust preferred capital debt securities). JPMorgan Chase Bank, N.A. also records the common capital securities issued by the issuer trusts in Other assets on its Consolidated balance sheets.

The debentures issued to the issuer trusts by JPMorgan Chase Bank, N.A., less the common capital securities of the issuer trusts, currently qualify as Tier 1 capital. The following is a summary of the outstanding capital debt securities issued to affiliates by each trust and the junior subordinated deferrable interest debenture issued by JPMorgan Chase Bank, N.A. to each trust as of December 31, 2006:

December 31, 2006 (in millions)	Amount of capital debt securities issued by trust	Principal amount of debenture issued to trust	Issue date	Stated maturity of capital securities and debentures	Earliest redemption date	Interest rate of capital securities and debentures	Interest payments distribution dates
BONA Capital I, LLC	$ 300	$ 306	2000	2030	2006	8.20%	Semiannually
BONA Capital II, LLC	300	307	2002	2032	2008	7.00%	Semiannually
Total	$ 600	$ 613					

Note 21 – Related party transactions

JPMorgan Chase Bank, N.A. regularly enters into transactions with JPMorgan Chase and various of its subsidiaries.

Significant income statement related transactions with related parties (in addition to those described elsewhere in these consolidated financial statements) are listed below.

Year ended December 31, (in millions)	**2006**	2005	2004
Interest income from affiliates			
Deposits with affiliated banks	**$ 9**	$ 14	$ 29
Federal funds sold and securities repurchased under resale agreements and Securities borrowed with affiliates	**4,768**	2,184	404
Loans to affiliates	**115**	222	44
Interest expense to affiliates			
Interest-bearing deposits of affiliates	**1,507**	552	229
Federal funds purchased and securities sold under repurchase agreements, and Other borrowed funds with affiliates	**2,865**	1,054	508
Long-term debt payable to JPMorgan Chase & Co. and affiliates	**975**	915	671
Guaranteed capital debt securities issued to nonbank affiliates	**47**	46	23
Servicing agreements with affiliates			
Noninterest revenue	**3,086**	2,912	1,398
Noninterest expense	**4,386**	3,647	2,184

Significant balances with related parties (in addition to those described elsewhere in these consolidated financial statements) are listed below.

December 31, (in millions)	**2006**	2005
Assets		
Deposits with affiliated banks	**$ —**	$ 56
Federal funds sold and securities repurchased under resale agreements, and Securities borrowed with affiliates	**111,879**	97,332
Loans to affiliates	**298**	1,964
Accrued interest and accounts receivable, and Other assets due from affiliates	**9,356**	7,442
Liabilities		
Noninterest-bearing deposits with affiliates	**6,944**	6,638
Interest-bearing deposits with affiliates	**26,899**	16,104
Federal funds purchased and securities sold with affiliates under repurchase agreements, and Other borrowed funds with affiliates	**60,044**	38,545
Accounts payable, accrued expenses and other liabilities payable to affiliates	**4,459**	2,869
Long-term debt payable to JPMorgan Chase & Co. and affiliates	**17,609**	17,693
Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities	**613**	600

At December 31, 2006 and 2005, Derivative receivables from affiliates were $491 million and $1.8 billion, respectively, and Derivative payables to affiliates were $1.8 billion and $1.4 billion, respectively.

Note 22 – Accumulated other comprehensive income (loss)

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

(in millions)	Unrealized gains (losses) on AFS securities[b]	Translation adjustments, net of hedges	Cash flow hedges	Net actuarial loss and prior service (credit) of defined benefit pension and OPEB plans[f]	Accumulated other comprehensive income (loss)
Balance at December 31, 2003	$ (162)	$ 1	$ (41)	$ —	$ (202)
Net change[a]	(109)[c]	(5)	(87)	—	(201)
Balance at December 31, 2004	(271)	(4)	(128)	—	(403)
Net change	46[d]	5	(298)	—	(247)
Balance at December 31, 2005	(225)	1	(426)	—	(650)
Net change	**201**[e]	**16**	**(63)**	**—**	**154**
Adjustment to initially apply SFAS 158, net of taxes	**—**	**—**	**—**	**(431)**	**(431)**
Balance at December 31, 2006	**$ (24)**	**$ 17**	**$ (489)**	**$ (431)**	**$ (927)**

(a) Balances at December 31, 2003 reflects heritage JPMorgan Chase Bank, N.A. only. 2004 results include six months of the combined JPMorgan Chase Bank, N.A.'s results and six months of heritage JPMorgan Chase Bank, N.A. results.
(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 higher interest rates and recognition of unrealized gains from securities sales.
(d) The net change during 2005 was due primarily to the reversal of unrealized losses from securities sales, partially offset by higher interest rates.
(e) The net change during 2006 was due primarily to the reversal of unrealized losses from securities sales.
(f) For further discussion of SFAS 158, see Note 8 on pages 14–19 of these consolidated financial statements.

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

	2006			2005			2004[b]		
Year ended December 31, (in millions)	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Unrealized gains (losses) on AFS securities:									
Net unrealized holdings gains (losses) arising during the period	**$ (240)**	**$ 98**	**$ (142)**	$ (1,378)	$ 565	$ (813)	$ 10	$ (4)	$ 6
Reclassification adjustment for realized (gains) losses included in Net income	**576**	**(233)**	**343**	1,456	(597)	859	(190)	75	(115)
Net change	**336**	**(135)**	**201**	78	(32)	46	(180)	71	(109)
Translation adjustments:									
Translation	**450**	**(181)**	**269**	(441)	175	(266)	389	(159)	230
Hedges	**(416)**	**163**	**(253)**	450	(179)	271	(398)	163	(235)
Net change	**34**	**(18)**	**16**	9	(4)	5	(9)	4	(5)
Cash flow hedges:									
Net unrealized holdings gains (losses) arising during the period	**(184)**	**73**	**(111)**	(579)	230	(349)	58	(23)	35
Reclassification adjustment for realized (gains) losses included in Net income	**79**	**(31)**	**48**	84	(33)	51	(200)	78	(122)
Net change	**(105)**	**42**	**(63)**	(495)	197	(298)	(142)	55	(87)
Total Other comprehensive income	**$ 265**	**$ (111)**	**$ 154**	$ (408)	$ 161	$ (247)	$(331)	$ 130	$(201)
Net actuarial loss and prior service cost (credit) of defined benefit pension and OPEB plans:									
Adjustments to initially apply SFAS 158[a]	**$ (713)**	**$ 282**	**$ (431)**	NA	NA	NA	NA	NA	NA

(a) For further discussion of SFAS 158, see Note 8 on pages 14–19 of these consolidated financial statements.
(b) 2004 results include six months of the combined JPMorgan Chase Bank, N.A.'s results and six months of heritage JPMorgan Chase Bank, N.A. results.

Note 23 – Income taxes

JPMorgan Chase Bank, N.A. 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 JPMorgan Chase Bank, N.A. expects to be in effect when the underlying items of income and expense are realized. JPMorgan Chase Bank, N.A.'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 JPMorgan Chase Bank, N.A. expects to realize.

Due to the inherent complexities arising from the nature of JPMorgan Chase Bank, N.A.'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 Bank, N.A. and the many tax jurisdictions in which JPMorgan Chase Bank, N.A. files tax returns may not be finalized for several years. Thus, JPMorgan Chase Bank, N.A.'s final tax-related assets and liabilities may ultimately be different than those currently reported.

The consolidated U.S. federal and the combined state and local income tax returns filed by JPMorgan Chase & Co. include JPMorgan Chase Bank, N.A.'s results of operations. Pursuant to a tax sharing arrangement, JPMorgan Chase & Co. allocates to JPMorgan Chase Bank, N.A. its share of the consolidated U.S. and combined state and local income tax expense (benefit) based upon statutory tax rates applied to JPMorgan Chase Bank, N.A.'s earnings as if it were filing separate returns. State and local income taxes are provided on JPMorgan Chase Bank, N.A.'s taxable income at the effective income tax rate applicable to the consolidated JPMorgan Chase & Co. entity. To the extent the sum of separate company income tax expense (benefit) does not equal the consolidated income tax expense (benefit), an adjustment for the difference is made to JPMorgan Chase Bank, N.A.'s separate company income tax expense (benefit). Prior to 2006 a tax sharing arrangement between JPMorgan Chase Bank, N.A. and JPMorgan Chase & Co. and its various subsidiaries allowed for periodic payments to or from JPMorgan Chase Bank, N.A. for tax assets or liabilities. During 2006, this arrangement was changed, and JPMorgan Chase & Co. now cash settles the payment of income taxes between the members of the U.S. consolidated federal and New York State and New York City combined income tax groups. As a result, JPMorgan Chase Bank, N.A.'s income taxes payable to (receivable from) JPMorgan Chase & Co. were $624 million and $(579) million at December 31, 2006 and 2005, respectively.

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)	2006	2005
Deferred tax assets		
Allowance for loan losses	**$ 2,148**	$ 1,883
Allowance for other than loan losses	**2,147**	2,283
Employee benefits	**1,903**	867
Non-U.S. operations	**540**	880
Fair value adjustments	**432**	507
Other, net	**—**	509
Gross deferred tax assets	**$ 7,170**	$ 6,929
Deferred tax liabilities		
Depreciation and amortization	**$ 2,816**	$ 3,445
Leasing transactions	**2,175**	2,855
Non-U.S. operations	**1,368**	1,554
Fee income	**373**	407
Other, net	**116**	—
Gross deferred tax liabilities	**$ 6,848**	$ 8,261
Valuation allowance	**$ 210**	$ 110
Net deferred tax asset (liability)	**$ 112**	$ (1,442)

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

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

Year ended December 31, (in millions)	2006	2005	2004[(a)]
Current income tax expense			
U.S. federal	**$ 4,150**	$ 3,195	$ 706
Non-U.S.	**1,354**	589	572
U.S. state and local	**538**	103	94
Total current income tax expense	**6,042**	3,887	1,372
Deferred income tax (benefit) expense			
U.S. federal	**(1,516)**	(1,664)	(152)
Non-U.S.	**194**	319	(321)
U.S. state and local	**(233)**	21	38
Total deferred income tax (benefit) expense	**(1,555)**	(1,324)	(435)
Total income tax expense from continuing operations	**4,487**	2,563	937
Total income tax expense from discontinued operations	**574**	134	126
Total income tax expense	**$ 5,061**	$ 2,697	$1,063

(a) 2004 results include six months of the combined JPMorgan Chase Bank, N.A.'s results and six months of heritage JPMorgan Chase Bank, N.A. results.

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

The preceding table does not reflect the tax effects of SFAS 52 foreign currency translation adjustments, SFAS 115 unrealized gains and losses on AFS securities and SFAS 133 hedge transactions. Also not reflected are the cumulative tax effects of implementing in 2006, SFAS 155, which applies to certain hybrid financial instruments; SFAS 156, which accounts for servicing financial assets; and SFAS 158, which applies to defined benefit pension and OPEB plans. The tax effect of all items recorded directly in stockholder's equity was an increase of $89 million, $154 million and $125 million in 2006, 2005 and 2004, respectively.

U.S. federal income taxes have not been provided on the undistributed earnings of certain non-U.S. subsidiaries, to the extent that such earnings have been reinvested abroad for an indefinite period of time. For 2006, such earnings approximated $423 million on a pretax basis. At December 31, 2006, the cumulative amount of undistributed pretax earnings in these subsidiaries approximated $1.9 billion. It is not practicable at this time to determine the income tax liability that would result upon repatriation of these earnings.

On October 22, 2004, the American Jobs Creation Act of 2004 (the "Act") was signed into law. The Act created a temporary incentive for U.S. companies to repatriate accumulated foreign earnings at a substantially reduced U.S. effective tax rate by providing a dividends received deduction on the repatriation of certain foreign earnings to the U.S. taxpayer (the "repatriation provision"). The deduction was subject to a number of limitations and requirements. In the fourth quarter of 2005, JPMorgan Chase Bank, N.A. applied the repatriation provision to $1.7 billion of cash from foreign earnings, resulting in a net tax expense of $6 million. The $1.7 billion of cash was invested in accordance with JPMorgan Chase Bank, N.A.'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 2006, 2005 and 2004 was $(221) million, $(584) million and $56 million, respectively.

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

Year ended December 31,	**2006**	2005	2004[(a)]
Statutory U.S. federal tax rate	**35.0%**	35.0%	35.0%
Increase (decrease) in tax rate resulting from:			
U.S. state and local income taxes, net of federal income tax benefit	**2.5**	0.8	2.8
Tax-exempt income	**(0.9)**	(1.0)	(0.9)
Non-U.S. subsidiary earnings	**(0.8)**	(1.0)	(2.8)
Business tax credits	**(1.6)**	(0.9)	(2.6)
Other, net	**(1.2)**	1.5	0.6
Effective tax rate	**33.0%**	34.4%	32.1%

(a) 2004 results include six months of the combined JPMorgan Chase Bank, N.A.'s results and six months of heritage JPMorgan Chase Bank, N.A. results.

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

Year ended December 31, (in millions)	**2006**	2005	2004[(b)]
U.S.	**$ 8,054**	$ 4,918	$ 1,072
Non-U.S.[(a)]	**5,554**	2,530	1,847
Income from continuing operations before income tax expense	**$ 13,608**	$ 7,448	$ 2,919

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

Note 24 – Restrictions on cash and intercompany funds transfers

JPMorgan Chase Bank, N.A.'s business is subject to examination and regulation by the Office of the Comptroller of the Currency ("OCC"). JPMorgan Chase Bank, N.A. is a member of the U.S. 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 JPMorgan Chase Bank, N.A. with various Federal Reserve Banks was approximately $2.2 billion in 2006 and $2.7 billion in 2005.

Restrictions imposed by U.S. federal law prohibit JPMorgan Chase & Co. and certain other affiliates from borrowing from banking subsidiaries unless the loans are secured in specified amounts. Such secured loans 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.

In addition to dividend restrictions set forth in statutes and regulations, the OCC, FDIC and the Federal Reserve Board 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 Bank, N.A. 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, 2007 and 2006, JPMorgan Chase Bank, N.A. could pay, in the aggregate, $13.5 billion and $6.0 billion, respectively, in dividends to JPMorgan Chase & Co. without prior approval of its banking regulators. The capacity to pay dividends in 2007 will be supplemented by JPMorgan Chase Bank, N.A.'s earnings during the year.

In compliance with rules and regulations established by U.S. and non-U.S. regulators, as of December 31, 2006 and 2005, cash in the amount of $8.6 billion and $6.4 billion, respectively, and securities with a fair value of $2.0 million and $1.9 million, respectively, were segregated in special bank accounts for the benefit of securities and futures brokerage customers.

Note 25 – Capital

There are two categories of risk-based capital: Tier 1 capital and Tier 2 capital. Tier 1 capital includes common stockholder's 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, JPMorgan Chase Bank, N.A. 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 OCC to take action. As of December 31, 2006 and 2005, JPMorgan Chase Bank, N.A. was well-capitalized and met all capital requirements to which it was subject.

The following table presents the risk-based capital ratios for JPMorgan Chase Bank, N.A. at December 31, 2006, and December 31, 2005:

(in millions, except ratios)	Tier 1 capital	Total capital	Risk-weighted assets[b]	Adjusted average assets[c]	Tier 1 capital ratio	Total capital ratio	Tier 1 leverage ratio
December 31, 2006	**$ 68,726**	**$ 96,103**	**$ 840,057**	**$ 1,157,449**	**8.2%**	**11.4%**	**5.9%**
December 31, 2005	61,050	84,227	750,397	995,095	8.1	11.2	6.1
Well-capitalized ratios[a]					6.0%	10.0%	5.0%[d]
Minimum capital ratios[a]					4.0	8.0	3.0[e]

(a) As defined by the regulations issued by the OCC, FDIC and the Federal Reserve Board.
(b) Includes off–balance sheet risk-weighted assets in the amounts of $290.1 billion at December 31, 2006, and $260.0 billion at December 31, 2005.
(c) 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.
(d) Represents requirements for banking subsidiaries pursuant to regulations issued under the Federal Deposit Insurance Corporation Improvement Act.
(e) The minimum Tier 1 leverage ratio for banks is 3% or 4% depending on factors specified in regulations issued by the OCC and the Federal Reserve Board.

The following table shows the components of JPMorgan Chase Bank, N.A.'s Tier 1 and Total capital:

December 31, (in millions)	2006	2005
Tier 1 capital		
Total stockholder's equity	**$ 96,010**	$ 86,350
Effect of certain Accumulated other comprehensive income or loss excluded from Tier 1 capital[a]	**944**	651
Adjusted stockholder's equity	**96,954**	87,001
Minority interest[b]	**1,003**	861
Less: Goodwill	**25,939**	23,499
Investments in certain subsidiaries	**4**	2
Nonqualifying intangible assets	**3,288**	3,311
Tier 1 capital	**$ 68,726**	$ 61,050
Tier 2 capital		
Long-term debt and other instruments qualifying as Tier 2	**$ 21,684**	$ 17,923
Qualifying allowance for credit losses	**5,693**	5,254
Tier 2 capital	**$ 27,377**	$ 23,177
Total qualifying capital	**$ 96,103**	$ 84,227

(a) Includes the effect of net unrealized gains (losses) on AFS securities, cash flow hedging activities and, at December 31, 2006, unrecognized amounts related to JPMorgan Chase Bank, N.A.'s pension and OPEB plans.
(b) Primarily includes trust preferred capital debt securities of certain business trusts.

On December 14, 2006, the federal banking regulatory agencies announced an interim decision that SFAS 158 will not impact regulatory capital. Until further guidance is issued, any amounts included in Accumulated other comprehensive income (loss) within Stockholder's equity related to the adoption of SFAS 158 will be excluded from regulatory capital. For further discussion of SFAS 158, refer to Note 8 on pages 14–19 of these consolidated financial statements.

In the first quarter of 2006, the federal banking regulatory agencies issued a final rule that provides regulatory capital relief for certain cash-collateralized, securities-borrowed transactions. The final rule, which became effective February 22, 2006, also broadens the types of transactions qualifying for regulatory capital relief under the interim rule. Adoption of the rule did not have a material effect on JPMorgan Chase Bank, N.A.'s capital ratios.

Note 26 – Commitments and contingencies

At December 31, 2006, JPMorgan Chase Bank, N.A. 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 JPMorgan Chase Bank, N.A. to perform restoration work on leased premises. No lease agreement imposes restrictions on JPMorgan Chase Bank, N.A.'s ability to pay dividends, engage in debt or equity financing transactions, or enter into further lease agreements.

The following table presents required future minimum rental payments under operating leases with noncancelable lease terms that expire after December 31, 2006:

Year ended December 31, (in millions)	
2007	$ 915
2008	896
2009	843
2010	770
2011	729
After 2011	6,159
Total minimum payments required[a]	10,312
Less: Sublease rentals under noncancelable subleases	(1,144)
Net minimum payment required	$ 9,168

(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)	2006	2005	2004[a]
Gross rental expense	**$ 1,163**	$ 1,142	$ 1,036
Sublease rental income	**(178)**	(170)	(149)
Net rental expense	**$ 985**	$ 972	$ 887

(a) 2004 results include six months of the combined JPMorgan Chase Bank, N.A.'s results and six months of heritage JPMorgan Chase Bank, N.A. results.

At December 31, 2006, 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)	2006	2005[a]
Reverse repurchase/securities borrowing agreements	**$ 199**	$ 204
Securities	**45**	24
Loans	**62**	65
Trading assets and other	**65**	55
Total assets pledged	**$ 371**	$ 348

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

Litigation reserve

JPMorgan Chase Bank, N.A. maintains litigation reserves for certain of its outstanding litigation. In accordance with the provisions of SFAS 5, JPMorgan Chase Bank, N.A. accrues for a litigation-related liability when it is probable that such a liability has been incurred and the amount of the loss can be reasonably estimated. While the outcome of litigation is inherently uncertain, management believes, in light of all information known to it at December 31, 2006, JPMorgan Chase Bank, N.A.'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. JPMorgan Chase Bank, N.A. 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 JPMorgan Chase & Co. and its stockholders.

Insurance recoveries related to certain material legal proceedings were $194 million and $79 million in 2006 and 2005, respectively. Charges related to certain material legal proceedings were $1.2 billion and $1.6 billion in 2005 and 2004, respectively. There were no charges in 2006 related to material legal proceedings.

Note 27 – 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 Bank, N.A. makes markets in derivatives for customers and also is an end-user of derivatives in order to hedge market exposures, modify the interest rate characteristics of related balance sheet instruments or meet longer-term investment objectives. The majority of JPMorgan Chase Bank, N.A.'s derivatives are entered into for trading purposes. Both trading and end-user derivatives are recorded at fair value in Trading assets and Trading liabilities as set forth in Note 5 on page 12 of these consolidated financial statements.

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

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

For qualifying fair value hedges, all changes in the fair value of the derivative and in the fair value of the hedged item for the risk being hedged are recognized in earnings. If the hedge relationship is terminated, then the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and continues to be amortized to earnings as a yield adjustment. For qualifying cash flow hedges, the effective portion of the change in the fair value of the derivative is recorded in Other comprehensive income and recognized in the Consolidated statement of income when the hedged cash flows affect Net income. The ineffective portions of cash flow hedges are immediately recognized in Net income. 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 Net income. For qualifying net investment hedges, changes in the fair value of the derivative or the revaluation of the foreign currency–denominated debt instrument are recorded in the translation adjustments account within Other comprehensive income.

JPMorgan Chase Bank, N.A.'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. Prior to the adoption of SFAS 156, interest rate options, swaptions and forwards were also used in combination with interest rate swaps to hedge the fair value of JPMorgan Chase Bank, N.A.'s MSRs in SFAS 133 hedge relationships. For a further discussion of MSR risk management activities, see Note 17 on pages 35–38 of these consolidated financial statements. All amounts have been included in Net income consistent with the classification of the hedged item, primarily Net interest income, Mortgage fees and related income, and Other income. JPMorgan Chase Bank, N.A. did not recognize any gains or losses during 2006, 2005 or 2004 on bank firm commitments that no longer qualify as fair value hedges.

JPMorgan Chase Bank, N.A. 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.

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

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

Year ended December 31, (in millions)	2006	2005	2004[b]
Fair value hedge ineffective net gains/(losses)[a]	**$ (44)**	$ (73)	$ 199
Cash flow hedge ineffective net gains/(losses)[a]	**2**	(2)	—
Cash flow hedging gains/(losses) on forecasted transactions that failed to occur	**—**	—	—

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

Over the next 12 months, it is expected that $57 million (after-tax) of net losses recorded in Accumulated other comprehensive income at December 31, 2006, 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 Bank, N.A. does not seek to apply hedge accounting to all of JPMorgan Chase Bank, N.A.'s economic hedges. For example, JPMorgan Chase Bank, N.A. 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, JPMorgan Chase Bank, N.A. does not apply hedge accounting to certain interest rate derivatives used as economic hedges.

Note 28 – Off–balance sheet lending-related financial instruments and guarantees

JPMorgan Chase Bank, N.A. 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 JPMorgan Chase Bank, N.A. fulfill 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 JPMorgan Chase Bank, N.A.'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 JPMorgan Chase Bank, N.A.

To provide for the risk of loss inherent in wholesale-related contracts, an allowance for credit losses on lending-related commitments is maintained. See Note 14 on pages 27–28 of these consolidated financial statements for further discussion of the allowance for credit losses on lending-related commitments.

The following table summarizes the contractual amounts of off–balance sheet lending-related financial instruments and guarantees and the related allowance for credit losses on lending-related commitments at December 31, 2006 and 2005:

Off–balance sheet lending-related financial instruments and guarantees

	Contractual amount		Allowance for lending-related commitments	
December 31, (in millions)	**2006**	2005	**2006**	2005
Lending-related				
Consumer[a]	**$ 112,249**	$ 96,456	**$ 25**	$ 15
Wholesale:				
Other unfunded commitments to extend credit[b][c][d]	**230,826**	210,038	**304**	206
Asset purchase agreements[e]	**67,529**	31,095	**6**	3
Standby letters of credit and guarantees[c][f][g]	**87,495**	76,912	**187**	172
Other letters of credit[c]	**5,559**	4,346	**1**	1
Total wholesale	**391,409**	322,391	**498**	382
Total lending-related	**$ 503,658**	$ 418,847	**$ 523**	$ 397
Other guarantees				
Securities lending guarantees[h]	**$ 318,095**	$ 244,316	**NA**	NA
Derivatives qualifying as guarantees	**71,422**	61,759	**NA**	NA

(a) Includes credit card lending-related commitments of $22.1 billion and $20.3 billion at December 31, 2006 and 2005, respectively, which represent the total available credit to JPMorgan Chase Bank, N.A.'s cardholders. JPMorgan Chase Bank, N.A. has not experienced, and does not anticipate, that all of its cardholders will utilize their entire available lines of credit at the same time. JPMorgan Chase Bank, N.A. can reduce or cancel a credit card commitment by providing the cardholder prior notice or, in some cases, without notice as permitted by law.
(b) Includes unused advised lines of credit totaling $39.0 billion and $28.3 billion at December 31, 2006 and 2005, respectively, which are not legally binding. In regulatory filings with the Federal Reserve Board, unused advised lines are not reportable.
(c) Represents contractual amount net of risk participations totaling $32.8 billion and $29.3 billion at December 31, 2006 and 2005, respectively.
(d) Includes commitments to affiliates of $2.4 billion and $2.1 billion at December 31, 2006 and 2005, respectively.
(e) Represents asset purchase agreements with JPMorgan Chase Bank, N.A.'s administered multi-seller asset-backed commercial paper conduits, which excludes $356 million and $32.4 billion at December 31, 2006 and 2005, respectively, related to conduits that were consolidated in accordance with FIN 46R, as the underlying assets of the conduits are reported in JPMorgan Chase Bank, N.A.'s Consolidated balance sheets. It also includes $1.4 billion and $1.3 billion of asset purchase agreements to other third-party entities at December 31, 2006 and 2005, respectively. Certain of JPMorgan Chase Bank, N.A.'s administered multi-seller conduits were deconsolidated as of June 2006; the assets deconsolidated were approximately $33 billion.
(f) JPMorgan Chase Bank, N.A. held collateral relating to $13.5 billion and $9.0 billion of these arrangements at December 31, 2006 and 2005, respectively.
(g) Includes unused commitments to issue standby letters of credit of $45.5 billion and $37.5 billion at December 31, 2006 and 2005, respectively.
(h) Collateral held by JPMorgan Chase Bank, N.A. in support of securities lending indemnification agreements was $317.9 billion and $245.0 billion at December 31, 2006 and 2005, respectively.

Other unfunded commitments to extend credit

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

FIN 45 establishes accounting and disclosure requirements for guarantees, requiring that a guarantor recognize, at the inception of a guarantee, a liability in an amount equal to the fair value of the obligation undertaken in issuing the guarantee. FIN 45 defines a guarantee as a contract that contingently requires the guarantor to pay a guaranteed party, based upon: (a) changes in an underlying asset, liability or equity security of the guaranteed party; or (b) a third party's failure to perform under a specified agreement. JPMorgan Chase Bank, N.A. 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. JPMorgan Chase Bank, N.A. 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, 2006 and 2005, excluding the allowance for credit losses on lending-related commitments and derivative contracts discussed below, was approximately $297 million and $313 million, respectively.

Asset purchase agreements

The majority of JPMorgan Chase Bank, N.A.'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 16 on pages 33–35 of these consolidated financial statements. 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 decline in market value of the assets or a downgrade in the rating of JPMorgan Chase Bank, N.A. These agreements may cause JPMorgan Chase Bank, N.A. 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 JPMorgan Chase Bank, N.A.'s potential losses on these agreements.

Standby letters of credit and financial guarantees

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

Securities lending indemnification

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

Also, as part of this program, JPMorgan Chase Bank, N.A. invests cash collateral received from the borrower in accordance with approved guidelines by the lender. On an exceptional basis JPMorgan Chase Bank, N.A. may indemnify the lender against this investment risk when certain types of investments are made. Based upon historical experience, management believes that these risks of loss are remote.

Indemnification agreements – general

In connection with issuing securities to investors, JPMorgan Chase Bank, N.A. may enter into contractual arrangements with third parties that may require JPMorgan Chase Bank, N.A. to make a payment to them in the event of a change in tax law or an adverse interpretation of tax law. In certain cases, the contract also may include a termination clause, which would allow JPMorgan Chase Bank, N.A. to settle the contract at its fair value; thus, such a clause would not require JPMorgan Chase Bank, N.A. 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 Bank, N.A. JPMorgan Chase Bank, N.A. 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 JPMorgan Chase Bank, N.A. prior to the sale. See below for more information regarding JPMorgan Chase Bank, N.A.'s loan securitization activities. It is difficult to estimate JPMorgan Chase Bank, N.A.'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 JPMorgan Chase Bank, N.A. that have not yet occurred. However, based upon historical experience, management expects the risk of loss to be remote.

Securitization-related indemnifications

As part of JPMorgan Chase Bank, N.A.'s loan securitization activities, as described in Note 15 on pages 28–32 of these consolidated financial statements, JPMorgan Chase Bank, N.A. provides representations and warranties that certain securitized loans meet specific requirements. JPMorgan Chase Bank, N.A. 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 JPMorgan Chase Bank, N.A. 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, 2006, 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 JPMorgan Chase Bank, N.A. performs before the sale to ensure that the assets comply with the requirements set forth in the representations and warranties. Historically, losses incurred on such repurchases and/or indemnifications have been insignificant, and therefore management expects the risk of material loss to be remote.

Credit card charge-backs

JPMorgan Chase Bank, N.A. is a partner with one of the leading companies in electronic payment services in a joint venture operating under the name of Chase Paymentech Solutions, LLC (the "joint venture"). The joint venture was formed in October 2005, as a result of an agreement by JPMorgan Chase Bank, N.A. and First Data Corporation, its joint venture partner, to integrate the companies' jointly owned Chase Merchant Services ("CMS") and Paymentech merchant businesses. The joint venture provides merchant processing services in the United States and Canada. Under the rules of Visa USA, Inc. and Mastercard International, JPMorgan Chase Bank, N.A., is liable primarily for the amount of each processed credit card sales transaction that is the subject of a dispute between a cardmember and a merchant. The joint venture is contractually liable to JPMorgan Chase Bank, N.A. for these disputed transactions. If a dispute is resolved in the cardmember's favor, the joint venture will (through the cardmember's issuing bank) credit or refund the amount to the cardmember and will charge back the transaction to the merchant. If the joint venture is unable to collect the amount from the merchant, the joint venture will bear the loss for the amount credited or refunded to the cardmember. The joint venture mitigates this risk by withholding future settlements, retaining cash reserve accounts or by obtaining other security. However, in the unlikely event that: (1) a merchant ceases operations and is unable to deliver products, services or a refund; (2) the joint venture does not have sufficient collateral from the merchant to provide customer refunds; and (3) the joint venture does not have sufficient financial resources to provide customer refunds, JPMorgan Chase Bank, N.A. would be liable for the amount of the transaction, although it would have a contractual right to recover from its joint venture partner an amount proportionate to such partner's equity interest in the joint venture. For the year ended December 31, 2006, the joint venture incurred aggregate credit losses of $9 million on $661 billion of aggregate volume processed. At December 31, 2006, the joint venture held $893 million of collateral. For the year ended December 31, 2005, the CMS and Paymentech ventures incurred aggregate credit losses of $11 million on $563 billion of aggregate volume processed. At December 31, 2005, the joint venture held $909 million of collateral. JPMorgan Chase Bank, N.A. believes that, based upon historical experience and the collateral held by the joint venture, the fair value of JPMorgan Chase Bank, N.A.'s chargeback-related obligations would not be different materially from the credit loss allowance recorded by the joint venture; therefore, JPMorgan Chase Bank, N.A. has not recorded any allowance for losses in excess of the allowance recorded by the joint venture.

Exchange and clearinghouse guarantees

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

Derivative guarantees

In addition to the contracts described above, there are certain derivative contracts to which JPMorgan Chase Bank, N.A. 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 JPMorgan Chase Bank, N.A. 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 JPMorgan Chase Bank, N.A. deems to be guarantees was $71 billion and $62 billion at December 31, 2006 and 2005, respectively. JPMorgan Chase Bank, N.A. 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 $229 million and $198 million, and a derivative payable of $987 million and $767 million at December 31, 2006 and 2005, 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. JPMorgan Chase Bank, N.A. does not consider these contracts to be guarantees under FIN 45.

Note 29 – Credit risk concentrations

JPMorgan Chase Bank, N.A. provides credit (for example, through loans, lending-related commitments and derivatives) to customers of all sizes, from large corporate clients to the individual consumer. 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 Bank, N.A. regularly monitors various segments of the credit risk portfolio to assess potential concentration risks and to obtain collateral when deemed necessary. Additional management of JPMorgan Chase Bank, N.A.'s exposure to credit risk is accomplished through loan syndication and participations, loan sales, securitizations, credit derivatives, use of master netting agreements and other risk-reduction techniques.

In JPMorgan Chase Bank, N.A.'s wholesale portfolio, risk concentrations are evaluated primarily by industry and by geographic region. The majority of JPMorgan Chase Bank, N.A.'s wholesale syndicated loan originations (primarily to investment banking clients) continues to be distributed into the marketplace, with residual holds by JPMorgan Chase Bank, N.A. averaging less than 10%.

In the consumer portfolio, the primary focus is serving the prime consumer credit market. Concentrations are evaluated primarily by product and by U.S. geographic region. JPMorgan Chase Bank, N.A. 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 JPMorgan Chase Bank, N.A.'s assessment when extending credit and establishing its Allowance for loan losses. Within the mortgage business, the real estate portfolios are well diversified geographically across the U.S. and there are no products that result in negative amortization. However, JPMorgan Chase Bank, N.A.'s retail business offers home equity lines of credit and mortgage loans with interest-only payment options to predominantly prime borrowers. During the past year, the majority of the new subprime mortgage production was sold or classified as held-for-sale.

For further information regarding on–balance sheet credit concentrations by major product and geography, see Note 13 on page 26–27 of these consolidated financial statements. For information regarding concentrations of off–balance sheet lending-related financial instruments by major product, see Note 28 on pages 47–49 of these consolidated financial statements.

The table below presents both on-balance sheet and off-balance sheet wholesale- and consumer-related credit exposure as of December 31, 2006 and 2005:

	2006			2005		
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	**$ 63.1**	**$ 25.2**	**$ 37.9**	$ 50.5	$ 19.8	$ 30.7
Real estate	**35.8**	**21.5**	**14.3**	32.5	19.0	13.5
Healthcare	**29.9**	**6.1**	**23.8**	25.5	4.7	20.8
Consumer products	**26.9**	**8.9**	**18.0**	26.7	10.0	16.7
State and municipal governments	**26.4**	**6.2**	**20.2**	24.9	5.7	19.2
All other wholesale	**439.5**	**162.3**	**277.2**	388.9	167.4	221.5
Total wholesale-related	**621.6**	**230.2**	**391.4**	549.0	226.6	322.4
Consumer-related:						
Home equity	**155.2**	**85.7**	**69.5**	131.8	73.6	58.2
Mortgage	**65.6**	**59.1**	**6.5**	63.8	57.9	5.9
Auto loans and leases	**46.5**	**38.6**	**7.9**	46.9	41.2	5.7
All other loans	**33.4**	**27.1**	**6.3**	24.4	18.0	6.4
Card Services-reported(a)	**54.4**	**32.3**	**22.1**	47.9	27.6	20.3
Total consumer-related	**355.1**	**242.8**	**112.3**	314.8	218.3	96.5
Total exposure	**$ 976.7**	**$ 473.0**	**$ 503.7**	$ 863.8	$ 444.9	$ 418.9

(a) Excludes $27.0 billion and $28.6 billion of securitized credit card receivables at December 31, 2006 and 2005, respectively.
(b) Includes HFS loans.
(c) Represents loans, derivative receivables and interests in purchased receivables.
(d) Represents lending-related financial instruments.

Presented below is a discussion of two industries to which the Bank has significant exposure.

- Banks and finance companies: This industry group, primarily consisting of exposure to commercial banks, is the largest segment of JPMorgan Chase Bank, N.A.'s wholesale credit portfolio. Credit quality is high, as the exposure in this category is primarily rated investment-grade.
- Real estate: This industry, as the second largest segment of JPMorgan Chase Bank, N.A.'s wholesale credit portfolio, continued to grow in 2006, primarily due to improving market fundamentals and increased capital demand for the asset class supported by the relatively low interest rate environment. Real estate exposure is well-diversified by client, transaction type, geography, and property type. Approximately half of this exposure is to large public and rated real estate companies and institutions (e.g., REITS), as well as real estate loans originated for sale into the commercial mortgage-backed securities market. The remaining exposure is primarily to professional real estate developers, owners, or service providers and generally involves real estate leased to third-party tenants.

Note 30 – 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 the Accumulated other comprehensive income component of stockholder's 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.

Determination of fair value

JPMorgan Chase Bank, N.A. 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.
- Liquidity adjustments are necessary when JPMorgan Chase Bank, N.A. 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 the risk of loss due to a lack of liquidity are applied to those positions to arrive at fair value. JPMorgan Chase Bank, N.A. tries to ascertain the amount of uncertainty in the initial valuation based upon the degree of liquidity or illiquidity, as the case may be, of the market in which the instrument trades and makes liquidity adjustments to the financial instruments. JPMorgan Chase Bank, N.A. 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 JPMorgan Chase Bank, N.A. could exit the positions.

Valuation adjustments are determined based upon established policies and are controlled by a price verification group, which is independent of the risk-taking function. Economic substantiation of models, prices, market inputs and revenue through price/input testing, as well as back-testing, 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 Bank, N.A. For example, JPMorgan Chase Bank, N.A. 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 Bank, N.A., 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

JPMorgan Chase Bank, N.A. 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.

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 these 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, the cash flows are discounted using the appropriate market rates for the applicable maturity.

Trading debt and equity instruments

JPMorgan Chase Bank, N.A.'s debt and equity 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.

Securities

Fair values of actively traded securities are determined by quoted external dealer prices, 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, JPMorgan Chase Bank, N.A. 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 Bank, N.A.'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.

Other

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 data derived from the markets on which the underlying commodities are traded. This caption also includes Private equity investments and MSRs. For discussion of the fair value methodology for Private equity investments, see Note 5 on page 12 of these consolidated financial statements.

For discussion of the fair value methodology for retained interests related to securitizations, see Note 15 on pages 28–32 of these consolidated financial statements.

For discussion of the fair value methodology for MSRs, see Note 17 on pages 35–38 of these consolidated financial statements.

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 using the appropriate market rates for the applicable maturity.

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.

Trading liabilities

For a discussion of the fair value methodology for trading debt and equity instruments and derivatives, see the related discussions above in the Financial assets section of this Note.

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 JPMorgan Chase Bank, N.A.'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 Bank, N.A.'s credit quality.

Lending-related commitments

Although there is no liquid secondary market for wholesale commitments, JPMorgan Chase Bank, N.A. 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 JPMorgan Chase Bank, N.A.'s average portfolio historical experience, to become outstanding in the event an obligor defaults). JPMorgan Chase Bank, N.A. 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, 2006, the estimated fair value of JPMorgan Chase Bank, N.A.'s lending-related commitments was a liability of $210 million, compared with $545 million at December 31, 2005.

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.

December 31, (in billions)	2006 Carrying value	2006 Estimated fair value	2006 Appreciation/ (depreciation)	2005 Carrying value	2005 Estimated fair value	2005 Appreciation/ (depreciation)
Financial assets						
Assets for which fair value approximates carrying value	**$ 116.6**	**$ 116.6**	**$ —**	$ 113.7	$ 113.7	$ —
Federal funds sold and securities purchased under resale agreements	**201.5**	**201.5**	**—**	177.0	177.3	0.3
Trading assets	**284.3**	**284.3**	**—**	221.8	221.8	—
Securities	**88.5**	**88.5**	**—**	37.1	37.1	—
Loans: Wholesale, net of Allowance for loan losses	**176.4**	**179.9**	**3.5**	145.4	147.8	2.4
Consumer, net of Allowance for loan losses	**240.3**	**239.5**	**(0.8)**	215.7	213.5	(2.2)
Interests in purchased receivables	**—**	**—**	**—**	29.7	29.7	—
Other	**31.5**	**31.9**	**0.4**	33.0	34.0	1.0
Total financial assets	**$ 1,139.1**	**$ 1,142.2**	**$ 3.1**	$ 973.4	$ 974.9	$ 1.5
Financial liabilities						
Liabilities for which fair value approximates carrying value	**$ 221.4**	**$ 221.4**	**$ —**	$ 198.6	$ 198.6	$ —
Interest-bearing deposits	**493.5**	**493.5**	**—**	403.5	403.3	0.2
Federal funds purchased and securities sold under repurchase agreements	**157.3**	**157.3**	**—**	104.7	104.7	—
Trading liabilities	**125.0**	**125.0**	**—**	124.2	124.2	—
Beneficial interests issued by consolidated VIEs	**11.8**	**11.8**	**—**	38.0	38.0	—
Long-term debt-related instruments	**71.9**	**71.9**	**—**	56.3	56.0	0.3
Total financial liabilities	**$ 1,080.9**	**$ 1,080.9**	**$ —**	$ 925.3	$ 924.8	$ 0.5
Net appreciation			**$ 3.1**			$ 2.0

Note 31 – International operations

Financial information regarding international operations is accumulated, managed and discussed at the JPMorgan Chase & Co. level and not at the subsidiary level (i.e., JPMorgan Chase Bank, N.A.). For financial reporting purposes, JPMorgan Chase Bank, N.A. is viewed by JPMorgan Chase & Co. as a legal entity only; financial information for international operations is not used to manage JPMorgan Chase Bank, N.A., nor is it practicable to prepare.

Note 32 – Business segments

SFAS 131 defines the criteria by which management determines the number and nature of its "operating segments" (i.e., business segments) and sets forth the financial information that is required to be disclosed about these business segments. This information is accumulated, managed and discussed at the JPMorgan Chase & Co. level and not at the subsidiary level (i.e. JPMorgan Chase Bank, N.A.). For financial reporting purposes, JPMorgan Chase Bank, N.A. is viewed by JPMorgan Chase & Co. as a legal entity only; business segment financial information is not prepared for JPMorgan Chase Bank, N.A.

Selected quarterly financial data (unaudited)

(in millions)	2006				2005			
As of or for the period ended	4th	3rd	2nd	1st	4th	3rd	2nd	1st
Selected income statement data								
Noninterest revenue	**$ 7,485**	**$ 7,170**	**$ 6,800**	**$ 7,736**	$ 5,024	$ 7,132	$ 5,396	$ 5,513
Net interest income	**4,902**	**4,582**	**4,439**	**4,212**	3,842	3,695	3,786	3,960
Total net revenue	**12,387**	**11,752**	**11,239**	**11,948**	8,866	10,827	9,182	9,473
Provision for credit losses	**700**	**393**	**262**	**454**	547	539	(10)	25
Total noninterest expense	**8,044**	**8,081**	**7,857**	**7,927**	6,566	7,524	8,440	7,269
Income from continuing operations before income tax expense	**3,643**	**3,278**	**3,120**	**3,567**	1,753	2,764	752	2,179
Income tax expense	**901**	**1,172**	**1,124**	**1,290**	611	1,012	197	743
Income from continuing operations (after-tax)	**2,742**	**2,106**	**1,996**	**2,277**	1,142	1,752	555	1,436
Income from discontinued operations (after-tax)[a]	**649**	**55**	**49**	**45**	46	53	52	56
Net income	**$ 3,391**	**$ 2,161**	**$ 2,045**	**$ 2,322**	$ 1,188	$ 1,805	$ 607	$ 1,492
Selected ratios								
Tier 1 capital ratio	**8.2%**	**8.0%**	**8.2%**	**8.1%**	8.1%	7.9%	8.0%	8.3%
Total capital ratio	**11.4**	**11.0**	**11.3**	**11.1**	11.2	10.9	11.1	11.6
Tier 1 leverage ratio	**5.9**	**6.0**	**5.7**	**5.9**	6.1	6.2	6.1	6.0
Selected balance sheet data (period-end)								
Total assets	**$ 1,179,390**	**$ 1,173,732**	**$ 1,144,680**	**$ 1,093,394**	$ 1,013,985	$ 1,008,426	$ 973,113	$ 983,346
Securities	**88,487**	**83,387**	**68,332**	**57,339**	37,113	57,942	47,669	62,475
Loans	**421,833**	**406,800**	**401,395**	**384,156**	365,991	363,041	349,391	333,856
Deposits	**640,466**	**589,245**	**602,089**	**581,311**	552,610	529,396	529,197	534,136
Long-term debt	**71,256**	**65,733**	**61,390**	**59,808**	55,612	50,617	49,470	47,948
Total stockholder's equity	**96,010**	**92,025**	**89,362**	**87,395**	86,350	85,090	83,168	81,836

(a) On October 1, 2006, JPMorgan Chase Bank, N.A. completed the exchange of selected corporate trust businesses including trustee, paying agent, loan agency and document management services for the consumer, business banking and middle-market banking businesses of The Bank of New York. The results of operations of these corporate trust businesses are being reported as discontinued operations for each of the periods presented.

Selected annual financial data (unaudited)

(in millions)				Heritage JPMorgan Chase Bank, N.A. only	
As of or for the year ended December 31,	**2006**	2005	2004[b]	2003	2002
Selected income statement data					
Noninterest revenue	**$ 29,191**	$ 23,065	$ 16,979	$ 15,299	$ 13,388
Net interest income	**18,135**	15,283	11,962	9,497	8,630
Total net revenue	**47,326**	38,348	28,941	24,796	22,018
Provision for credit losses	**1,809**	1,101	534	473	2,674
Total noninterest expense	**31,909**	29,799	25,488	16,734	17,313
Income from continuing operations before income tax expense	**13,608**	7,448	2,919	7,589	2,031
Income tax expense	**4,487**	2,563	937	2,560	963
Income from continuing operations (after-tax)	**9,121**	4,885	1,982	5,029	1,068
Income from discontinued operations (after-tax)[a]	**798**	207	196	149	145
Net income	**$ 9,919**	$ 5,092	$ 2,178	$ 5,178	$ 1,213
Selected ratios					
Tier 1 capital ratio	**8.2%**	8.1%	8.3%	8.1%	8.2%
Total capital ratio	**11.4**	11.2	11.7	10.4	11.1
Tier 1 leverage ratio	**5.9**	6.1	6.0	5.6	5.3
Selected balance sheet data (period-end)					
Total assets	**$ 1,179,390**	$ 1,013,985	$ 967,365	$ 628,662	$ 622,388
Securities	**88,487**	37,113	81,033	54,362	80,332
Loans	**421,833**	365,991	334,323	179,471	184,303
Deposits	**640,466**	552,610	517,710	326,745	300,566
Long-term debt	**71,256**	55,612	46,406	16,007	13,100
Total stockholder's equity	**96,010**	86,350	80,640	37,491	35,540

(a) On October 1, 2006, JPMorgan Chase Bank, N.A. completed the exchange of selected corporate trust businesses including trustee, paying agent, loan agency and document management services for the consumer, business banking and middle-market banking businesses of The Bank of New York. The results of operations of these corporate trust businesses are being reported as discontinued operations for each of the periods presented.

(b) 2004 results include six months of the combined JPMorgan Chase Bank, N.A.'s results and six months of heritage JPMorgan Chase Bank, N.A. results.

APB 25: Accounting Principles Board Opinion No. 25. "Accounting for Stock Issued to Employees."

Beneficial interest issued by consolidated VIEs: Represents the interest of third-party holders of debt/equity securities, or other obligations, issued by VIEs that JPMorgan Chase consolidates under FIN 46R. The underlying obligations of the VIEs consist of short-term borrowings, commercial paper and long-term debt. The related assets consist of trading assets, available-for-sale securities, loans and other assets.

Benefit obligation: Refers to the projected benefit obligation for pension plans and the accumulated postretirement benefit obligation for OPEB plans.

Contractual credit card charge-off: In accordance with the Federal Financial Institutions Examination Council policy, 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.

Credit derivatives: Contractual agreements that provide protection against a credit event of one or more referenced credits. The nature of a credit event is established by the protection buyer and protection seller at the inception of a transaction, and such events include bankruptcy, insolvency or failure to meet payment obligations when due. The buyer of the credit derivative pays a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of a credit event.

Discontinued operations: A component of an entity that is classified as held-for-sale or that has been disposed of from ongoing operations in its entirety or piecemeal, and for which the entity will not have any significant, continuing involvement. A discontinued operation may be a separate major business segment, a component of a major business segment or a geographical area of operations of the entity that can be separately distinguished operationally and for financial reporting purposes.

EITF: Emerging Issues Task Force.

EITF Issue 02-3: "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities."

EITF Issue 99-20: "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets."

FASB: Financial Accounting Standards Board.

FIN 39: FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts – an interpretation of APB Opinion No. 10 and FASB Statement No. 105."

FIN 41: FASB Interpretation No. 41, "Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements – an interpretation of APB Opinion No. 10 and a Modification of FASB Interpretation No. 39."

FIN 45: FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others – an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34."

FIN 46R: FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities – an interpretation of ARB No. 51."

FIN 47: FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143."

FIN 48: FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109."

Forward points: Represents the interest rate differential between two currencies, which is either added to or subtracted from the current exchange rate (i.e., "spot rate") to determine the forward exchange rate.

FSP: FASB Staff Position.

FSP FIN 46(R)-6: "Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)."

FSP FAS 123(R)-3: "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards."

FSP FAS 13-2: "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction."

Interchange income: A fee that is paid to a credit card issuer in the clearing and settlement of a sales or cash advance transaction.

Interests in purchased receivables: Represent an ownership interest in cash flows of an underlying pool of receivables transferred by a third-party seller into a bankruptcy-remote entity, generally a trust.

Master netting agreement: An agreement between two counterparties that have multiple derivative contracts with each other that provides for the net settlement of all contracts through a single payment, in a single currency, in the event of default on or termination of any one contract. See FIN 39.

MSR risk management revenue: Includes changes in MSR asset fair value due to inputs or assumptions in model and derivative valuation adjustments.

Material legal proceedings: Refers to certain specific litigation originally discussed in the section "Legal Proceedings" in JPMorgan Chase & Co.'s Annual Report on Form 10-K for the year ended December 31, 2002. Of such legal proceedings, some lawsuits related to Enron, WorldCom and the IPO allocation allegations remain outstanding as of the date of these consolidated financial statements, as discussed in Part I, Item 3, Legal proceedings in JPMorgan Chase & Co.'s Annual Report on Form 10-K for the year ended December 31, 2006, to which reference is hereby made; other such legal proceedings have been resolved.

NA: Data is not applicable or available for the period presented.

NM: Not meaningful.

OPEB: Other postretirement employee benefits.

Principal transactions: Represents Trading revenue (which includes physical commodities carried at the lower of cost or fair value), and Private equity gains (losses).

SFAS: Statement of Financial Accounting Standards.

SFAS 5: "Accounting for Contingencies."

SFAS 13: "Accounting for Leases."

SFAS 52: "Foreign Currency Translation."

SFAS 87: "Employers' Accounting for Pensions."

SFAS 88: "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits."

SFAS 106: "Employers' Accounting for Postretirement Benefits Other Than Pensions."

SFAS 107: "Disclosures about Fair Value of Financial Instruments."

SFAS 109: "Accounting for Income Taxes."

SFAS 114: "Accounting by Creditors for Impairment of a Loan – an amendment of FASB Statements No. 5 and 15."

SFAS 115: "Accounting for Certain Investments in Debt and Equity Securities."

SFAS 123: "Accounting for Stock-Based Compensation."

SFAS 123R: "Share-Based Payment."

SFAS 131: "Disclosures about Segments of an Enterprise and Related Information."

SFAS 133: "Accounting for Derivative Instruments and Hedging Activities."

SFAS 138: "Accounting for Certain Derivative Instruments and Certain Hedging Activities – an amendment of FASB Statement No. 133."

SFAS 140: "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a replacement of FASB Statement No. 125."

SFAS 141: "Business Combinations."

SFAS 142: "Goodwill and Other Intangible Assets."

SFAS 143: "Accounting for Asset Retirement Obligations."

SFAS 149: "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities."

SFAS 155: "Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140."

SFAS 156: "Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140."

SFAS 157: "Fair Value Measurements."

SFAS 158: "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)."

SFAS 159: "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115."

Statement of Position ("SOP") 98-1: "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use."

Unaudited: The financial statements and information included throughout this document, which are labeled unaudited, have not been subjected to auditing procedures sufficient to permit an independent certified public accountant to express an opinion thereon.

U.S. GAAP: Accounting principles generally accepted in the United States of America.

U.S. government and federal agency obligations: Obligations of the U.S. government or an instrumentality of the U.S. government whose obligations are fully and explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.

U.S. government-sponsored enterprise obligations: Obligations of agencies originally established or chartered by the U.S. government to serve public purposes as specified by the U.S. Congress; these obligations are not explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.

STATUTORY CONSENTS

As a national banking association organised under the federal laws of the United States of America, the guarantor is empowered to give guarantees. Each issue of structured products will have the benefit of the guarantee.

NO MATERIAL ADVERSE CHANGE AND LITIGATION

Save as disclosed in this base listing document, there has been no material adverse change in our or the guarantor's financial position since the date of the most recently published audited financial statements of the guarantor on a consolidated basis or of the issuer respectively, as the case may be, that would have a material adverse effect on our ability to perform our obligations, or the guarantor's ability to perform its obligations respectively in the context of any issue of structured products.

Save as disclosed in this base listing document, we and the guarantor are not aware, to the best of our and the guarantor's knowledge and belief, of any claims, litigation or arbitration proceedings pending or threatened against us or the guarantor respectively or that we or the guarantor are respectively involved in, which could have (taking into consideration the amounts involved and the likelihood of success of such proceedings) a material adverse effect on our ability to perform our obligations, or the guarantor's ability to perform its obligations respectively in the context of any issue of structured products.

FINANCIAL INFORMATION ABOUT THE ISSUER AND THE GUARANTOR

PricewaterhouseCoopers Accountants N.V., our independent accountants and auditors, have given and have not withdrawn their written consent to the inclusion in this base listing document of their report dated 16 May 2007 (which relates to our financial statements for the period from 6 November 2006 to 31 December 2006) in the form and context in which they are included. Their report was not prepared for the purposes of this base listing document.

PricewaterhouseCoopers LLP, independent accountants and auditors of the guarantor, have given and have not withdrawn their written consent to the inclusion in this base listing document of their report dated 11 April 2007 (which relates to the guarantor's audited financial statements for each of the three years ended 31 December 2004, 2005 and 2006) in the form and context in which they are included. Their report was not prepared exclusively for incorporation in this base listing document.

Neither PricewaterhouseCoopers Accountants N.V. nor PricewaterhouseCoopers LLP has any shareholding in us or the guarantor or any of the guarantor's subsidiaries nor do they have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities or securities of the guarantor or any of the guarantor's subsidiaries.

OUR SERVICE OF PROCESS AGENT

We have authorised J.P. Morgan Securities (Asia Pacific) Limited, 25/F, Chater House, 8 Connaught Road, Central, Hong Kong to accept on our behalf and on behalf of the guarantor service of process and any other notices required to be served on either us or the guarantor in Hong Kong.

OUR AUTHORISED REPRESENTATIVE

Our authorised representative is Belinda Hsu, Vice President, who can be contacted at J.P. Morgan Securities (Asia Pacific) Limited, 25/F, Chater House, 8 Connaught Road Central, Hong Kong. The guarantor's authorised representative is William Lee, Managing Director, who can be contacted at J.P. Morgan Securities (Asia Pacific) Limited, 25/F, Chater House, 8 Connaught Road, Central, Hong Kong.

ANNEX 1

TERMS AND CONDITIONS OF THE CASH-SETTLED STOCK WARRANTS

The relevant Conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the global warrant certificate. The applicable supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Warrants. Capitalised terms used in the relevant Conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1 Form; Status; Guarantee; Transfer and Title

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 13) relating to the Shares of the Company are issued in registered form subject to and with the benefit of the Instrument made by J.P. Morgan Structured Products B.V. (the "**Issuer**") and JPMorgan Chase Bank, National Association (the "**Guarantor**").

A copy of the Instrument is available for inspection at the office of J.P. Morgan Securities (Asia Pacific) Limited as specified below. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

(B) The settlement obligation of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

In the Instrument, the Guarantor has unconditionally and irrevocably guaranteed to the Warrantholders the due and punctual settlement in full of all obligations due and owing by the Issuer arising under the issuance of the Warrants after taking account of any set off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, when and as due (whether at maturity, by acceleration or otherwise).

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer, the Guarantor and the Agent as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" shall be construed accordingly.

(E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

2 Warrant Rights and Exercise Expenses

(A) Every Exercise Amount entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(E)).

(B) The Warrantholder will be required to pay all charges which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(E).

3 Exercise Period

(A) The Warrants may be exercised by delivery of an Exercise Notice (as defined in Condition 4) on any Business Day during the Exercise Period. In the case of an exercise of American style Warrants, the Exercise Period is the period beginning at (and including) 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealing in the Warrants on the Stock Exchange) ending at (and including) 10:00 a.m. (Hong Kong time) on the Expiry Date subject to prior termination of the Warrants as provided in Condition 11.

Subject to Condition 3(B), in the case of an exercise of European style Warrants, a reference to Exercise Period shall mean 10:00 a.m. on the Expiry Date only.

(B) Any Warrant with respect to which an Exercise Date (as defined in Condition 4) has not occurred during the Exercise Period, and in respect of which the Cash Settlement Amount which would be payable by the Issuer if exercised on the Expiry Date shall be deemed automatically exercised on the Expiry Date ("**Automatic Exercise**"), so that the Warrantholders shall not be required to serve an Exercise Notice.

(C) Any Warrant with respect to which an Exercise Date has not occurred or which has not been automatically exercised in accordance with Condition 3(B) shall expire immediately at the conclusion of the Exercise Period without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(D) In these Conditions, "**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is open for dealings in Hong Kong and banks are open in Hong Kong for business.

4 Exercise of Warrants

(A) Subject to Condition 3(B) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) (i) In order to exercise a Warrant, the Warrantholder shall deliver to the Agent a duly completed exercise notice in accordance with the Instrument (an "**Exercise Notice**"), such delivery to be made not later than 10:00 a.m. (Hong Kong time) on the Expiry Date.

(ii) The date upon which the Warrants are exercised (an "**Exercise Date**", which reference shall, in the case of Warrants that are deemed exercised, mean the date on which such Warrants are deemed exercised) shall be the Business Day on which an Exercise Notice is delivered to the Agent and in respect of which there is a valid exercise of Warrants in accordance with the requirements set out herein, provided that any Exercise Notice received by the Agent after 10:00 a.m. (Hong Kong time) on any Business Day (other than the Expiry Date) shall be deemed to have been delivered on the next following Business Day.

(C) Delivery of an Exercise Notice in accordance with Condition 4(B) shall constitute an irrevocable election and undertaking by the Warrantholder specified in such Exercise Notice to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authorisation (which is deemed to be given in the case of Automatic Exercise) to the Issuer and/or the Agent to debit any determined Exercise Expenses from the Cash Settlement Amount. Any Exercise Expenses which have not been determined by the Agent on the Exercise Date shall be notified as soon as practicable after determination thereof by the Agent to the Warrantholder and shall be paid by the Warrantholder forthwith in immediately available funds no later than 3 Business Days after the Warrantholder receives notice of any unpaid expenses.

(D) Following the Expiry Date the Issuer will, with effect from the first Business Day following the Expiry Date cancel and destroy the global warrant certificate.

(E) Subject to a valid exercise of Warrants or an Automatic Exercise in accordance with Condition 3(B), the Issuer will as soon as practicable and not later than three Business Days following the Expiry Date or (in the case where the American style Warrants are not exercised on the Expiry Date) the Valuation Date (the "**Settlement Date**") in accordance with these conditions procure payment of the aggregate Cash Settlement Amounts (following deduction of determined Exercise Expenses) for all Warrants exercised or deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

Subject to adjustment as provided in Condition 6, "**Cash Settlement Amount**" means:

In the case of a series of Call Warrants:

$$\text{"}\textbf{Cash Settlement Amount}\text{" per Board Lot} = \frac{\text{Entitlement x (Average Price – Exercise Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

In the case of a series of Put Warrants:

$$\text{"}\textbf{Cash Settlement Amount}\text{" per Board Lot} = \frac{\text{Entitlement x (Exercise Price – Average Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

"**Entitlement**" means the number of Shares to which the Warrants relate, as specified in the relevant Supplemental Listing Document.

"**Average Price**" shall be the arithmetic mean of the Closing Prices for each Valuation Date, provided that (in the case of American style Warrants only) (i) if the American style Warrants are exercised prior to 10:00 a.m. on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be the Closing Price on the Exercise Date or (ii) if the American style Warrants are exercised after 10:00 a.m. on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be the Closing Price on the Day following the Exercise Date.

"**Closing Price**" means the closing price of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like) for the relevant Valuation Date.

Any payment made pursuant to this Condition 4(E) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder, or such bank, broker or agent in Hong Kong (if any) is recorded on the register.

(F) If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

If the Agent determines, in its sole discretion, that on any Valuation Date a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a day that already is or is deemed to be a Valuation Date, provided that (in the case of European style Warrants and American style Warrants exercised on the Expiry Date) if the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after the Expiry Date, then (i) the Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and (ii) the Issuer and/or the Agent shall determine the closing price of the Shares on the basis of its good faith estimate of such price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

"**Market Disruption Event**" means the occurrence or existence of any suspension of, or limitation imposed on, trading on the Stock Exchange in the Shares if such suspension or limitation is, in the determination of the Issuer and/or Agent, material.

For the avoidance of doubt, a Market Disruption Event shall include, but shall not be limited to a limitation/closure of the Stock Exchange due to unforeseen circumstances such as an official tropical cyclone warning signal eight (or above) or black rain storm warning hoisted by the Hong Kong Observatory provided that so long as such warnings are lowered or suspended by the Hong Kong Observatory; and the Stock Exchange: (i) re-opens for the entire afternoon trading session or (ii) opens late in the morning of the affected day and stays open for the entire afternoon trading session and closing only at the normal closing time for the Stock Exchange, the hoisting of such warning shall not by itself be a Market Disruption Event.

"**Valuation Date**" means, subject as provided above in relation to a Market Disruption Event, each of the five Days immediately preceding the Expiry Date relating to such exercise or (in the case of American style Warrants only) (i) if the American style Warrants are exercised prior to 10:00 a.m. on an Exercise Date other than the Expiry Date, the Exercise Date or (ii) if the American style Warrants are exercised after 10:00 a.m. on an Exercise Date other than the Expiry Date, the Day following the Exercise Date.

In the event that a Market Disruption Event has occurred and a Valuation Date is postponed in accordance with Condition 4(F), the closing price of the Shares on that first succeeding Business Day will be referenced more than once in the determination of the Cash Settlement Amount, so that in no event shall there be less than 5 closing prices to determine the Average Price, provided that (in the case of American style Warrants only) if the American style Warrants are exercised on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be one closing price in any event.

For the purposes of Condition 4(F) a "**Day**" shall mean a day (excluding Saturday) on which the Stock Exchange and banks are usually open in Hong Kong for business.

(G) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Guarantor, the Issuer or its agent or nominee and the Warrantholder and neither the Guarantor, the Issuer nor its agent or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Issuer, the Guarantor or the Agent shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amounts shall be discharged by payment in accordance with Condition 4(E) above.

5 Agent

(A) The Agent will be acting as agent of the Issuer in respect of the Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain a agent in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the holder in accordance with Condition 10.

6 Adjustments

Adjustments may be made by the Agent to the terms of the Warrants (including, but not limited to, the Exercise Price and the Entitlement) on the basis of the following provisions:

(A) (i) If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Exercise Price and the Entitlement shall be adjusted on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formulae:

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1 + (R/S) \text{ x } M}{1 + M} \text{ x } X$$

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \frac{1 + M}{1 + (R/S) \text{ x } M} \text{ x } E$$

Where:

E: Existing Entitlement immediately prior to the relevant event giving rise to the adjustment

X: Existing Exercise Price immediately prior to the relevant event giving rise to the adjustment

S: Cum-Rights Share price, being the closing bid price of an existing Share, as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a cum-rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Shares per existing Share (whether a whole or a fraction) each holder of an existing Share is entitled to subscribe or have

For the purposes of these Conditions, "**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to a holder of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(ii) The Adjusted Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) shall take effect on the same day that the Entitlement is adjusted.

(iii) For the purposes of Conditions 6(A) and 6(B), the Agent may determine that no adjustment will be made if the adjustment to the Entitlement is less than one per cent. of the Entitlement immediately prior to the adjustment, all as determined by the Agent.

(B) If and whenever the Company shall make an issue of Shares credited as fully paid to holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend) (and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**"), the Entitlement will be adjusted, subject to Condition 6(A)(iii), on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the formulae set out in Condition 6(A)(i) with R=0. In addition, the Issuer shall adjust the Exercise Price by the reciprocal of the Adjusted Entitlement, where the reciprocal of the Adjusted Entitlement means one divided by the relevant Adjusted Entitlement. This adjustment shall take effect on the same day that the Entitlement is adjusted.

(C) If and whenever the Company shall subdivide its outstanding share capital into a greater number of shares or consolidate its outstanding share capital into a smaller number of shares, the Entitlement shall be increased and the Exercise Price shall be decreased (in the case of a subdivision) or the Entitlement shall be decreased and the Exercise Price shall be increased (in the case of a consolidation) accordingly, in each case on the day on which the relevant subdivision or consolidation shall have taken effect and in any event no later than the next Business Day following the day on which the relevant subdivision or consolidation shall have taken effect.

(D) If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Agent be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Agent in its absolute discretion).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (the "**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of

Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Agent, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Agent as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph (D) and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

(E) Adjustments will not be made in any other circumstances including, without limitation, the payment of a cash or scrip dividend. However, the Agent reserves the right, at its sole discretion and without any obligation whatsoever, to make such adjustments which shall take effect as of such date as it reasonably believes are appropriate in circumstances where an event or events occur which the Agent believes (in its sole discretion and notwithstanding any adjustment previously made by the Agent) should, in the context of the issue of Warrants and its obligations hereunder, give rise to such adjustment, provided that such adjustment is considered by the Agent to be beneficial to the Warrantholder generally (without considering the individual circumstances of any Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction) or is required to take account of provisions of Hong Kong law or Stock Exchange practice.

(F) The Agent shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after the determination thereof.

7 Purchase by the Issuer

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

8 Global Warrant Certificate

A global warrant certificate (the "**Global Warrant Certificate**") representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Warrant Certificate will not be exchangeable for definitive warrant certificates.

9 Meeting of Warrantholder; Modification

(A) *Meetings of Warrantholder.* Notices for convening meetings to consider any matter affecting the Warrantholder's interests will be given to the Warrantholder in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantholder shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholder holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholder) holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholder) being or representing Warrantholder whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholder shall be binding on all the holders of the Warrants, whether or not they are present at the meeting, save, in the case of Warrants which are expressed to be American Style, for those Warrants remaining unexercised but for which an Exercise Notice shall have been submitted prior to the date of the meeting.

In the case of Warrants which are expressed to be American Style, Warrants which have not been exercised but in respect of which an Exercise Notice has been submitted will not confer the right to attend or vote at, or join in convening, or be counted in quorum for, any meeting of the Warrantholders.

Resolutions can be passed in writing without a meeting of the Warrantholder being held if passed unanimously.

(B) *Modification.* The Issuer and the Guarantor may, without the consent of the Warrantholder, effect (i) any modification of the provisions of the Warrants or the Instrument which is not materially prejudicial to the interests of the Warrantholder or (ii) any modification of the provisions of the Warrants or the Instrument which is of a formal, minor or technical nature, which is made to correct an obvious error or which is necessary in order to comply with mandatory provisions of the laws of Hong Kong (as defined below) or such other jurisdiction where the Shares are listed or the issuer of the Shares is incorporated (or the United States, in the case of the Guarantor's obligations under the Instrument). Any such modification shall be binding on the Warrantholder and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 10.

10 Notices

All notices in English and Chinese to the Warrantholder will be validly given if published on the HKEx website. In addition, copies of the notice will be despatched by the Issuer or on behalf of the Issuer to the Warrantholder at its registered address by the first day that such notice appears on the HKEx website.

11 Liquidation

In the event of a liquidation or dissolution or winding up of the Company or the appointment of a receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets of the Company, all unexercised Warrants will lapse and shall cease to be valid for any purpose, in the case of a voluntary liquidation, on the effective date of the resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law. The Issuer shall pay a sum equal to its good faith estimate (determined at the Issuer's sole discretion) of the value of the Warrants to the Warrantholder.

12 Delisting of Company

(A) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 12(A), where the Shares are or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholder, make such adjustments to the entitlements of the Warrantholder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong dollars) as it shall consider appropriate in the circumstances.

(C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 12 shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after they are determined.

13 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholder, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

14 Governing Law

The Warrant and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**") except for the obligations of the Guarantor which shall be governed by and construed in accordance with New York law. The Issuer, the Guarantor and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

15 Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

Agent
J.P. Morgan Securities (Asia Pacific) Limited
25/F, Chater House
8 Connaught Road
Central
Hong Kong

TERMS AND CONDITIONS OF THE CASH-SETTLED FOREIGN STOCK WARRANTS

The relevant Conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the global warrant certificate. The applicable supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Warrants. Capitalised terms used in the relevant Conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1 Form; Status; Guarantee; Transfer and Title

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 13) relating to the Shares of the Company are issued in registered form subject to and with the benefit of the Instrument made by J.P. Morgan Structured Products B.V. (the "**Issuer**") and JPMorgan Chase Bank, National Association (the "**Guarantor**").

A copy of the Instrument is available for inspection at the office of J.P. Morgan Securities (Asia Pacific) Limited as specified below. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

(B) The settlement obligation of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

In the Instrument, the Guarantor has unconditionally and irrevocably guaranteed to the Warrantholders the due and punctual settlement in full of all obligations due and owing by the Issuer arising under the issuance of the Warrants after taking account of any set off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, when and as due (whether at maturity, by acceleration or otherwise).

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer, the Guarantor and the Agent as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" shall be construed accordingly.

(E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

2 Warrant Rights and Exercise Expenses

(A) Every Exercise Amount entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(E)).

(B) The Warrantholder will be required to pay all charges which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(E).

3 Exercise Period

(A) The Warrants may be exercised by delivery of an Exercise Notice (as defined in Condition 4) on any Business Day during the Exercise Period. In the case of an exercise of American style Warrants, the Exercise Period is the period beginning at (and including) 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealing in the Warrants on the Stock Exchange) ending at (and including) 10:00 a.m. (Hong Kong time) on the Expiry Date subject to prior termination of the Warrants as provided in Condition 11.

Subject to Condition 3(B), in the case of an exercise of European style Warrants, a reference to Exercise Period shall mean 10:00 a.m. on the Expiry Date only.

(B) Any Warrant with respect to which an Exercise Date (as defined in Condition 4) has not occurred during the Exercise Period, and in respect of which the Cash Settlement Amount which would be payable by the Issuer if exercised on the Expiry Date shall be deemed automatically exercised on the Expiry Date ("**Automatic Exercise**"), so that the Warrantholders shall not be required to serve an Exercise Notice.

(C) Any Warrant with respect to which an Exercise Date has not occurred or which has not been automatically exercised in accordance with Condition 3(B) shall expire immediately at the conclusion of the Exercise Period without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(D) In these Conditions, "**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is open for dealings in Hong Kong and banks are open in Hong Kong for business.

4 Exercise of Warrants

(A) Subject to Condition 3(B) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) (i) In order to exercise a Warrant, the Warrantholder shall deliver to the Agent a duly completed exercise notice in accordance with the Instrument (an "**Exercise Notice**"), such delivery to be made not later than 10:00 a.m. (Hong Kong time) on the Expiry Date.

(ii) The date upon which the Warrants are exercised (an "**Exercise Date**", which reference shall, in the case of Warrants that are deemed exercised, mean the date on which such Warrants are deemed exercised) shall be the Business Day on which an Exercise Notice is delivered to the Agent and in respect of which there is a valid exercise of Warrants in accordance with the requirements set out herein, provided that any Exercise Notice received by the Agent after 10:00 a.m. (Hong Kong time) on any Business Day (other than the Expiry Date) shall be deemed to have been delivered on the next following Business Day.

(C) Delivery of an Exercise Notice in accordance with Condition 4(B) shall constitute an irrevocable election and undertaking by the Warrantholder specified in such Exercise Notice to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authorisation (which is deemed to be given in the case of Automatic Exercise) to the Issuer and/or the Agent to debit any determined Exercise Expenses from the Cash Settlement Amount. Any Exercise Expenses which have not been determined by the Agent on the Exercise Date shall be notified as soon as practicable after determination thereof by the Agent to the Warrantholder and shall be paid by the Warrantholder forthwith in immediately available funds no later than 3 Business Days after the Warrantholder receives notice of any unpaid expenses.

(D) Following the Expiry Date the Issuer will, with effect from the first Business Day following the Expiry Date cancel and destroy the global warrant certificate.

(E) Subject to a valid exercise of Warrants or an Automatic Exercise in accordance with Condition 3(B), the Issuer will as soon as practicable and not later than three Business Days following the Expiry Date or (in the case where the American style Warrants are not exercised on the Expiry Date) the Valuation Date (the "Settlement Date") in accordance with these conditions procure payment of the aggregate Cash Settlement Amounts (following deduction of determined Exercise Expenses) for all Warrants exercised or deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

Subject to adjustment as provided in Condition 6, "**Cash Settlement Amount**" means an amount in Hong Kong dollars calculated in accordance with the following formula:

In the case of a series of Call Warrants:

$$\text{“}\textbf{Cash Settlement Amount}\text{” per Board Lot} = \frac{\text{Entitlement x (Average Price – Exercise Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

In the case of a series of Put Warrants:

$$\text{“}\textbf{Cash Settlement Amount}\text{” per Board Lot} = \frac{\text{Entitlement x (Exercise Price – Average Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

converted (if applicable) into Hong Kong dollars at the Exchange Rate.

"**Entitlement**" means the number of Shares to which the Warrants relate, as specified in the relevant Supplemental Listing Document.

"**Average Price**" shall be the arithmetic mean of the Closing Prices for each Valuation Date, provided that (in the case of American style Warrants only) (i) if the American style Warrants are exercised prior to 10:00 a.m. on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be the Closing Price on the Exercise Date or (ii) if the American style Warrants are exercised after 10:00 a.m. on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be the Closing Price on the Day following the Exercise Date.

"**Closing Price**" means the closing price of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like) for the relevant Valuation Date.

"**Exchange Rate**" means the foreign exchange rate of Hong Kong dollar per Foreign Currency as specified in the relevant Supplemental Listing Document.

Any payment made pursuant to this Condition 4(E) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder, or such bank, broker or agent in Hong Kong (if any) is recorded on the register.

(F) If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

If the Agent determines, in its sole discretion, that on any Valuation Date a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Relevant Exchange Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a day that already is or is deemed to be a Valuation Date, provided that (in the case of European style Warrants and American style Warrants exercised on the Expiry Date) if the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after the Expiry Date, then (i) the Relevant Exchange Business Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and (ii) the Issuer and/or the Agent shall determine the closing price of the Shares on the basis of its good faith estimate of such price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

"**Market Disruption Event**" means the occurrence or existence of any suspension of, or limitation imposed on, trading on the Relevant Stock Exchange in the Shares if such suspension or limitation is, in the determination of the Issuer and/or Agent, material.

"**Relevant Exchange Business Day**" means a day (excluding Saturdays and Sundays) on which the Relevant Exchange is open for dealings in the Relevant Exchange City and banks are open in the Relevant Exchange City for business.

"**Valuation Date**" means, subject as provided above in relation to a Market Disruption Event, each of the five Relevant Exchange Business Days immediately preceding the Expiry Date relating to such exercise, or (in the case of American style Warrants only) (i) if the American style Warrants are exercised prior to 10:00 a.m. on an Exercise Date other than the Expiry Date, the Exercise Date or (ii) if the American style Warrants are exercised after 10:00 a.m. on an Exercise Date other than the Expiry Date, the Day following the Exercise Date.

In the event that a Market Disruption Event has occurred and a Valuation Date is postponed in accordance with Condition 4(F), the closing price of the Shares on that first succeeding Relevant Exchange Business Day will be referenced more than once in the determination of the Cash Settlement Amount, so that in no event shall there be less than 5 closing prices to determine the Average Price, provided that (in the case of American style Warrants only) if the American style Warrants are exercised on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be one closing price in any event.

For the purposes of Condition 4(F) a "**Day**" shall mean a day (excluding Saturday) on which the Relevant Stock Exchange and banks are usually open in the Relevant Exchange City for business.

(G) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Guarantor, the Issuer or its agent or nominee and the Warrantholder and neither the Guarantor, the Issuer nor its agent or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Issuer, the Guarantor or the Agent shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amounts shall be discharged by payment in accordance with Condition 4(E) above.

5 Agent

(A) The Agent will be acting as agent of the Issuer in respect of the Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the holder in accordance with Condition 10.

6 Adjustments

Adjustments may be made by the Agent to the terms of the Warrants (including, but not limited to, the Exercise Price and the Entitlement) on the basis of the following provisions:

(A) (i) If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Exercise Price and the Entitlement shall be adjusted on the Relevant Exchange Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formulae:

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1 + (R/S) \text{ x } M}{1 + M} \text{ x } X$$

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \frac{1 + M}{1 + (R/S) \text{ x } M} \text{ x } E$$

Where:

E: Existing Entitlement immediately prior to the relevant event giving rise to the adjustment

X: Existing Exercise Price immediately prior to the relevant event giving rise to the adjustment

S: Cum-Rights Share Price, being the closing bid price of an existing Share, as published by the Relevant Exchange on the last Relevant Exchange Business Day on which the Shares are traded on a cum-rights basis

R: Subscription Price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Shares per existing Share (whether a whole or a fraction) each holder of an existing Share is entitled to subscribe or have

For the purposes of these Conditions, "**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to a holder of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(ii) The Adjusted Exercise Price (which shall be rounded to the nearest Foreign Currency amount as specified in the relevant Supplemental Listing Document) shall take effect on the same day that the Entitlement is adjusted.

(iii) For the purposes of Conditions 6(A) and 6(B), the Agent may determine that no adjustment will be made if the adjustment to the Entitlement is less than one per cent. of the Entitlement immediately prior to the adjustment, all as determined by the Agent.

(B) If and whenever the Company shall make an issue of Shares credited as fully paid to holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend) (and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**"), the Entitlement will be adjusted, subject to Condition 6(A)(iii), on the Relevant Exchange Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the formulae set out in Condition 6(A)(i) with R=0. In addition, the Issuer shall adjust the Exercise Price by the reciprocal of the Adjusted Entitlement, where the reciprocal of the Adjusted Entitlement means one divided by the relevant Adjusted Entitlement. This adjustment shall take effect on the same day that the Entitlement is adjusted.

(C) If and whenever the Company shall subdivide its outstanding share capital into a greater number of shares or consolidate its outstanding share capital into a smaller number of shares, the Entitlement shall be increased and the Exercise Price shall be decreased (in the case of a subdivision) or the Entitlement shall be decreased and the Exercise Price shall be increased (in the case of a consolidation) accordingly, in each case on the day on which the relevant subdivision or consolidation shall have taken effect and in any event no later than the next Relevant Exchange Business Day following the day on which the relevant subdivision or consolidation shall have taken effect.

(D) If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Agent be amended no later than the Relevant Exchange Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Agent in its absolute discretion).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (the "**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Agent, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Agent as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph (D) and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

(E) Adjustments will not be made in any other circumstances including, without limitation, the payment of a cash or scrip dividend. However, the Agent reserves the right, at its sole discretion and without any obligation whatsoever, to make such adjustments which shall take effect as of such date as it reasonably believes are appropriate in circumstances where an event or events occur which the Agent believes (in its sole discretion and notwithstanding any adjustment previously made by the Agent) should, in the context of the issue of Warrants and its obligations hereunder, give rise to such adjustment, provided that such adjustment is considered by the Agent to be beneficial to the Warrantholder generally (without considering the individual circumstances of any Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction) or is required to take account of provisions of Hong Kong and the laws of the Relevant Exchange City or Stock Exchange or Relevant Exchange practice.

(F) The Agent shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after the determination thereof.

7 Purchase by the Issuer

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

8 Global Warrant Certificate

A global warrant certificate (the "**Global Warrant Certificate**") representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Warrant Certificate will not be exchangeable for definitive warrant certificates.

9 Meeting of Warrantholder; Modification

(A) *Meetings of Warrantholder.* Notices for convening meetings to consider any matter affecting the Warrantholder's interests will be given to the Warrantholder in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantholder shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholder holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholder) holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholder) being or representing Warrantholder whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholder shall be binding on all the holders of the Warrants, whether or not they are present at the meeting, save, in the case of Warrants which are expressed to be American Style, for those Warrants remaining unexercised but for which an Exercise Notice shall have been submitted prior to the date of the meeting.

In the case of Warrants which are expressed to be American Style, Warrants which have not been exercised but in respect of which an Exercise Notice has been submitted will not confer the right to attend or vote at, or join in convening, or be counted in quorum for, any meeting of the Warrantholders.

Resolutions can be passed in writing without a meeting of the Warrantholder being held if passed unanimously.

(B) *Modification.* The Issuer and the Guarantor may, without the consent of the Warrantholder, effect (i) any modification of the provisions of the Warrants or the Instrument which is not materially prejudicial to the interests of the Warrantholder or (ii) any modification of the provisions of the Warrants or the Instrument which is of a formal, minor or technical nature, which is made to correct an obvious error or which is necessary in order to comply with mandatory provisions of the laws of Hong Kong (as defined below) or such other jurisdiction where the Shares are listed or the issuer of the Shares is incorporated (or the United States, in the case of the Guarantor's obligations under the Instrument). Any such modification shall be binding on the Warrantholder and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 10.

10 Notices

All notices in English and Chinese to the Warrantholder will be validly given if published on the HKEx website. In addition, copies of the notice will be despatched by the Issuer or on behalf of the Issuer to the Warrantholder at its registered address by the first day that such notice appears on the HKEx website.

11 Liquidation

In the event of a liquidation or dissolution or winding up of the Company or the appointment of a receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets of the Company, all unexercised Warrants will lapse and shall cease to be valid for any purpose, in the case of a voluntary liquidation, on the effective date of the resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law. The Issuer shall pay a sum equal to its good faith estimate (determined at the Issuer's sole discretion) of the value of the Warrants to the Warrantholder.

12 Delisting of Company

(A) If at any time the Shares cease to be listed on the Relevant Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 12(A), where the Shares are or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Relevant Stock Exchange and the Issuer may, without the consent of the Warrantholder, make such adjustments to the entitlements of the Warrantholder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong dollars) as it shall consider appropriate in the circumstances.

(C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 12 shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after they are determined.

13 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholder, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

14 Governing Law

The Warrant and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**") except for the obligations of the Guarantor which shall be governed by and construed in accordance with New York law. The Issuer, the Guarantor and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

15 Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

Agent
J.P. Morgan Securities (Asia Pacific) Limited
25/F, Chater House
8 Connaught Road
Central
Hong Kong

TERMS AND CONDITIONS OF THE CASH-SETTLED WARRANTS OVER SINGLE UNIT TRUSTS

The relevant Conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the global warrant certificate. The applicable supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Warrants. Capitalised terms used in the relevant Conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1 Form; Status; Guarantee; Transfer and Title

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 13) relating to the Units of the Trust are issued in registered form subject to and with the benefit of the Instrument made by J.P. Morgan Structured Products B.V. (the "**Issuer**") and JPMorgan Chase Bank, National Association (the "**Guarantor**").

A copy of the Instrument is available for inspection at the office of J.P. Morgan Securities (Asia Pacific) Limited as specified below. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

(B) The settlement obligation of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

In the Instrument, the Guarantor has unconditionally and irrevocably guaranteed to the Warrantholders the due and punctual settlement in full of all obligations due and owing by the Issuer arising under the issuance of the Warrants after taking account of any set off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, when and as due (whether at maturity, by acceleration or otherwise).

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer, the Guarantor and the Agent as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" shall be construed accordingly.

(E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

2 Warrant Rights and Exercise Expenses

(A) Every Exercise Amount entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(E)).

(B) The Warrantholder will be required to pay all charges which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(E).

3 Exercise Period

(A) The Warrants may be exercised by delivery of an Exercise Notice (as defined in Condition 4) on any Business Day during the Exercise Period. In the case of an exercise of American style Warrants, the Exercise Period is the period beginning at (and including) 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealing in the Warrants on the Stock Exchange) ending at (and including) 10:00 a.m. (Hong Kong time) on the Expiry Date subject to prior termination of the Warrants as provided in Condition 11.

Subject to Condition 3(B), in the case of an exercise of European style Warrants, a reference to Exercise Period shall mean 10:00 a.m. on the Expiry Date only.

(B) Any Warrant with respect to which an Exercise Date (as defined in Condition 4) has not occurred during the Exercise Period, and in respect of which the Cash Settlement Amount which would be payable by the Issuer if exercised on the Expiry Date shall be deemed automatically exercised on the Expiry Date ("**Automatic Exercise**"), so that the Warrantholders shall not be required to serve an Exercise Notice.

(C) Any Warrant with respect to which an Exercise Date has not occurred or which has not been automatically exercised in accordance with Condition 3(B) shall expire immediately at the conclusion of the Exercise Period without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(D) In these Conditions, "**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is open for dealings in Hong Kong and banks are open in Hong Kong for business.

4 Exercise of Warrants

(A) Subject to Condition 3(B) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) (i) In order to exercise a Warrant, the Warrantholder shall deliver to the Agent a duly completed exercise notice in accordance with the Instrument (an "**Exercise Notice**"), such delivery to be made not later than 10:00 a.m. (Hong Kong time) on the Expiry Date.

(ii) The date upon which the Warrants are exercised (an "**Exercise Date**", which reference shall, in the case of Warrants that are deemed exercised, mean the date on which such Warrants are deemed exercised) shall be the Business Day on which an Exercise Notice is delivered to the Agent and in respect of which there is a valid exercise of Warrants in accordance with the requirements set out herein, provided that any Exercise Notice received by the Agent after 10:00 a.m. (Hong Kong time) on any Business Day (other than the Expiry Date) shall be deemed to have been delivered on the next following Business Day.

(C) Delivery of an Exercise Notice in accordance with Condition 4(B) shall constitute an irrevocable election and undertaking by the Warrantholder specified in such Exercise Notice to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authorisation (which is deemed to be given in the case of Automatic Exercise) to the Issuer and/or the Agent to debit any determined Exercise Expenses from the Cash Settlement Amount. Any Exercise Expenses which have not been determined by the Agent on the Exercise Date shall be notified as soon as practicable after determination thereof by the Agent to the Warrantholder and shall be paid by the Warrantholder forthwith in immediately available funds no later than 3 Business Days after the Warrantholder receives notice of any unpaid expenses.

(D) Following the Expiry Date the Issuer will, with effect from the first Business Day following the Expiry Date cancel and destroy the global warrant certificate.

(E) Subject to a valid exercise of Warrants or an Automatic Exercise in accordance with Condition 3(B), the Issuer will as soon as practicable and not later than three Business Days following the Expiry Date or (in the case where the American style Warrants are not exercised on the Expiry Date) the Valuation Date (the "**Settlement Date**") in accordance with these conditions procure payment of the aggregate Cash Settlement Amounts (following deduction of determined Exercise Expenses) for all Warrants exercised or deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

Subject to adjustment as provided in Condition 6, "**Cash Settlement Amount**" means:

In the case of a series of Call Warrants:

$$\text{"\textbf{Cash Settlement Amount}" per Board Lot} = \frac{\text{Entitlement x (Average Price – Exercise Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

In the case of a series of Put Warrants:

$$\text{"\textbf{Cash Settlement Amount}" per Board Lot} = \frac{\text{Entitlement x (Exercise Price – Average Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

"**Entitlement**" means the number of Units to which the Warrants relate, as specified in the relevant Supplemental Listing Document.

"**Average Price**" shall be the arithmetic mean of the Closing Prices for each Valuation Date, provided that (in the case of American style Warrants only) (i) if the American style Warrants are exercised prior to 10:00 a.m. on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be the Closing Price on the Exercise Date or (ii) if the American style Warrants are exercised after 10:00 a.m. on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be the Closing Price on the Day following the Exercise Date.

"**Closing Price**" means the closing price of one Unit (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like) for the relevant Valuation Date.

Any payment made pursuant to this Condition 4(E) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder, or such bank, broker or agent in Hong Kong (if any) is recorded on the register.

(F) If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

If the Agent determines, in its sole discretion, that on any Valuation Date a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a day that already is or is deemed to be a Valuation Date, provided that (in the case of European style Warrants and American style Warrants exercised on the Expiry Date) if the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after the Expiry Date, then (i) the Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and (ii) the Issuer and/or the Agent shall determine the closing price of the Units on the basis of its good faith estimate of such price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

"**Market Disruption Event**" means the occurrence or existence of any suspension of, or limitation imposed on, trading on the Stock Exchange in the Units if such suspension or limitation is, in the determination of the Issuer and/or Agent, material.

For the avoidance of doubt, a Market Disruption Event shall include, but shall not be limited to a limitation/closure of the Stock Exchange due to unforeseen circumstances such as an official tropical cyclone warning signal eight (or above) or black rain storm warning hoisted by the Hong Kong Observatory provided that so long as such warnings are lowered or suspended by the Hong Kong Observatory; and the Stock Exchange: (i) re-opens for the entire afternoon trading session or (ii) opens late in the morning of the affected day and stays open for the entire afternoon trading session and closing only at the normal closing time for the Stock Exchange, the hoisting of such warning shall not by itself be a Market Disruption Event.

"**Valuation Date**" means, subject as provided above in relation to a Market Disruption Event, each of the five Days immediately preceding the Expiry Date relating to such exercise, or (in the case of American style Warrants only) (i) if the American style Warrants are exercised prior to 10:00 a.m. on an Exercise Date other than the Expiry Date, the Exercise Date or (ii) if the American style Warrants are exercised after 10:00 a.m. on an Exercise Date other than the Expiry Date, the Day following the Exercise Date.

In the event that a Market Disruption Event has occurred and a Valuation Date is postponed in accordance with Condition 4(F), the closing price of the Units on that first succeeding Business Day will be referenced more than once in the determination of the Cash Settlement Amount, so that in no event shall there be less than 5 closing prices to determine the Average Price, provided that (in the case of American style Warrants only) if the American style Warrants are exercised on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be one closing price in any event.

For the purposes of Condition 4(F) a "**Day**" shall mean a day (excluding Saturday) on which the Stock Exchange and banks are usually open in Hong Kong for business.

(G) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Guarantor, the Issuer or its agent or nominee and the Warrantholder and neither the Guarantor, the Issuer nor its agent or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Issuer, the Guarantor or the Agent shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amounts shall be discharged by payment in accordance with Condition 4(E) above.

5 Agent

(A) The Agent will be acting as agent of the Issuer in respect of the Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain a agent in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the holder in accordance with Condition 10.

6 Adjustments

Adjustments may be made by the Agent to the terms of the Warrants (including, but not limited to, the Exercise Price and the Entitlement) on the basis of the following provisions:

(A) (i) If and whenever the Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a "**Rights Offer**"), the Exercise Price and the Entitlement shall be adjusted on the Business Day on which the trading in the Units of the Trust becomes ex-entitlement in accordance with the following formulae:

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1 + (R/S) \times M}{1 + M} \times X$$

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \frac{1 + M}{1 + (R/S) \times M} \times E$$

Where:

E: Existing Entitlement immediately prior to the relevant event giving rise to the adjustment

X: Existing Exercise Price immediately prior to the relevant event giving rise to the adjustment

S: Cum-Rights Unit price, being the closing bid price of an existing Unit, as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Units are traded on a cum-rights basis

R: Subscription price per new Unit specified in the Rights Offer plus an amount equal to any distributions or other benefits foregone to exercise the Right

M: Number of new Unit(s) per existing Unit (whether a whole or a fraction) each holder of an existing Unit is entitled to subscribe or have

For the purposes of these Conditions, "**Rights**" means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to a holder of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(ii) The Adjusted Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) shall take effect on the same day that the Entitlement is adjusted.

(iii) For the purposes of Conditions 6(A) and 6(B), the Agent may determine that no adjustment will be made if the adjustment to the Entitlement is less than one per cent. of the Entitlement immediately prior to the adjustment, all as determined by the Agent.

(B) If and whenever the Trust shall make an issue of Units credited as fully paid to holders of Units generally by way of capitalisation of profits or reserves (other than pursuant to a scrip distribution or similar scheme for the time being operated by the Trust or otherwise in lieu of a cash distribution) (and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**"), the Entitlement will be adjusted, subject to Condition 6(A)(iii), on the Business Day on which the trading in the Units of the Trust becomes ex-entitlement in accordance with the formulae set out in Condition 6(A)(i) with R=0. In addition, the Issuer shall adjust the Exercise Price by the reciprocal of the Adjusted Entitlement, where the reciprocal of the Adjusted Entitlement means one divided by the relevant Adjusted Entitlement. This adjustment shall take effect on the same day that the Entitlement is adjusted.

(C) If and whenever the Trust shall subdivide its Units or any class of its outstanding Units into a greater number of units or consolidate the Units or any class of its outstanding Units into a smaller number of units, the Entitlement shall be increased and the Exercise Price shall be decreased (in the case of a subdivision) or the Entitlement shall be decreased and the Exercise Price shall be increased (in the case of a consolidation) accordingly, in each case on the day on which the relevant subdivision or consolidation shall have taken effect and in any event no later than the next Business Day following the day on which the relevant subdivision or consolidation shall have taken effect.

(D) If it is announced that the Trust is to or may merge or consolidate with or into any other trust or corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Trust is the surviving entity in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Agent be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Agent in its absolute discretion).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of units of the trust(s) resulting from or surviving such Restructuring Event or other securities (the "**Substituted Securities**") and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Agent, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Agent as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Units shall not be affected by this paragraph (D) and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Conditions to the Units shall include any such cash.

(E) Adjustments will not be made in any other circumstances including, without limitation, the payment of a cash or scrip distribution. However, the Agent reserves the right, at its sole discretion and without any obligation whatsoever, to make such adjustments which shall take effect as of such date as it reasonably believes are appropriate in circumstances where an event or events occur which the Agent believes (in its sole discretion and notwithstanding any adjustment previously made by the Agent) should, in the context of the issue of Warrants and its obligations hereunder, give rise to such adjustment, provided that such adjustment is considered by the Agent to be beneficial to the Warrantholder generally (without considering the individual circumstances of any Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction) or is required to take account of provisions of Hong Kong law or Stock Exchange practice.

(F) The Agent shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after the determination thereof.

7 Purchase by the Issuer

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

8 Global Warrant Certificate

A global warrant certificate (the "**Global Warrant Certificate**") representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Warrant Certificate will not be exchangeable for definitive warrant certificates.

9 Meeting of Warrantholder; Modification

(A) *Meetings of Warrantholder.* Notices for convening meetings to consider any matter affecting the Warrantholder's interests will be given to the Warrantholder in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantholder shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholder holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholder) holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholder) being or representing Warrantholder whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholder shall be binding on all the holders of the Warrants, whether or not they are present at the meeting, save, in the case of Warrants which are expressed to be American Style, for those Warrants remaining unexercised but for which an Exercise Notice shall have been submitted prior to the date of the meeting.

In the case of Warrants which are expressed to be American Style, Warrants which have not been exercised but in respect of which an Exercise Notice has been submitted will not confer the right to attend or vote at, or join in convening, or be counted in quorum for, any meeting of the Warrantholders.

Resolutions can be passed in writing without a meeting of the Warrantholder being held if passed unanimously.

(B) *Modification.* The Issuer and the Guarantor may, without the consent of the Warrantholder, effect (i) any modification of the provisions of the Warrants or the Instrument which is not materially prejudicial to the interests of the Warrantholder or (ii) any modification of the provisions of the Warrants or the Instrument which is of a formal, minor or technical nature, which is made to correct an obvious error or which is necessary in order to comply with mandatory provisions of the laws of Hong Kong (as defined below) or such other jurisdiction where the Units are listed or where the Trust is established (or the United States, in the case of the Guarantor's obligations under the Instrument). Any such modification shall be binding on the Warrantholder and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 10.

10 Notices

All notices in English and Chinese to the Warrantholder will be validly given if published on the HKEx website. In addition, copies of the notice will be despatched by the Issuer or on behalf of the Issuer to the Warrantholder at its registered address by the first day that such notice appears on the HKEx website.

11 Termination or Liquidation

In the event of a Termination or the liquidation or dissolution of the trustee of the Trust (including any successor trustee appointed from time to time) ("**Trustee**") (in its capacity as trustee of the Trust) or the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets all unexercised Warrants will lapse and shall cease to be valid for any purpose. In the case of a Termination the unexercised Warrants will lapse and shall cease to be valid on the effective date of the Termination, in the case of a voluntary liquidation, on the effective date of the resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law. The Issuer shall pay a sum equal to its good faith estimate (determined at the Issuer's sole discretion) of the value of the Warrants to the Warrantholder.

For the purpose of this Condition 11, "**Termination**" means (i) the Trust is terminated, or the Trustee or the manager of the Trust (including any successor manager appointed from time to time) ("**Manager**") is required to terminate the Trust under the trust deed ("**Trust Deed**") constituting the Trust or applicable law, or the termination of the Trust commences; (ii) the Trust is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted; (iii) the Trustee ceases to be authorised under the Trust to hold the property of the Trust in its name and perform its obligations under the Trust Deed; or (iv) the Trust ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

12 Delisting of Trust

(A) If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 12(A), where the Units are or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholder, make such adjustments to the entitlements of the Warrantholder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong dollars) as it shall consider appropriate in the circumstances.

(C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 12 shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after they are determined.

13 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholder, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

14 Governing Law

The Warrant and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**") except for the obligations of the Guarantor which shall be governed by and construed in accordance with New York law. The Issuer, the Guarantor and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

15 Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

Agent
J.P. Morgan Securities (Asia Pacific) Limited
25/F, Chater House
8 Connaught Road
Central
Hong Kong

TERMS AND CONDITIONS OF THE BASKET WARRANTS

The relevant Conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the global warrant certificate. The applicable supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Warrants. Capitalised terms used in the relevant Conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1 Form; Status; Guarantee; Transfer and Title

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 13) relating to a basket comprising Shares of each of the Companies (together the "**Companies**" and each a "**Company**") (the "**Basket**") are issued in registered form subject to and with the benefit of the Instrument made by J.P. Morgan Structured Products B.V. (the "**Issuer**") and JPMorgan Chase Bank, National Association (the "**Guarantor**").

A copy of the Instrument is available for inspection at the office of J.P. Morgan Securities (Asia Pacific) Limited as specified below. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

(B) The settlement obligation of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

In the Instrument, the Guarantor has unconditionally and irrevocably guaranteed to the Warrantholders the due and punctual the settlement in full of all obligations due and owing by the Issuer arising under the issuance of the Warrants after taking account of any set off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, when and as due (whether at maturity, by acceleration or otherwise).

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer, the Guarantor and the Agent as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" shall be construed accordingly.

(E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

2 Warrant Rights and Exercise Expenses

(A) Every Exercise Amount entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(E)).

(B) The Warrantholder will be required to pay all charges which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(E).

3 Exercise Period

(A) The Warrants may be exercised by delivery of an Exercise Notice (as defined in Condition 4) on any Business Day during the Exercise Period. In the case of an exercise of American style Warrants, the Exercise Period is the period beginning at (and including) 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealing in the Warrants on the Stock Exchange) ending at (and including) 10:00 a.m. (Hong Kong time) on the Expiry Date subject to prior termination of the Warrants as provided in Condition 11.

Subject to Condition 3(B), in the case of an exercise of European style Warrants, a reference to Exercise Period shall mean 10:00 a.m. on the Expiry Date only.

(B) Any Warrant with respect to which an Exercise Date (as defined in Condition 4) has not occurred during the Exercise Period, and in respect of which the Cash Settlement Amount which would be payable by the Issuer if exercised on the Expiry Date shall be deemed automatically exercised on the Expiry Date ("**Automatic Exercise**"), so that the Warrantholders shall not be required to serve an Exercise Notice.

(C) Any Warrant with respect to which an Exercise Date has not occurred or which has not been automatically exercised in accordance with Condition 3(B), shall expire immediately at the conclusion of the Exercise Period without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(D) In these Conditions, "**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is open for dealings in Hong Kong and banks are open in Hong Kong for business.

4 Exercise of Warrants

(A) Subject to Condition 3(B), Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) (i) In order to exercise a Warrant, the Warrantholder shall deliver to the Agent a duly completed exercise notice in accordance with the Instrument (an "**Exercise Notice**"), such delivery to be made not later than 10:00 a.m. (Hong Kong time) on the Expiry Date.

(ii) The date upon which the Warrants are exercised (an "Exercise Date", which reference shall, in the case of Warrants that are deemed exercised mean the date on which such Warrants are deemed exercised) shall be the Business Day on which an Exercise Notice is delivered to the Agent and in respect of which there is a valid exercise of Warrants in accordance with the requirements set out herein, provided that any Exercise Notice received by the Agent after 10:00 a.m. (Hong Kong time) on any Business Day (other than the Expiry Date) shall be deemed to have been delivered on the next following Business Day.

(C) Delivery of an Exercise Notice in accordance with Condition 4(B) shall constitute an irrevocable election and undertaking by the Warrantholder specified in such Exercise Notice to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authorisation (which is deemed to be given in the case of Automatic Exercise) to the Issuer and/or the Agent to debit any determined Exercise Expenses from the Cash Settlement Amount and an undertaking to pay any Exercise Expenses not deducted from the Cash Settlement Amount. Any Exercise Expenses which have not been determined by the Agent on the Exercise Date shall be notified as soon as practicable after determination thereof by the Agent to the Warrantholder and shall be paid by the Warrantholder forthwith in immediately available funds no later than 3 Business Days after the Warrantholder receives notice of any unpaid expenses.

(D) Following the Expiry Date the Issuer will, with effect from the first Business Day following the Expiry Date cancel and destroy the global Warrant certificate.

(E) Subject to a valid exercise of Warrants or an Automatic Exercise in accordance with Condition 3(B), the Issuer will as soon as practicable and not later than three Business Days following the Expiry Date or (in the case where the American style Warrants are not exercised on the Expiry Date) the Valuation Date (the "**Settlement Date**") in accordance with these Conditions procure payment of the aggregate Cash Settlement Amounts (following deduction of determined Exercise Expenses) for all Warrants exercised or deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

Subject to adjustment as provided in Condition 6, "**Cash Settlement Amount**" means:

In respect of call Warrants:

"**Cash Settlement Amount**" means for every Exercise Amount, an amount in Hong Kong dollars calculated by the Issuer as equal to (1) the sum of the values calculated for each of the Companies that comprise the Basket as the product of the Basket Component (subject to adjustment as provided in Condition 6) and the Average Price less (2) the Exercise Price;

In respect of put Warrants:

"**Cash Settlement Amount**" means for every Exercise Amount, an amount in Hong Kong dollars calculated by the Issuer as equal to (1) the Exercise Price less (2) the sum of the values calculated for each of the Companies that comprise the Basket as the product of the Basket Component (subject to adjustment as provided in Condition 6) and the Average Price.

"**Average Price**" shall be the arithmetic mean of the Closing Prices for each Valuation Date, provided that (in the case of American style Warrants only) (i) if the American style Warrants are exercised prior to 10:00 a.m. on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be the Closing Price on the Exercise Date or (ii) if the American style Warrants are exercised after 10:00 a.m. on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be the Closing Price on the Day following the Exercise Date.

"**Closing Price**" means the closing price of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like) for the relevant Valuation Date.

Any payment made pursuant to this Condition 4(E) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder, or such bank, broker or agent in Hong Kong (if any) as is recorded on the register.

(F) If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

If the Agent determines, in its sole discretion, that on any Valuation Date a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a day that already is or is deemed to be a Valuation Date, provided that (in the case of European style Warrants and American style Warrants exercised on the Expiry Date) if the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after the Expiry Date, then (i) the Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and (ii) the Issuer and/or the Agent shall determine the closing price(s) of the Share(s) on the basis of its good faith estimate of such price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

"**Market Disruption Event**" means the occurrence or existence of any suspension of, or limitation imposed on, trading on the Stock Exchange in any of the Shares if such suspension or limitation is, in the determination of the Issuer and/or Agent, material.

For the avoidance of doubt, a Market Disruption Event shall include, but shall not be limited to a limitation/closure of the Stock Exchange due to unforeseen circumstances such as an official tropical cyclone warning signal eight (or above) or black rain storm warning hoisted by the Hong Kong Observatory provided that so long as such warnings are lowered or suspended by the Hong Kong Observatory; and the Stock Exchange: (i) re-opens for the entire afternoon trading session or (ii) opens late in the morning of the affected day and stays open for the entire afternoon trading session and closing only at the normal closing time for the Stock Exchange, the hoisting of such warning shall not by itself be a Market Disruption Event.

"**Valuation Date**" means, subject as provided above in relation to a Market Disruption Event, each of the five Days immediately preceding the Expiry Date relating to such exercise, or (in the case of American style Warrants only) (i) if the American style Warrants are exercised prior to 10:00 a.m. on an Exercise Date other than the Expiry Date, the Exercise Date or (ii) if the American style Warrants are exercised after 10:00 a.m. on an Exercise Date other than the Expiry Date, the Day following the Exercise Date.

In the event that a Market Disruption Event has occurred and a Valuation Date is postponed in accordance with Condition 4(F), the closing price of the Shares on that first succeeding Business Day will be referenced more than once in the determination of the Cash Settlement Amounts so that in no event shall there be less than 5 closing prices to determine the Average Price, provided that (in the case of American style Warrants only) if the American style Warrants are exercised on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be one closing price in any event.

For the purposes of Condition 4(F) a "**Day**" shall mean a day (excluding Saturday) on which the Stock Exchange and banks are usually open in Hong Kong for business.

(G) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Guarantor, the Issuer or its agent or nominee and the Warrantholder and neither the Guarantor, the Issuer nor its agent or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Issuer, the Guarantor or the Agent shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amounts shall be discharged by payment in accordance with Condition 4(E) above.

5 Agent

(A) The Agent will be acting as agent of the Issuer in respect of the Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain a agent in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the holder in accordance with Condition 10.

6 Adjustments

Adjustments may be made by the Agent to the terms of the Warrants (including, but not limited to, the Basket Component) in certain circumstances on the basis of the following provisions:

(A) (i) If and whenever any of the Companies shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Basket Component that relates to the Share(s) of the Company making the Rights Offer will be adjusted to take effect on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formulae:

$$\text{Adjusted Basket Component insofar as it relates to the Share(s) of the Company making the Rights Offer} = \frac{1 + M}{1 + (R/S) \times M} \times E$$

Where:

E: Existing Basket Component insofar as it relates to the Share(s) of the Company making the Rights Offer immediately prior to the Rights Offer

S: Cum-Rights Share price being the closing bid price of an existing Share, as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which Shares are traded on a cum-Rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Share(s) per existing Share (whether a whole or a fraction) each holder of an existing Share is entitled to subscribe or have

For the purposes of these Conditions, "**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to a holder of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(ii) For the purposes of Conditions 6(A) and 6(B), the Agent may determine that no adjustment of the Basket Component will be made if the adjustment is less than one per cent. of the Basket Component prior to the adjustment, all as determined by the Agent.

(B) If and whenever any of the Companies shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the relevant Company or otherwise in lieu of a cash dividend) (and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Basket Component that relates to the Share(s) of the Company making the Bonus Issue will be increased on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Basket Component insofar as it relates to the Share(s) of the Company making the Bonus Issue} = (1 + N) \times E$$

Where:

E: Existing Basket Component insofar as it relates to the Share(s) of the Company making the Bonus Issue immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of existing Shares for each Share held prior to the Bonus Issue

(C) If and whenever any of the Companies shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), the Basket Component insofar as it relates to the Share(s) of the Company making the Subdivision in effect immediately prior thereto will be increased or the Basket Component insofar as it relates to the Share(s) of the Company making the Consolidation decreased in each case on the day on which the relevant Subdivision or Consolidation shall have taken effect and in any event no later than the next Business Day following the day on which the relevant Subdivision or Consolidation shall have taken effect.

(D) If it is announced that any of the Companies is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where that Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Agent be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Agent in its absolute discretion).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (the "**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Agent, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Agent as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph (D) and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

(E) Adjustments will not be made in any other circumstances including, without limitation, the payment of a cash or scrip dividend by any of the Companies. However, the Agent reserves the right, at its sole discretion and without any obligation whatsoever, to make such adjustments which shall take effect as of such date as it reasonably believes are appropriate in circumstances where an event or events occur which the Agent believes (in its sole discretion and notwithstanding any adjustment previously made by the Agent) should, in the context of the issue of Warrants and its obligations hereunder, give rise to such adjustment, provided that such adjustment is considered by the Agent to be beneficial to the Warrantholder generally (without considering the individual circumstances of any Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction) or is required to take account of provisions of Hong Kong law or Stock Exchange practice.

(F) The Agent shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after the determination thereof.

7 Purchase by the Issuer

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

8 Global Warrant Certificate

A global warrant certificate (the "**Global Warrant Certificate**") representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Warrant Certificate will not be exchangeable for definitive warrant certificates.

9 Meeting of Warrantholder; Modification

(A) *Meetings of Warrantholder.* Notices for convening meetings to consider any matter affecting the Warrantholder's interests will be given to the Warrantholder in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantholder shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholder holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholder) holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholder) being or representing Warrantholder whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholder shall be binding on all the holders of the Warrants, whether or not they are present at the meeting, save, in the case of Warrants which are expressed to be American Style, for those Warrants remaining unexercised but for which an Exercise Notice shall have been submitted prior to the date of the meeting.

In the case of Warrants which are expressed to be American Style, Warrants which have not been exercised but in respect of which an Exercise Notice has been submitted will not confer the right to attend or vote at, or join in convening, or be counted in quorum for, any meeting of the Warrantholders.

Resolutions can be passed in writing without a meeting of the Warrantholder being held if passed unanimously.

(B) *Modification.* The Issuer and the Guarantor may, without the consent of the Warrantholder, effect (i) any modification of the provisions of the Warrants or the Instrument which is not materially prejudicial to the interests of the Warrantholder or (ii) any modification of the provisions of the Warrants or the Instrument which is of a formal, minor or technical nature, which is made to correct an obvious error or which is necessary in order to comply with mandatory provisions of the laws of Hong Kong (as defined below) or such other jurisdiction where the Shares are listed or the issuer of the Shares is incorporated (or the United States, in the case of the Guarantor's obligations under the Instrument). Any such modification shall be binding on the Warrantholder and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 10.

10 Notices

All notices in English and Chinese to the Warrantholder will be validly given if published on the HKEx website. In addition, copies of the notice will be despatched by the Issuer or on behalf of the Issuer to the Warrantholder at its registered address by the first day that such notice appears on the HKEx website.

11 Liquidation

In the event of a liquidation or dissolution or winding up of any of the Companies or the appointment of a receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets of any of the Companies, all unexercised Warrants will lapse and shall cease to be valid for any purpose, in the case of a voluntary liquidation, on the effective date of the resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law. The Issuer shall pay a sum equal to its good faith estimate (determined at the Issuer's sole discretion) of the value of the Warrants to the Warrantholder.

12 Delisting of Company

(A) If at any time any of the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 12(A), where any of the Shares are or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholder, make such adjustments to the entitlements of Warrantholder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong dollars) as it shall consider appropriate in the circumstances.

(C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 12 shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after they are determined.

13 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholder, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

14 Governing Law

The Warrants and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**") except for the obligations of the Guarantor which shall be governed by and construed in accordance with New York law. The Issuer, the Guarantor and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

15 Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

Agent
J.P. Morgan Securities (Asia Pacific) Limited
25/F, Chater House
8 Connaught Road
Central
Hong Kong

TERMS AND CONDITIONS OF THE INDEX WARRANTS

The relevant Conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the global warrant certificate. The applicable supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Warrants. Capitalised terms used in the relevant Conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1 Form; Status; Guarantee; Transfer and Title

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 12) relating to the Index as published by the Index Sponsor are issued in registered form subject to and with the benefit of the Instrument, made by Structured Products B.V. (the "**Issuer**") and JPMorgan Chase Bank, National Association (the "**Guarantor**").

A copy of the Instrument is available for inspection at the office of J.P. Morgan Securities (Asia Pacific) Limited as specified below. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

(B) The settlement obligation of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

In the Instrument, the Guarantor has unconditionally and irrevocably guaranteed to the Warrantholders the due and punctual settlement in full of all obligations due and owing by the Issuer arising under the issuance of the Warrants after taking account of any set off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, when and as due (whether at maturity, by acceleration or otherwise).

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer, the Guarantor and the Agent as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" shall be construed accordingly.

(E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

2 Warrant Rights and Exercise Expenses

(A) Every Exercise Amount entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(E)).

(B) The Warrantholder will be required to pay all charges which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). To effect such payments, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(E).

3 Exercise Period

(A) The Warrants may be exercised by delivery of an Exercise Notice (as defined in Condition 4) on any Business Day during the Exercise Period. In the case of an exercise of American style Warrants, the Exercise Period is the period beginning at (and including) 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealing in the Warrants on the Stock Exchange) ending at (and including) 10:00 a.m. (Hong Kong time) on the Expiry Date subject to prior termination of the Warrants in accordance with these Conditions.

Subject to Condition 3(B), in the case of an exercise of European style Warrants, a reference to Exercise Period shall mean 10:00 a.m. on the Expiry Date only.

(B) Any Warrant with respect to which an Exercise Date (as defined in Condition 4) has not occurred during the Exercise Period, and in respect of which the Cash Settlement Amount which would be payable by the Issuer if exercised on the Expiry Date shall be deemed automatically exercised on the Expiry Date ("**Automatic Exercise**"), so that the Warrantholders shall not be required to serve an Exercise Notice.

(C) Any Warrant with respect to which an Exercise Date has not occurred or which has not been automatically exercised in accordance with Condition 3(B) shall expire immediately at the conclusion of the Exercise Period without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(D) In these Conditions, "**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is open for dealings in Hong Kong and banks are open for business in Hong Kong.

4 Exercise of Warrants

(A) Subject to Condition 3(B), Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) (i) In order to exercise a Warrant, the Warrantholder shall deliver to the Agent a duly completed exercise notice in accordance with the Instrument (an "**Exercise Notice**"), such delivery to be made not later than 10:00 a.m. (Hong Kong time) on the Expiry Date.

(ii) The date upon which the Warrants are exercised (an "**Exercise Date**", which reference shall, in the case of Warrants that are deemed exercised mean the date on which such Warrants are deemed exercised) shall be the Business Day on which an Exercise Notice is delivered to the Agent and in respect of which there is a valid exercise of Warrants in accordance with the requirements set out herein, provided that any Exercise Notice received by the Agent after 10:00 a.m. (Hong Kong time) on any Business Day (other than the Expiry Date) shall be deemed to have been delivered on the next following Business Day.

(C) Delivery of an Exercise Notice in accordance with Condition 4(B) shall constitute an irrevocable election and undertaking by the Warrantholder specified in such Exercise Notice to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authorisation (which is deemed to be given in the case of Automatic Exercise) to the Issuer and/or Agent to debit any determined Exercise Expenses from the Cash Settlement Amount and an undertaking to pay any Exercise Expenses not deducted from the Cash Settlement Amount. Any Exercise Expenses which have not been determined by the Agent on the Exercise Date shall be notified as soon as practicable after determination thereof by the Agent to the Warrantholder and shall be paid by the Warrantholder forthwith in immediately available funds no later than 3 Business Days after the Warrantholder receives notice of any unpaid expenses.

(D) Following the Expiry Date the Issuer will, with effect from the first Business Day following the Expiry Date cancel and destroy the global Warrant certificate.

(E) Subject to a valid exercise of Warrants or an Automatic Exercise in accordance with Condition 3(B), the Issuer will as soon as practicable and not later than three Business Days following the Exercise Date or (in the case of Automatic Exercise) the Expiry Date (the "**Settlement Date**") in accordance with these Conditions procure payment of the aggregate Cash Settlement Amounts (following deduction of determined Exercise Expenses) for all Warrants exercised or deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

Subject to adjustment as provided in Condition 6, "**Cash Settlement Amount**" means:

In respect of Index Call Warrants:

"**Cash Settlement Amount**" means for every Exercise Amount, an amount calculated by the Issuer equal to the excess of the Closing Level on the Valuation Date over the Strike Level, multiplied by the Index Currency Amount, either (i) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate;

In respect of Index Put Warrants:

"**Cash Settlement Amount**" means for every Exercise Amount, an amount calculated by the Issuer equal to the excess of the Strike Level over the Closing Level on the Valuation Date, multiplied by the Index Currency Amount, either (i) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into Settlement Currency at the Second Exchange Rate.

Any payment made pursuant to this Condition 4(E) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder, or such bank, broker or other agent in Hong Kong (if any) as is recorded on the register.

(F) If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

If the Agent determines, in its sole discretion, that on the Valuation Date a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Index Business Day on which there is no Market Disruption Event unless there is a Market Disruption Event on each of the four Index Business Days immediately following the original date that, but for the Market Disruption Event, would have been the Valuation Date. In that case, (i) that fifth Index Business Day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and (ii) the Issuer and/or the Agent shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that fifth Index Business Day but for the Market Disruption Event.

If the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling after the Exercise Date or the Expiry Date, then (i) the Exercise Date or the Expiry Date shall be deemed to be that Valuation Date notwithstanding the Market Disruption Event and (ii) the Issuer and/or Agent shall determine the Closing Level of the Index on the basis of its good faith estimate of the Closing Level of the Index that would have prevailed on that Valuation Date but for the Market Disruption Event.

"**Index Business Day**" means a day on which the Index is published by the Index Sponsor or, as the case may be, the Successor Index Sponsor.

"**Market Disruption Event**" means the occurrence or existence, on the Valuation Date, of any of:

(i) the suspension or limitation of the trading of a material number of securities that comprise the Index; or

(ii) the suspension or limitation of the trading of securities (a) on the Stock Exchange or (b) generally; or

(iii) the suspension or limitation of the trading of (a) options or futures relating to the Index or (b) options or futures generally on any options and/or future exchanges on which options relating to the Index are traded; and

(iv) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount,

if in any such case, such suspension, limitation or imposition of exchange controls is, in the sole and absolute determination of the Issuer and/or Agent, material.

For the avoidance of doubt, a Market Disruption Event shall include, but shall not be limited to a limitation/closure of the Stock Exchange due to unforeseen circumstances such as an official tropical cyclone warning signal eight (or above) or black rain storm warning hoisted by the Hong Kong Observatory provided that so long as such warnings are lowered or suspended by the Hong Kong Observatory; and the Stock Exchange: (i) re-opens for the entire afternoon trading session or (ii) opens late in the morning of the affected day and stays open for the entire afternoon trading session and closing only at the normal closing time for the Stock Exchange, the hoisting of such warning shall not by itself be a Market Disruption Event.

For the purposes of this definition, (i) the limitation on the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any exchange, and (ii) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event.

"**Valuation Date**" means the Exercise Date or (in the case of Automatic Exercise) the Expiry Date. If as a result of a Market Disruption Event, the postponement of a Valuation Date would result in a Valuation Date falling after the Expiry Date, then the Expiry Date shall be deemed to be that Valuation Date.

The Issuer's obligations to pay the Cash Settlement Amounts shall be discharged by payment in accordance with Condition 4(E) above.

(G) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Guarantor, the Issuer or its agent or nominee and the Warrantholder and neither the Guarantor, the Issuer nor its agent or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Issuer, the Guarantor or the Agent shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amounts shall be discharged by payment in accordance with Condition 4(E) above.

5 Agent

(A) The Agent will be acting as agent of the Issuer in respect of the Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain a agent in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the holder in accordance with Condition 10.

6 Adjustments

(A) If the Index is (i) not calculated and announced by the Index Sponsor but is calculated and published by a successor to the Index Sponsor (the "**Successor Index Sponsor**") acceptable to the Agent or (ii) replaced by a successor index using, in the determination of the Agent, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Sponsor or that successor index, as the case may be.

(B) If (i) on or prior to a Valuation Date the Index Sponsor or (if applicable) the Successor Index Sponsor makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stock, contracts or commodities and other routine events), or (ii) on a Valuation Date the Index Sponsor or (if applicable) the Successor Index Sponsor fails to calculate and publish the Index, then the Agent shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at that Valuation Date as determined by the Agent in accordance with the formula for and method of calculating the Index last in effect prior to the change or failure, but using only those securities/commodities that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).

(C) All determinations made by the Agent pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any determinations by publication in accordance with Condition 10.

7 Purchase by the Issuer

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

8 Global Warrant Certificate

A global warrant certificate (the "**Global Warrant Certificate**") representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Warrant Certificate will not be exchangeable for definitive warrant certificates.

9 Meeting of Warrantholder; Modification

(A) *Meetings of Warrantholder.* Notices for convening meetings to consider any matter affecting the Warrantholder's interests will be given to the Warrantholder in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantholder shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholder holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholder) holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholder) being or representing Warrantholder whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholder shall be binding on all the holders of the Warrants, whether or not they are present at the meeting, save, in the case of Warrants which are expressed to be American Style, for those Warrants remaining unexercised but for which an Exercise Notice shall have been submitted prior to the date of the meeting.

In the case of Warrants which are expressed to be American Style, Warrants which have not been exercised but in respect of which an Exercise Notice has been submitted will not confer the right to attend or vote at, or join in convening, or be counted in quorum for, any meeting of the Warrantholders.

Resolutions can be passed in writing without a meeting of the Warrantholder being held if passed unanimously.

(B) *Modification.* The Issuer and the Guarantor may, without the consent of the Warrantholder, effect (i) any modification of the provisions of the Warrants or the Instrument which is not materially prejudicial to the interests of the Warrantholder or (ii) any modification of the provisions of the Warrants or the Instrument which is of a formal, minor or technical nature, which is made to correct an obvious error or which is necessary in order to comply with mandatory provisions of the laws of Hong Kong (as defined below) or such other jurisdiction where any Shares included in the Index are listed, or the issuer(s) of any Shares included in the Index is/are incorporated (or New York, in the case of the Guarantor's obligations under the Instrument). Any such modification shall be binding on the Warrantholder and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 10.

10 Notices

All notices in English and Chinese to the Warrantholder will be validly given if published on the HKEx website. In addition, copies of the notice will be despatched by the Issuer or on behalf of the Issuer to the Warrantholder at its registered address by the first day that such notice appears on the HKEx website.

11 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholder, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

12 Governing Law

The Warrants and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**") except for the obligations of the Guarantor which shall be governed by and construed in accordance with New York law. The Issuer, the Guarantor and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

13 Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

Agent
J.P. Morgan Securities (Asia Pacific) Limited
25/F, Chater House
8 Connaught Road
Central
Hong Kong

TERMS AND CONDITIONS OF THE EQUITY LINKED INSTRUMENTS OVER SINGLE EQUITIES

These Conditions will, together with the supplemental provisions contained in the relevant supplemental listing document, subject to completion and amendment, be endorsed on the back of the global ELI certificate. The applicable supplemental listing document in relation to the issue of any series of ELIs may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of ELIs. Capitalised terms used in these Conditions and not otherwise defined herein shall have the meaning given to them in the relevant supplemental listing document.

1 Form, Status, Guarantee, Transfer and Title

(A) The equity linked instruments ("**ELIs**" which expression shall, unless the context otherwise requires, include any further equity linked instruments issued pursuant to Condition 11) relating to the Shares of the Company are issued subject to and with the benefit of an instrument by way of a deed poll (the "**Instrument**" as defined more fully in the Supplemental Listing Document) executed by J.P. Morgan Structured Products B.V. (the "**Issuer**") and JPMorgan Chase Bank, National Association (the "**Guarantor**"). The holder (as defined below) is entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at the office of J.P. Morgan Securities (Asia Pacific) Limited as specified below.

References in these Conditions to "**Shares**" shall be a reference to the shares of the Company.

(B) The settlement obligation of the Issuer in respect of the ELIs represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

ELIs represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of ELIs deposit liabilities of the Issuer or a debt obligation of any kind.

In the Instrument, the Guarantor has unconditionally and irrevocably guaranteed to the holder the due and punctual settlement in full of all obligations due and owing by the Issuer arising under the issuance of the ELIs after taking account of any set off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, when and as due (whether at maturity, by acceleration or otherwise).

(C) Transfers of ELIs may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) The person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer, the Guarantor and the Agent as the absolute owner and holder of the ELIs. The expression "**holder**" shall be construed accordingly.

(E) Trading in ELIs on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") may be suspended prior to the Maturity Date in accordance with the requirements of the Stock Exchange.

2 Rights and Expenses

(A) Every Board Lot initially entitles the relevant holder, upon due compliance with these Conditions, in particular Condition 3, to settlement of the aggregate Share Amount either by payment of the Cash Settlement Amount or to delivery of the Physical Settlement Amount (subject to adjustment in accordance with Condition 5).

(B) On the Maturity Date the holder of the ELIs will be required to pay a sum equal to all the expenses resulting from the maturity and settlement of such ELIs. To effect such payment where relevant an amount equivalent to the Expenses (defined below) may be deducted from the Cash Settlement Amount in accordance with Condition 3(C). Where settlement is by delivery of the Physical Settlement Amount, then the delivery will not be effected until the Issuer has assumed that the determined Expenses have been received or will be received.

Any Expenses which were not determined by the Issuer on the Maturity Date and deducted from the Cash Settlement Amount or demanded and received from the holder in the case of settlement by Physical Settlement Amount prior to delivery of the Settlement Amount to the holder shall be notified to the holder as soon as practicable after determination thereof and shall be paid by the holder to the Issuer immediately upon demand in immediately available funds.

(C) For the purposes of these Conditions:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**CCASS**" means the Central Clearing and Settlement System;

"**Closing Price**" means the closing price of one Share as derived from the Daily Quotation Sheet of the Stock Exchange;

"**Expenses**" means any charges or expenses including any taxes or duties which are incurred upon the maturity or settlement of the ELIs in respect of every Board Lot. Where settlement is to be effected by delivery of the Physical Settlement Amount the holder will be required to pay all charges which are incurred in respect of the purchase and transfer of the Shares, including stamp duties, levies, registration charges and any other expenses payable in respect of documents of title to the Shares, including where necessary scrip fees payable on the share certificates representing the Shares;

"**Market Disruption Event**" means the occurrence or existence of any suspension of or limitation imposed on trading on the Stock Exchange in the Shares if that suspension or limitation is, in the determination of the Issuer, material;

For the avoidance of doubt, a Market Disruption Event shall include, but shall not be limited to a limitation/closure of the Stock Exchange due to unforeseen circumstances such as an official typhoon signal eight (or above) or black rain storm warning hoisted by the Hong Kong Observatory; provided that it shall not be a Market Disruption Event once such warnings are lowered or suspended by the Hong Kong Observatory, and the Stock Exchange: (i) re-opens for the entire afternoon trading session; or (ii) opens late in the morning of the affected day and stays open for the entire afternoon trading session and closes only at the normal closing time for the Stock Exchange;

"**Settlement Amount**" means the Cash Settlement Amount or Physical Settlement Amount as the case may be;

"**Share Amount**" means the Entitlement, and "**Entitlement**" shall mean the "**Share Amount**" as the context so requires; and

"**Valuation Date**" means, with respect to ELIs and subject as provided below in relation to a Market Disruption Event, the Maturity Date.

3 Maturity

(A) The ELIs are issued with respect to the stated Share Amount. At maturity, the Issuer will settle its obligations in respect of the ELIs by making payment or delivery of the Settlement Amount which will be either the Cash Settlement Amount or the Physical Settlement Amount in respect of the stated Share Amount. On the Valuation Date and at the Valuation Point the Agent on behalf of the Issuer shall determine subject to any adjustment in accordance with Condition 5, the Settlement Amount to which the holder of each Board Lot of ELI shall be entitled.

At maturity, settlement of the ELIs will be made in respect of the Share Amount as follows:

Bull ELIs:

(i) where the Closing Price on the Valuation Date of the Shares is at or above the Strike Level settlement in respect of the Share Amount will be made by payment to the holder of the Cash Settlement Amount; (ii) where the Closing Price of the Shares is below the Strike Level, settlement in respect of the Share Amount will be made by delivery to the holder of the Physical Settlement Amount or by payment to the holder of a cash amount calculated by reference to the Closing Price of one Share multiplied by the number of Shares constituting the Share Amount.

Bear ELIs:

(i) where the Closing Price of the Shares on the Valuation Date is below the Strike Level, a holder will receive the Cash Settlement Amount; (ii) where the Closing Price of the Shares on the Valuation Date is at or above the Strike Level, the holder will receive the Cash Settlement Amount minus the Bear Option Settlement Amount (as defined below).

Range ELIs:

(i) where the Closing Price on the Valuation Date of the Shares is at or above the Lower Strike Level and below the Higher Strike Level, a holder will receive the Cash Settlement Amount; (ii) where the Closing Price of the Shares at the Valuation Date is at or above the Higher Strike Level, the holder will receive the Cash Settlement Amount minus the Bear Option Settlement Amount (as defined below); (iii) where the Closing Price of the Shares on the Valuation Point is below the Lower Strike Level, settlement in respect of the Share Amount will be made by delivery to the holder of the Physical Settlement Amount or by payment to the holder of a cash amount calculated by reference to the Closing Price of one Share multiplied by the number of Shares constituting the Share Amount.

For the purposes of this Condition 3(A), the "**Bear Option Settlement Amount**" means the number of Shares constituting the Share Amount multiplied by (1) the Closing Price of one Share on the Valuation Date, minus (2) the Strike Level (provided that the Bear Option Settlement Amount shall never be greater than the Cash Settlement Amount).

If the Agent determines in its sole discretion, that on the Valuation Date a Market Disruption Event has occurred, then the Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event unless there is a Market Disruption Event on each of the five Business Days immediately following the original date that but for the Market Disruption Event would have been the Valuation Date then (i) that fifth day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event, and (ii) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the bid price that would have prevailed on that fifth day but for the Market Disruption Event.

"**day**" means for the purposes of this Condition 3(A) a day on which (excluding Saturday) banks and the Stock Exchange are normally open for business in Hong Kong.

(B) Following determination of the Settlement Amount and subject to Condition 2(B) the Issuer shall (i) despatch the net aggregate Cash Settlement Amounts or other cash amounts calculated in accordance with these Conditions no later than two Business Days following the Valuation Date or (ii) deliver the Physical Settlement Amounts by way of electronic settlement through CCASS.

Where settlement is to be effected by delivery of the Physical Settlement Amount the Issuer shall procure such transfer of the Shares to the holder as soon as reasonably practicable, but in any event not later than two Business Days following the Maturity Date (the "**Settlement Period**" and each day a "**Settlement Date**") in accordance with the CCASS Rules.

If a Settlement Disruption Event exists on any Settlement Date, then the last Settlement Date shall be postponed by the number of Business Days upon which there has been a Settlement Disruption Event unless a Settlement Disruption Event prevents settlement on each of the ten Business Days immediately following the Valuation Date; in that case:

(i) if the Shares can be delivered or transferred in any other commercially reasonable manner on the tenth Business Day immediately following the Valuation Date then the Shares shall be so delivered or transferred;

(ii) if the Shares cannot be delivered or transferred in any other commercially reasonable manner then the Settlement Date shall be postponed until settlement can reasonably be effected under this Condition; and

(iii) without prejudice to the foregoing where the Issuer determines in his absolute discretion that the payment of a cash amount in full settlement of its obligation to deliver the Physical Settlement Amount following a Settlement Disruption Event shall be the most efficient manner to fulfil its obligation under this Condition 3(B) then by delivering such cash amount which shall be calculated by reference to the Closing Price of one Share on the Valuation Date multiplied by the number of Shares constituting the Physical Settlement Amount that would have been delivered but for the Settlement Disruption Event, the Issuer's obligations under these Conditions to deliver the Settlement Amount shall be discharged.

"**Settlement Disruption Event**" means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure the delivery of the Shares electronically through CCASS.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure the delivery of the Shares electronically through CCASS within the Settlement Period, the Issuer shall notify the holder (in accordance with Condition 9) of the postponement of the Settlement Date and or its election to deliver a cash amount in lieu of the Physical Settlement Amount.

As from the Valuation Date and until the Settlement Date (the "**Intervening Period**"), neither the Issuer nor any agent or nominee of it who may be registered as the legal owner of such Shares shall (i) exercise any rights (including voting rights) attaching to the Shares without the prior written consent of the holder, provided that neither the Issuer nor its agent or nominee shall be under any obligation to exercise any such rights during the Intervening Period or be under any liability to such holder or any subsequent beneficial owner of the Shares in respect of any loss or damage which such holder or subsequent beneficial owner may sustain or suffer as a result, whether directly or indirectly of the Issuer or its agent or nominee being registered during such Intervening Period as legal owner of the Shares and (ii) be under any obligation to deliver to such holder or any subsequent beneficial owner of the Shares any letter, certificate, notice, circular, or any other document or payment whatsoever received by the Issuer or its agent or nominee in its capacity as the registered holder of the Shares.

For the avoidance of doubt, where the Physical Settlement Amount is not equal to a board lot of the Shares or an integral multiple thereof, then the holder shall be entitled to receive a cash amount from the Issuer equal to the Closing Price of the excess shares at the Valuation Date.

(C) Subject to a Market Disruption Event and Conditions 10 and 12 any ELI which has matured with a Settlement Amount of zero on the Maturity Date shall terminate immediately thereafter and all rights of the holder and obligations of the Issuer with respect to such ELI shall cease.

(D) Following the Maturity Date the Issuer will procure that the Agent will with effect from the second Business Day following the Maturity Date cancel the Global ELI Certificate (as defined below).

(E) The Issuer's obligations under the ELIs shall be discharged by payment in accordance with Condition 3(B) above.

4 Agent

(A) The Agent will be acting as agent of the Issuer in respect of the ELIs and will not assume any obligation or duty to or any relationship or agency or trust for the holder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain a agent in Hong Kong for so long as the ELIs are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the holder in accordance with Condition 9.

5 Adjustments

Adjustments may be made by the Issuer to the number of Shares to which the ELIs relate initially (the "**Entitlement**") on the basis of the following provisions:

(A) *Rights Issues.* If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \frac{1 + M}{1 + (R/S) \times M} \times E$$

Where:

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Share price being the closing bid price of an existing Share as derived from the Daily Quotation Sheet of the Stock Exchange on the Last Business Day on which the Shares are traded on a Cum-Rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to less than one per cent. of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price, the Higher Strike Level and/or the Lower Strike Level (each of which shall be rounded to the nearest Hong Kong dollar 0.001), as applicable, by the reciprocal of the Adjusted Entitlement, where the reciprocal of the Adjusted Entitlement means one divided by the relevant Adjusted Entitlement. These adjustments shall take effect on the same day that the Entitlement is adjusted.

For the purposes of these Conditions:

"**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(B) *Bonus Issues.* If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement shall be adjusted on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = (1 + N) \times E$$

Where:

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of Shares for each Share held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to less than one per cent. of the Entitlement, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price, the Higher Strike Level and/or the Lower Strike Level (each of which shall be rounded to the nearest Hong Kong dollar 0.001), as applicable, by the reciprocal of the Adjusted Entitlement, where the reciprocal of the Adjusted Entitlement means one divided by the relevant Adjusted Entitlement. These adjustments shall take effect on the same day that the Entitlement is adjusted.

(C) *Share Splits or Consolidations.* If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), the Entitlement in effect immediately prior thereto shall be increased or decreased accordingly in each case on the day on which the relevant Subdivision or Consolidation shall have taken effect and in any event no later than the next Business Day following the day on which the relevant Subdivision or Consolidation shall have taken effect. In addition, the Issuer shall adjust the Strike Price, the Higher Strike Level and/or the Lower Strike Level (each of which shall be rounded to the nearest Hong Kong dollar 0.001), as applicable, by the reciprocal of the Adjusted Entitlement, where the reciprocal of the Adjusted Entitlement means one divided by the relevant Adjusted Entitlement. These adjustments shall take effect on the same day that the Entitlement is adjusted.

(D) *Merger or Consolidation.* If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the ELIs may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the ELIs shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the ELIs related immediately before such Restructuring Event would have been entitled upon such Restructuring Event and thereafter the provisions hereof shall apply to such Substituted

Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

(E) *Other Adjustments.* Except as provided in Conditions 6 and 12, adjustments will not be made in any other circumstances, subject to the right reserved by the Issuer (such right to be exercised in the Issuer's sole and unfettered discretion and without any obligation whatsoever) to make such adjustments and amendments as it believes appropriate in circumstances where an event or events occur which it believes in its sole discretion and notwithstanding any prior adjustment made pursuant to the above should, in the context of the issue of the ELIs and the obligations of the Issuer, give rise to such adjustment or, as the case may be, amendment provided that such adjustment or, as the case may be, amendment is considered by the Issuer not to be materially prejudicial to the holder generally (as determined by reference to the position of the holder generally prior to the relevant event or events) and without considering the circumstances of any individual holder or the tax or other consequences of such adjustment in any particular jurisdiction) or is required to take account of provisions of Hong Kong law or Stock Exchange practices.

(F) *Notice of Adjustments.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the holder. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 9.

6 Purchase by the Issuer

The Issuer or any of its subsidiaries may at any time purchase ELIs at any price in the open market or by tender or by private treaty. Any ELIs so purchased may be held or resold or surrendered for cancellation.

7 Global ELI Certificate

A global ELI certificate (the "**Global ELI Certificate**") representing the ELIs will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global ELI Certificate will not be exchangeable for definitive ELI certificates.

8 Meeting of ELI Holder; Modification

(A) *Meetings of ELI Holder.* Notices for convening meetings to consider any matter affecting the ELI holder's interests will be given to the ELI holder in accordance with the provisions of Condition 9.

Every question submitted to a meeting of the ELI holder shall be decided by poll. A meeting may be convened by the Issuer or by the ELI holder holding not less than 10 per cent. of the ELIs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the ELI holder) holding or representing not less than 25 per cent. of the ELIs for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the ELI holder) being or representing ELI holder whatever the number of ELIs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such ELI holder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the ELI holder shall be binding on all the holders of the ELIs, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the ELI holder being held if passed unanimously.

(B) *Modification.* The Issuer and the Guarantor may, without the consent of the ELI holder, effect (i) any modification of the provisions of the ELIs or the Instrument which is not materially prejudicial to the interests of the ELI holder or (ii) any modification of the provisions of the ELIs or the Instrument which is of a formal, minor or technical nature, which is made to correct an obvious error or which is necessary in order to comply with mandatory provisions of the laws of Hong Kong (as defined below) (or New York, in the case of the Guarantor's obligations under the Instrument). Any such modification shall be binding on the ELI holder and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 9.

9 Notices

All notices to the ELI holder will be validly given if published on the HKEx website. In addition, copies of the notice will be despatched by the Issuer or on behalf of the Issuer to the ELI holder at its registered address by the first day that such notice appears on the HKEx website.

10 Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, the ELIs will lapse and shall cease to be valid for any purpose, in the case of voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

11 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the holder, to create and issue further ELIs so as to form a single series with the ELIs.

12 Delisting

(A) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the ELIs as it shall, in its absolute discretion consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the holder generally is not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of any holder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 12(A), where the Shares are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the holder, make such adjustments to the entitlements of the holder upon maturity (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong currency) as may be appropriate in the circumstances.

(C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 12 shall be conclusive and binding on the holder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the holder in accordance with Condition 9 as soon as practicable after they are determined.

13 Taxation

The Issuer is not liable for or otherwise obliged to pay any tax, duty, withholding or other payment which may arise as a result of the ownership, transfer or holding of any ELIs.

14 Governing Law

The ELIs and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**") except for the obligations of the Guarantor which shall be governed by and construed in accordance with New York law. The Issuer, the Guarantor and each investor (by its purchase of the ELIs) shall be deemed to have submitted for all purposes in connection with the ELIs and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

15 Language

A Chinese translation of these Conditions is available upon request during normal office hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the Chinese translation of these Conditions and the English version of these Conditions, the English version of these Conditions shall prevail.

Agent
J.P. Morgan Securities (Asia Pacific) Limited
25/F, Chater House
8 Connaught Road
Central
Hong Kong

ANNEX 2

FORM OF GUARANTEE

The following is the form of the guarantee made by the guarantor:

"GUARANTEE OF JPMORGAN CHASE BANK, NATIONAL ASSOCIATION

PROGRAMME GUARANTEE
J.P. Morgan Structured Products B.V.
Hong Kong Structured Products Programme
(the "Programme")

Dated as of July 3rd, 2007

To: The Holders of all Structured Products Issued under the Programme on or after the date hereof

Ladies/Gentlemen:

J.P. Morgan Structured Products B.V. a company incorporated under the laws of The Netherlands ***(the "Issuer"),*** from time to time issues warrants and equity linked instruments ***(collectively, the "Structured Products")*** to be listed on The Stock Exchange of Hong Kong Limited under the captioned Programme, pursuant to (a) an instrument dated as of July 2nd, 2007 ***(the "Instrument")*** among the Issuer and JPMorgan Chase Bank, National Association, a national banking association organized under the federal laws of the United States of America ***("Guarantor")***, with the benefit of (b) this guarantee ***(the "Guarantee")***, under the terms and conditions set out in (c) the base listing document for the Programme dated July 3rd, 2007 ***(the "Base Listing Document")*** and (d) the Supplemental Listing Document (as defined in the Base Listing Document) to be prepared for each series of Structured Products ***(the foregoing, together, as amended and/or supplemented and/or restated from time to time, the "Programme Documents")***.

This Guarantee only extends to the Issuer's Obligations (as defined below) under or in connection with the Structured Products issued pursuant to the Base Listing Document and the Supplemental Listing Documents.

This Guarantee is made for the benefit of the persons appearing from time to time in the books of the Central Clearing and Settlement System (CCASS) as holders of the Structured Products ***(such persons collectively the "Beneficiaries")***.

For value received, Guarantor hereby agrees, for the sole and exclusive benefit of the Beneficiaries, as follows:

(1) Guarantee. Guarantor absolutely and unconditionally (except as specified below) guarantees to Beneficiaries the prompt and complete payment and performance whether by acceleration or otherwise, of all obligations and liabilities, whether now in existence or hereafter arising, of any of the Issuer to Beneficiaries under the Structured Products ***(such obligations and liabilities, the "Obligations")***. If the Issuer fails to meet any of its Obligations in full when due, Guarantor shall, as an independent obligation, promptly upon written notice of such failure from the applicable Beneficiary or its agent, meet or cause to be met such Obligations to such Beneficiary in accordance with all applicable terms and provisions of the applicable Structured Products and of the other Programme Documents.

(2) **Guarantee of Payment, not Collection.** This Guarantee is a guarantee of payment and performance and not of collection only. The Beneficiaries shall not be required to exhaust any right or remedy or take any action against the Issuer or any other person or entity or any collateral as a condition to payment by Guarantor hereunder.

(3) **Guarantee Irrevocable.** This Guarantee is a continuing guarantee of all Obligations now or hereafter existing and shall remain in full force and effect until complete payment and performance in full of all Obligations and until no Structured Products remains outstanding and no further Structured Products may be issued.

(4) **Guarantee Absolute.** Guarantor guarantees that the Obligations shall be timely performed and paid strictly in accordance with all applicable terms of the Programme Documents. Guarantor's liability hereunder is absolute and unconditional irrespective of any matter or circumstance whatsoever with respect to the Programme Documents or the transactions contemplated thereby which might constitute a defense available to, or discharge of, the Issuer or a guarantor, including, without limitation:

(a) any change in the amount, time, manner or place of payment of, or in any other term of, all or any of the Programme Documents or Obligations, or any other amendment or waiver of or any consent to departure from any of the terms of any Programme Document or Obligation;

(b) any release or amendment or waiver of, or consent to departure from, any other guaranty or support document, or any exchange, release or non-perfection of any collateral, for all or any of the Programme Documents or Obligations;

(c) any present or future law, regulation or order of any jurisdiction (whether of right or in fact) or other action or order of any agency thereof purporting to reduce, amend, restructure or otherwise affect any term of any Programme Document or Obligation;

(d) any lack of validity or enforceability of any Programme Document or Obligation;

(e) any injunction, stay or similar action in any bankruptcy, insolvency or other proceeding barring or limiting payment of the Obligations, or any of them, by Issuer;

(f) the absence of any action to enforce the Obligations or any collateral therefore;

(g) the rendering of any judgment against the Issuer or any action to enforce the same;

(h) any bankruptcy or insolvency of the Issuer or any other person or any similar event or circumstance or any proceeding relating thereto;

(i) any event or circumstance constituting fraud in the inducement or any other similar event or circumstance; and

(j) any lack or limitation of status or of power, or any incapacity or disability, of the relevant Issuer, or of any other guarantor or Issuer in respect of any Obligation, or any change whatsoever in the objects, capital structure, constitution or business of the Issuer.

(5) **Waiver of Defenses.** Guarantor hereby waives diligence, presentment, demand of payment (except as provided in paragraph (1)), any right to require a proceeding against the Issuer, protest or notice with respect to the Obligations or the amounts payable by the Issuer under the Programme Documents and all demands whatsoever, and covenants that this Guarantee will not be discharged except by complete payment and performance of the Obligations. The grant of time or other indulgence to the Issuer shall in no manner release the Guarantor from any of its Obligations hereunder.

(6) Reinstatement. This Guarantee shall continue to be effective or be reinstated, as the case may be, if at any time any payment and performance of any of the Obligations is rescinded or must otherwise be returned by a Beneficiary upon the insolvency, bankruptcy or reorganization of the Issuer or otherwise, all as though the payment and performance had not been made.

(7) Subrogation. Guarantor shall be subrogated to all rights of the Beneficiaries against the Issuer in respect of any amounts paid by the Guarantor pursuant to the provisions of this Guarantee; *provided, however,* that Guarantor shall not be entitled to enforce or to receive any payments arising out of, or based upon, such right of subrogation until the Obligations have been paid in full.

(8) Representations/Warranties. Guarantor represents and warrants to each Beneficiary that, as of the date hereof:

(a) It is a national banking association duly organized, validly existing and in good standing under the federal laws of the United States of America;

(b) It has the full power and authority to execute and deliver this Guarantee and to perform its obligations under this Guarantee and it has taken all necessary action to authorize such execution, delivery and performance, and this Guarantee has been duly executed and delivered by the Guarantor;

(c) This Guarantee constitutes a legal, valid and binding obligation of the Guarantor, enforceable against the Guarantor in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, receivership and other similar laws affecting the rights of creditors generally, and by general principles of equity; and;

(d) No authorizations, approvals or consents of, and no filings or registrations with, any governmental authority are necessary for the execution, delivery or performance by the Guarantor of this Guarantee or for the validity or enforceability hereof.

(9) Captions. The headings and captions in this Guarantee are for convenience only and shall not affect the interpretation or construction of this Guarantee.

(10) Not Insured. This Guarantee is not insured by the Federal Deposit Insurance Corporation of the United States of America.

(11) GOVERNING LAW. THIS GUARANTEE AND ALL MATTERS ARISING OUT OF OR RELATING TO THIS GUARANTEE SHALL BE GOVERNED BY, AND THIS GUARANTEE SHALL BE CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, UNITED STATES OF AMERICA, WITHOUT GIVING EFFECT TO CHOICE OF LAW DOCTRINE. THE GUARANTEE SHALL BE ENFORCED AGAINST THE GUARANTOR BY THE BENEFICIARIES AT THE FEDERAL OR STATE COURT SITTING IN THE CITY OF NEW YORK.

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION

By: Lisa J Fitzgerald
Name: Lisa J Fitzgerald
Title: Managing Director

ANNEX 3

PURCHASE AND SALE

General

No action has been or will be taken by the Issuer or the Managers that would permit a public offering (other than Hong Kong) of any series of Structured Products or possession or distribution of any offering material in relation to any Structured Products in any jurisdiction where action for that purpose is required. No offers, sales, re-sales, transfers or deliveries of any Structured Products, or distribution of any offering material relating to Structured Products, may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws and regulations and will not impose any obligations on the Issuer.

United States of America

The Structured Products and the Guarantee which are the subject of the Base Listing Document, the relevant Supplemental Listing Document and the Guarantee have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States. The Structured Products and the Guarantee are being offered and sold pursuant to the registration exemptions contained in section 3(a)(2) of the Securities Act and outside the U.S. in reliance on Regulation S. In addition, until 40 days after the commencement of the offering of the Structured Products, an offer or sale of the Structured Products within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act. The terms in this paragraph have the meaning given to them by Regulation S.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), the Issuer represents, warrants and agrees that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Structured Products to the public (where the Structured Products have a denomination of less than €50,000 (or its equivalent in any other currency as at the date of issue of the Structured Products)) in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Structured Products to the public in that Relevant Member State at any time:

(a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Issuer; or

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive.

provided that no such offer of Structured Products shall result in a requirement for the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Structured Products to the public" in relation to any Structured Products in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Structured Products to be offered so as to enable an investor to decide to purchase or subscribe the Structured Products, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

The Issuer represents, warrants and agrees that:

(a) in relation to any Structured Products which have a expiry of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Structured Products other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Structured Products would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "FSMA") by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Structured Products in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Structured Products in, from or otherwise involving the United Kingdom.

General

The offer and sale of Structured Products will also be subject to such other restrictions and requirements as may be set out in the relevant Supplemental Listing Document.

Persons interested in acquiring Structured Products should inform themselves and obtain appropriate professional advice as to (i) the legal requirements within. the countries of their nationality, residence, ordinary residence or domicile for such acquisition; (ii) any foreign exchange restrictions or exchange control requirements which they might encounter on the acquisition of Structured Products or their redemption; or (iii) the acquisition, holding or disposal of Structured Products.

PARTIES

Issuer

J.P. Morgan Structured Products B.V.
Strawinskylaan
3105 Atrium
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The Netherlands

Guarantor

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(formerly known as JPMorgan Chase Bank)
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N. Y. 10017-2070
USA

Managers

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London EC4Y 0JP

J.P. Morgan Securities (Asia Pacific) Limited
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8 Connaught Road
Central
Hong Kong

Liquidity Provider

J.P. Morgan Broking (Hong Kong) Limited
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8 Connaught Road
Central
Hong Kong

Legal Advisers

to the Issuer and the Guarantor

Linklaters
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to the Issuer as to Dutch Law

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Agent

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Issuer's Auditors

PricewaterhouseCoopers Accountants N.V.
Chartered Accountants and Registered Auditors
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1006 BJ Amsterdam
The Netherlands

Guarantor's Auditors

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