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Mergers and Acquisitions, Featured Case Study: JP Morgan Chase

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Thesis

Mergers and Acquisitions

Featured Case Study: JP Morgan Chase

By: Sofya Frantslikh

Dedicated to:

My grandmother, who made it her life time calling to educate people and in this way, make their world better, and especially mine.

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*The annual reports can be found at http://www.shareholder.com/jpmorganchase/annual.cfm)

Abstract

Mergers and acquisitions have become the most frequently used methods of growth for companies in the twenty first century. They present a company with a potentially larger market share and open it up to a more diversified market. A merger is considered to be successful, if it increases the acquiring firm’s value; most mergers have actually been known to benefit both competition and consumers by allowing firms to operate more efficiently. However, it has to be noted that some mergers and acquisitions have the capacity to decrease competition in various ways.

The merger between JP Morgan Chase and Bank One presented JP Morgan Chase with the opportunity to expand its perspective through providing the firm with access to retail banking markets and clientele in the regions where its previous exposure had been virtually inexistent. The merger gave the firm that extra growth and competitive edge that it was looking for to compete with Citigroup and other rivals.

Research has shown, that due to increasing advances in technology and banking processes, which make transactions, among other aspects of business, more effective and efficient, mergers and acquisitions have become more frequent today then ever before.

The topic of mergers and acquisitions is extremely complicated, with the numerous types of mergers that are out there today. It is also remarkably interesting, with the controversies and fierce price wars, which surround most mergers and acquisitions.

In the world of growing economy and globalization, major companies on both domestic and international markets struggle to achieve the optimum market share possible. Every day business people from top to lower management work to achieve a common goal – being the best at what you do, and getting there as fast as possible. As companies work hard to beat their competitors they assume various tactics to do so. Some of their tactics may include competing in the market of their core competence, thus, insuring that they have the optimal knowledge and experience to have a fighting chance against their rivals in the same business; hostile takeovers; or the most popular way to achieve growth and dominance – mergers and acquisitions.

Mergers and acquisitions are the most frequently used methods of growth for companies in the twenty first century. Mergers and acquisitions present a company with a potentially larger market share and open it up to a more diversified market. At times, a merger or an acquisition simply makes a company larger, expands its staff and production, and gives it more financial and other resources to be a stronger competitor on the market.

To define this topic more clearly, let me state that a corporate merger, as defined by the “Quick MBA” reference website, is the combination of the assets and liabilities of

two firms to form a single business entity. In everyday language, the term "acquisition" tends to be used when a larger firm absorbs a smaller firm, and "merger" tends to be used when the combination is portrayed to be between equals. In case of a merger between two firms that are approximately equal, there often is an exchange of stock in which one firm issues new shares to the shareholders of the other firm at a certain ratio. It has been customary that the firm whose shares continue to exist, even if that occurs under an alternate company name, is referred to as the acquiring firm and the firm whose shares are being replaced by the acquiring firm is usually called the target firm. You can refer to the appendix of this thesis to find the formula for the pre-merger stock price.

A merger is considered to be successful, if it increases the acquiring firm’s value. Clearly, judging from the various statistics charts found in the appendix, there is a considerable amount of companies in the United States which believe that a merger will increase their company’s value.

An article which was recently published by the Federal Trade Commission (FTC) noted that the United States is heavily involved in the so called right "merger wave." The number of mergers reported rose from “1,529 in 1991 to a record 3,702 in 1997 - a 142 percent jump.” During this

period, the FTC spent a great amount of time on distinguishing and at times preventing mergers which were potentially anticompetitive and directed at forming monopolies. This is a great example of the strong controls that the United States government has instituted, in order to prevent companies from forming monopolies, so that our financial markets will stay unpolluted and healthy competition can continue to thrive. It also shows that the topic of mergers is extremely controversial at times and involves a great number of legal aspects in order for any merger to become finalized.

Most mergers have actually been known to benefit both competition and consumers by allowing firms to operate more efficiently. However, it has to be noted that some mergers and acquisitions have the capacity to decrease competition. This is very dangerous for both us, the consumers, and the companies on the market, because declines in competition may cause higher prices, decreased availability of goods or services, products of lower quality, as well as declines in innovation. This is mainly due to some companies merging and creating a more concentrated market, with fewer suppliers, which leads to fewer options for the consumers, and thus gives some companies the advantage of raising prices since the consumers have no other choice of suppliers. This is even

more crucial to realize in the case of companies which produce goods that have no or very few substitutes, and for which the demand is highly inelastic.

In a concentrated market, there are very few firms, by definition. The danger of a concentrated market is that in this case, it becomes easier for companies to stall competition by colluding. For example, some companies might agree on the prices they will charge their customers. Collusion can be of either of the two forms: by tacit agreement or by explicit agreement. As one may have guessed, tacit agreements are hidden and are kept a secret, while explicit ones are less subtle in their form. Obviously, corporations that want to become involved in collusion, use tacit agreements, which are harder to be uncovered by the law enforcement, since explicit agreements are prosecutable by law.

Usually, a merger can be construed as being anti competitive if it makes the market very saturated after the merger, as opposed to before the merger’s completion, and if the merger in addition makes it impossible or highly difficult for new firms to enter the market and present a challenge to the existing corporations. Companies who do this, want to keep other companies out of the market because the new entrants have the capacity to offer lower prices,

forcing the existing firms to lower theirs as well, thus driving all of the prices in that market down.

Going deeper into the subject of mergers, it is important to present and distinguish between three kinds of mergers: horizontal mergers, vertical mergers, and potential competition or conglomerate mergers.

By definition, a horizontal merger is an acquisition of a competitor with an intention to increase the market concentration, and often also to increase the probability of collusions. A vivid example of this was Staples' attempt to merge with Home Depot. This merger would have created a more condensed market for office and home supplies, because the number of stores nationwide would have decreased, making it possible for Staples to set their own prices.

Research has shown that "Staples would have been able to keep prices up to 13 percent higher after the merger than without the merger." Fortunately for all of the consumers of both stores nation wide, the Federal Trade Commission prevented the merger from taking place, allegedly, saving consumers "an estimated $1.1 billion over five years."

In retrospect, a vertical merger is said to take place when companies are in a so called buyer-seller relationship. For example, when a company moves along its value chain and merges with its supplier, or distributor. As would be the

case if a pencil making company would merge with the woodcutting company, or with the store that sells pencils. A vertical merger can impair competition by preventing other companies who use the same suppliers or distribution channels to operate normally. If companies A, B, and C both use supplier Y and no other effective supplier exists, and company A merges with supplier Y, this forces companies B and C out of business, because they have lost their connection with supplies Y. Company A has thus eliminated two of its competitors, companies B and C.

A potential competition or conglomerate merger is said to take place when one company merges or buys another company that is anticipated to enter a market and become a potential competitor to the acquiring company. It is said to be a so called elimination technique of a company's potential competitors. A conglomerate merger can be detrimental in two ways. First of all, this type of a merger deters healthy competition because it involves acquiring companies before they even enter the market. Second of all, it prevents the company that otherwise would have entered the market to make positive contributions to the market, such as promoting healthy competition or offering more diversified products to consumers. The reasoning behind this type of a merger is closely related to the first two types, namely to keep the

prices higher, without the threat of new competitors coming in and forcing the prices down, and to keep fierce competitors out.

The Federal Trade Commission recently published the following article: “Several years ago, the Questar Corp., which operated the only pipeline transporting natural gas to Salt Lake City, tried to acquire a major part of a firm that was planning to begin service to the city. The potential entrant was already having a [positive] effect on pricing. The FTC blocked the merger, preserving the price benefits for Salt Lake City consumers.” Thus, one can see that corporations that try to prevent healthy competition are stopped in their tracks, and if Questar Corporation was successful in its conglomerate merger attempt, it could have set the price for transporting natural gas as high as possible, deterring competition, the economy, as well as consumers, because of the higher prices that would have been forced to pay due to this new conglomerate.

The United Nations' “World Investment Report 2000” suggests that the recent increase in cross-border mergers and acquisitions is mainly due to increase in the globalization of markets.

If various statistical sources are combined it can be observed that domestic as well as worldwide mergers and acquisitions “have been growing at an average of 42% per year between 1980 and 1999, reaching $2.3 trillion dollars in value in 1999,” according to the World Investment Report as of the year 2000. “Such deals were worth about 0.3% of world gross domestic product in 1980, rising to 2% in 1990 and 8% in 1999. More than 24,000 [mergers and acquisitions] took place during the last 20 years.”

The rapid growth has been overwhelming to both corporations involved and consumers. The increase in mergers has definitely been noticeable over the last couple of decades. Due to a major growth spurt of technological advances, news about mergers and acquisitions arrive to consumers and companies faster and more efficiently, with the most recent information available for anyone who is interested in the topic. Thousands of emails and faxes arrive to their destinations with the speed of lightning to notify us of companies’ plans and new conquests. The ease of communication has undoubtedly been a major factor in increasing mergers and acquisitions.

Most mergers and acquisitions took place in developed countries, due to a larger number of strong corporations and well functioning economies in countries like United States

and European countries like United Kingdom. Cross-border mergers and acquisitions comprise a major part of the foreign direct investments or FDIs, which have also been developing quicker in the past decade. In fact they went from 37 billion dollars in 1982, to 800 billion dollars in 1999.

The World Investment Report makes the statement that there are three main forces that drive mergers and acquisitions, which incidentally coincide with my own previously made assumptions. These forces are rapid technological advances, new and more efficient ways of financing, and a more favorable regulatory setting.

Statistics also show that in 1999, the United States sustained a trend of being the most important target country in cross-border mergers and acquisitions, “with the EU accounting for four-fifths of the $233 billion dollars in assets that the US sold to foreigners.”

In addition, the World Investment Report presents that “70% of the value of cross-border mergers and acquisitions” in 1999 were made between competing firms in the same industry, or as noted previously, through horizontal mergers. Vertical mergers remained far below 10% throughout the 1990s, with the remaining mergers resulting from companies merging with other companies that operated in different markets from the acquiring corporation.

Furthermore, decreasing productive capacity has become important to companies. Companies that resulted from horizontal mergers usually do not expand their productive capacity once the merger is complete, even though it is possible in general, due to high potential expenses. The main goal of these mergers, which is reduction of competition often, then results in sacrifices of production capacities.

Thus, it is not uncommon that horizontal mergers mainly take place in automobiles, pharmaceuticals, as well as in telecommunications and banking industries. The World Investment Report supports this but saying that “in capital and technology-intensive activities, [companies decide to merge] to remain competitive by eliminating excess capacity and to spread huge investments. Horizontal mergers also take place in less technology-intensive industries like food, beverages and tobacco, textile and clothing ... to increase market power by reducing competition, realize economies of scale in marketing, distribution and procurement or to increase negotiating power [regarding] buyers and suppliers as well as financial institutions.” Thus companies merge also because they want to stay at the competitive edge in their respective markets and to grow exponentially in comparison to their competitors.

The following will serve as an overview of economic factors affecting mergers. As the main enforcer of the European Union’s competition policy, the European Commission has the power to make or break some of the world's largest companies. The following discussion will outline the reasons and ways in which the European Commission decides on passing or stopping a merger within the European Union.

The European Commission investigates the grounds for approving or rejecting a merger between two European companies, such as two airlines merging, or an Italian pharmaceutical company trying to overtake a French drug researcher.

The main economic argument for accepting a merger is the so called static efficiency which represents mergers that result in economies of scale and thus reduce various costs for companies.

Another economic factor which must be taken into account is dynamic efficiency which refers to profit increases that can be used for research and development of new products and for innovation, creating long term dynamic efficiency, which can also provide funds for capital investments.

The survival of the fittest is usually determined by capital markets, which award companies that deliver promised benefits, and punish those who do not. If the success of the

mergers becomes questionable, corporate raiders carry out their function, and eliminate unproductive management which fails to earn sufficient returns for the shareholders, and thus makes the stock value drop. This simple technique makes management work harder and more efficiently in order to ensure their own job stability and stockholders' wealth.

It is said that this is a more effective technique than government involvement which can make matters worse because of the potential for government's failure.

Growth of interest in the concept of a so called contestable market effectively complements the idea of the free market approach to mergers. By concentrating on removing entry barriers to a market, monopolies and mergers can only remain strong by producing high quality products efficiently.

Increasingly lower costs of production and operation, as well as larger businesses may give rise to increasing capital investments which also contribute to greater productive capacity.

Mergers and acquisitions can strengthen the competitive position of companies in the European Union with regard to the ones outside the union, by helping European companies within the union earn genuine dominance in the international markets.

The main economic argument for rejecting a merger is that mergers and acquisitions contribute to the risk of monopolies. Consumers then become exploited and resources become misallocated if these mergers create major entry barriers restricting competition, which can potentially lead to market failure and a decline in economic welfare. From experience, there are today and probably will always be barriers to free market entry. With times those barriers might increase with increasing demand for safety in warring nations, or with the growing influence of the Euro in the European countries.

The evidence is diverse as to whether mergers improve company's performance. As times, companies make predictions for growth, increased efficiency, and greater profits. However, more often then not, those predictions prove to be over inflated, and this also leads to disappointments on the side of investors, shareholders and the management involved in the merger.

There are certain imperfections in the capital markets which contribute to imperfect information and at times even merger failures. The reasons for market imperfections include the fact that often corporate control does not work optimally, and that unsuccessful management is in place for a long time.

Furthermore, shares are mainly held by financial institutions but while they are the owners, these institutions don’t run the companies on a day to day basis. This means that the classical conflict of agent and principal always holds and that the management will want to work in their own self interest rather then in the interest of maximizing shareholders’ wealth.

Statistics show that most of the cases and requests by companies for merger approvals referred to the European Union competition authorities are indeed accepted, and that only less then 20% of those cases referred to the European committee in the course of the last fourteen years ended up being rejected to due to valid reasons such as anti conglomerate protection and mergers which may restrict free competition if allowed. Thus the future for companies which are contemplating mergers is very promising, especially if those reasons are lawful and do not potentially restrict free competition.

It has been reported that in July of 2001 the European Commission blocked a 45 billion deal between US firms General Electric and Honeywell, both of which were American companies. Although competition authorities in the United States gave their approval to this deal, the European Commission expressed concerns that the merger between

Honeywell, whose core competency lies in avionics, and General Electric, whose main expertise was at the time in jet engines, would result in their combined dominance of the market. As a result the merger was stopped in its tracks in order to ensure and maintain healthy competition in the market.

No matter how professional, promising and well crafted a merger may seem on paper, there are laws which are in place to regulate mergers.

FDIC or the Federal Deposit Insurance Corporation is an independent agency of the United States government established in 1933 which provides insurance for the banks' depositors in case of the banks failures. In most cases, the insurance in case of bank failures is paid in the amount of 100,000 dollars to the depositors of the bank which failed to operate properly; this is one of the main functions of the FDIC. Other functions of this corporation include acting as a receiver for all suspended national and state banks upon request of the states, in which they operated; and preventing the formation and sustenance of unlawful and unethical banking practices.

Under one of the acts of the Federal Deposit Insurance Corporation (FDIC) there is a Section 18(c) of the Federal Deposit Insurance Act, which is more widely known among

professionals as the Bank Merger Act, which states that “prior written approval of the FDIC [is required] before any insured depository institution can merge or consolidate with, purchase or otherwise acquire the assets of, or assume any deposit liabilities of, another insured depository institution if the resulting institution is to be a state nonmember bank, or merge or consolidate with, assume liability to pay any deposits or similar liabilities of, or transfer assets and deposits to, a noninsured bank or institution. Institutions undertaking one of the above described "merger transactions" must file an application with the FDIC.”

This so called bank merger act makes sure that the Federal Deposit Insurance Corporation doesn’t make the mistake of approving any mergers or acquisitions which may potentially create a monopoly, and eventually keep other businesses on the market from operating and freely competing properly. This act, in its entirety protects the markets and the consumers from being unfairly treated in the entire United States, and is therefore one of the most important merger acts out there. FDIC thus acts in the interests of the general public and weights the benefits to the public against the benefits to the market and to the company; if the ends do

not prove to justify the means, the merger or acquisition is declined for the obvious reasons.

Another agency applicable under this topic and which is worth mentioning is the Monopolies and Mergers Commission, which is an agency in Britain whose responsibilities include investigating and reporting on monopolies and on any intentions to form them by businesses. The Monopolies and Mergers Commission was established in 1948. Most of its present responsibilities and measures are outlined by the Fair Trading Act, the Competition Act, and by the Broadcasting Act established in 1973, 1980, and 1990 respectively.

The Fair Trading and the Competition acts are self explanatory by their names; both of them are in place to promote healthy competition and lawful trading, free of unfair or excessive tariffs or quotas. The Broadcasting Act refers to restricting the disclosure of private information regarding mergers and acquisitions through public means of information distribution. This is an important act, because it protects private information and restricts public information surrounding possible mergers and acquisitions. If improper information was to “leak out,” this might affect investors’ attitudes as well as public views on ongoing merger deals.

This commission is sponsored by the Department of Trade and Industry (DTI), but it is said to be fully independent of the government. Its main purpose is to investigate monopolies, mergers, and potential anti-competitive practices of companies, much like the Bank Merger Act does; it also determines whether possible or existing mergers and acquisitions adversely affect public interest. Thus, to do so, it must consider the interests of the consumers with regard to quality and choice of products offered by companies, efficiency, innovation, as well as whether merging companies will not deter free market entry and effective employment in England.

It must also be noted that the Fair Trading Act interprets a monopoly as a condition in which “at least 25 percent of a particular good or service is supplied by a single entity or [a situation] in which 25 percent of the market is supplied by a non-interconnected group of entities which conduct their affairs in a way that distorts competition.” Under this definition, whenever such danger may exist, the Monopolies and Mergers Commission stops the potential mergers and acquisitions from going through, or intervenes in the activities of existing companies. This agency is a great control put into place to protect the public interest and effective competition.

Technological advances have played a key role in the increasing number of mergers in the 21st century. The idea of electronic mail, wire transfers, easy and efficient credit checks, and other wireless marvels have made the tasks of millions of businessmen much easier to handle. Because of these changes, mergers have become quicker and more efficient. Decisions and ideas get to their recipients at the blink of the eye, and senior management no longer relies on the post office to deliver important mail to their offices. Over the phone, or video conferencing have made the decision making process, as well as meeting arrangements easy and business smart. In the 21st century, business is done online, and over the phone, with blackberries and laptops, cell phones and digital mail; everything is fast and prompt. The prediction of many experts and researchers is that as we go forward, we will see even more mergers and acquisitions, favorable market conditions permitting, then ever before. Given that everything is legal and economically efficient, mergers will have even less obstacles to overcome, and only future will show whether that is a valuable contribution to our business and corporate infrastructure.

As a case in point, let me examine the recent merger between JP Morgan Chase and Bank One. July 1st marked the official “Day 1” for the competed merger between JP Morgan Chase and Bank One. Prior to this day, at midnight, these two companies officially merged to form an integrated new financial giant.

The first part of this thesis clearly outlined the rationale and the general steps involved in a merger. As one will surely agree, this process is not only complex and multidimensional, but it is also challenging for people in all lines of businesses in both companies. Mergers take a toll on senior managers, in whose hands lie, the fate of their company and the fate of all the people who work in that company. Also, of course, the idea of mergers is alarming and sensitive for the people not included in the senior management team (and for multi business corporations, these people include anyone from vice presidents to assistants), due to their fear of job loss, or an anticipated potential shift in their position within the company. It is well known, that once companies merge, they often downsize to compensate for some of the transaction costs and other costs related to the merger.

Being lucky enough to be present at the “Day 1” meeting on July 1st, as well as prior to this successful culmination

of the merger, I was able to observe first hand the tensions and the attitude of the firm (JP Morgan Chase) and of its people.

Joining the firm just a few months before the merger was finalized, I had a unique chance to experience the atmosphere inside one of the most powerful financial corporations in America. Every day, internal newsletters came out to all of the employees of JP Morgan Chase in order to inform everyone of the new steps being taken by senior management towards the completion of the merger with Bank One, as well as to inform the staff of the senior management's insights into the future for both corporations.

This action is a very effective step on the part of senior management, not only because it keeps the merger on track and well organized, but more importantly, because it makes the people in the firm feel as though they are a part of the merger, which they rightfully so are, because everyone in the firm matters, and contributes in some way to the aggregate well being on the entire company. This action lets the people know that senior management thinks of them during the merger, and takes them into consideration when taking various actions on the merger. Furthermore, a discussion board was created on JP Morgan Chase's website, in order for anyone internal to the firm to be able to ask questions, or

to voice any concerns with regard to the merger. The questions were answered promptly and respectfully by the management, and this proved once again that JP Morgan Chase not only cares about profitability, but also about its people. Even during the “Day 1” meeting, the discussions were open to the general internal public, and every question was given its due consideration and respect.

Carefully following New York Times, the following three articles caught my attention.

On April 22, 2004 the article heading “JP Morgan Chase reports 38% increase in earnings” made its way into the business section of the New York Times. The article mentioned this statistic with regard to JP Morgan Chase’s first quarter earnings. This accomplishment was then credited to the bank’s investment banking and market related businesses, which had offset the bank’s lower earnings from new mortgages and refinancing. The net income was reported to be “$1.9 billion, or 92 cents a share, at this point, compared with $1.4 billion, or 69 cents a share,” a year earlier, as can also be noticed from the JP Morgan Chase annual report for the year 2003, mentioned in the table of contents. Revenue for the first quarter was reported at “$8.98 billion, which was up 7 percent from $8.41 billion” a year earlier.

JP Morgan Chase’s increase in earnings reflects the profitability of the merger with Bank One. This positive change in earnings, as well as an increase in share value, also shows the stockholders’ and stakeholders’ support of the merger, which is always an important factor when it comes to a business altering senior management decisions, such as that of the merger with Bank One.

On June 3, 2004, the article headline now read “JP Morgan vice president says he will retire.” Since the purchase of Bank One had now been relatively complete, Donald Layton, 54, a JP Morgan Chase and Company vice chairman and one of the three members of the bank’s office of the chairman decided to retire in order to pursue other opportunities. Layton was the most senior executive out of all senior executives at both Bank One and JP Morgan Chase, to resign since the merger was completed. Donald Layton oversaw JP Morgan Chase’s retail businesses, including the consumer bank; transaction processing and information services businesses; and technology. After the merger, he would have overseen the finance, risk management and technology divisions, and would have reported to the chief operating officer, James L. Dimon, now Bank One's chief executive. Those operations now report to Dimon directly.

When these resignations take place, the discussions around them become very controversial, especially since in Layton's case his role was not replaced my another senior figure, but overlooked, supported by the fact that now, the finance, risk management and technology divisions report directly to James Dimon, without the need of a middle figure. Surely, Donald Layton's role in the company was essential, but to cut costs, the firm decided to pursue the strategy of division's direct reporting to higher officials, which in no way reflects on the professional capabilities of Layton.

Last but not least, on September 1, 2004, The New York Times article heading in the business sections read "JP Morgan and Bank One to merge mutual fund units." The combined operation of the two mutual funds groups would then be placed under the supervision of the current head of JP Morgan funds, George C.W. Gatch. Subsequently, David Kundert, who was named the chairperson of the combined asset management unit in February, just after the agreement to merge with Bank One, will retire. JP Morgan Funds and One Group Mutual Funds are expected to become fully integrated into a single fund in February 2005.

This rearrangement of groups and of their heads is very confusing and time consuming, as well as costly. However, the example above perfectly illustrates the typical after -

merger actions, which companies take to fully streamline and integrate their businesses into one fully functional and successful corporation.

It is necessary to note that the words “merger” and “acquisition” are often interchanged, and in some instances, the “merger” between Bank One and JP Morgan Chase is referred to as JP Morgan Chase buying Bank One. From the financial standpoint, this case in point is not a true merger, but is in fact an acquisition, because, consistent with the definitions in the first part of the thesis, JP Morgan Chase fully “absorbed” Bank One, and thus is said to have acquired or even bought Bank One. In most publications, it is often customary to refer to such deals as mergers, because this sounds friendlier and more business like, rather then making this out to be a takeover. The “friendlier” formulation is easier to understand and to accept by every one concerned, as thus is introduced to the public at first as a merger.

Given the previous history of “mergers” performed by JP Morgan Chase, one can easily notice that those were acquisitions, as in case of the merger between Chase Manhattan Bank and JP Morgan. Since Chase Manhattan Bank no longer exists, it is clear that although JP Morgan had said at the time that it will merge with the Chase Manhattan Bank, it obviously acquired it.

The $58 billion deal was officially closed and empowered in July. Before this event could take place, the balance sheets and the financial statements of JP Morgan Chase and Bank One needed to be integrated into single accounting statements; some business units were affected more than others within both companies, but the time which went into this accounting integration becomes evident after reviewing the annual reports of both corporations. The great detail of the annual reports reflects one of the many aspects and complexities of mergers between two major banks.

However, before diving into the annual reports, and their sea of numbers, I want to first examine the reasoning behind JP Morgan's acquisition of Bank One.

A JP Morgan Chase press release dated January 14, 2004 announced that JP Morgan Chase and Bank One had agreed to merge in a "strategic business combination establishing the second largest banking franchise in the United States, based on core deposits." The combined company is expected to have assets of "$1.1 trillion, a strong capital base, over 2,300 branches in seventeen states and top-tier positions in retail banking and lending, credit cards, investment banking, asset management, private banking, treasury and securities services, middle-market, and private equity." With earnings contributions that are balanced out between retail and

wholesale banking, the combined company is expected to be “well-positioned to achieve strong and stable financial performance and increase shareholder value through its balanced business mix, greater scale, and enhanced efficiencies and competitiveness.” (JP Morgan Chase press release archives)

The agreement, which was unanimously approved by the boards of directors of both companies, provided for a stock-for-stock merger in which “1.32 shares of JP Morgan Chase common stock would be exchanged, on a tax-free basis, for each share of Bank One common stock.” Based on JP Morgan Chase's closing price of $39.22 on Wednesday, January 14, 2004, the transaction would have a value of “approximately $51.77 for each share of Bank One common stock, and would create an enterprise with a combined market capitalization of approximately $130 billion.”

Under this agreement, the combined company will be headed by William B. Harrison, 60, as the chairman and chief executive officer, and by James Dimon, 47, as the president and chief operating officer, with Dimon to succeed Harrison as CEO in 2006 and Harrison continuing to serve as the chairman.

The merged company will be known as JP Morgan Chase & Co. It would continue to trade on the New York Stock

Exchange, under the symbol JPM, and its corporate headquarters will still be located in New York.

The JP Morgan brand will continue to be used for the wholesale business; and the combined company will continue to use both brands (JP Morgan Chase and Bank One) in their respective markets and products.

It is expected that the pretax cost savings of $2.2 billion will be achieved over the next three years. The combined corporation is also expected to have “excess capital and subject to Bank One board approval, Bank One expects to declare an increase in its quarterly dividend to $0.45 per share.”

Both company heads commented on the merger saying that "[the merger] will create one of the world's great financial services companies” (Harrison), and "the merger of Bank One and JP Morgan Chase makes tremendous sense strategically, operationally and financially” (Dimon). JP Morgan Chase is a leading global financial services firm with assets of $793 billion and operations in more than 50 countries. The firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing, investment management, private banking and private equity. It serves more than 30 million consumer

customers nationwide, and many of the world's most prominent corporate, institutional and government clients.

Bank One is the nation's sixth-largest bank holding company, with assets of $290 billion. It currently has more than 51 million credit cards issued, and serves nearly 7 million retail households and more than 20,000 middle market customers. It also manages $175 billion of clients' investment assets. (JP Morgan Chase press release)

The merger between JP Morgan Chase and Bank One makes sense on multiple levels. Being the dominant bank in Chicago, Bank One opened up to JP Morgan Chase a retail banking market, to which JP Morgan Chase would not have been exposed to otherwise. As stated in the press release, JP Morgan Chase gained over 2000 branches and client exposure in areas in which it had not been as well known before; namely, a stronger presence in the credit card business, and branches in the Chicago area. By merging with Bank One, JP Morgan Chase gained market share and covered more ground on the map of the United States with its presence.

As known in the financial industry, Citigroup it the biggest competitor of JP Morgan Chase. After the merger, JP Morgan Chase with Bank One as its ally, has a much bigger chance at beating its competition. Merging with Bank One, has given JP Morgan Chase access to a new and much more expanded

market without JP Morgan Chase's having to specialize and spend its valuable assets in order to penetrate a new market, establish itself, build new branches, attract clients, and then compete with Bank One in the Chicago area. Rather then performing all of the steps above, JP Morgan Chase made the more valuable and financially sound choice of simply acquiring Bank One, which already has the expertise and the reputation in the area of retail banking. It thus cut out a potential competitor and simultaneously gained a new market in retail banking with readily developed experience in the area.

Let us now proceed to a closer look at the financial statements of both JP Morgan Chase and Bank One.

In the JP Morgan Chase annual report for the year 2002, one can clearly notice both losses and revenues across various businesses in the company. Being one of the leaders in the investment banking field in the beginning of the 21st century, the investment bank disappointingly reported losses in both its operational revenues and earnings, which were approximately 12.4 million and 1.4 million dollars respectively; these, although, impressive numbers, were in fact a decline from the previous year, in which both operating revenues and earnings were higher – 14.6 million and 2.9 million respectively. JP Morgan Chase's treasury and

securities services made a profit in comparison to 2001, reporting operating revenues at 4 million, and operating earnings at 0.7 million. IMPB or the investment management and private banking businesses reported operating revenues of 2.8 million, and operating earnings of 0.4 million, which were in both cases declines from the previous year (2001). Even though JP Morgan Partners reported operating revenues at a (0.9) million, and operating losses at (0.8) million, they still did better then the year before, since they managed to reduce their losses. Chase financial Services reported operating revenues of 13.5 million, and operating earnings at 2.5 million; both an improvement from 2001. In general, JP Morgan Chase's revenues continued to improve throughout the year of 2002, closing at an impressive 29.6 million at the end of the year. However, the company's net income declined slightly due to restructuring and an increase in noninterest expenses. The declines seen in some of the businesses above, such as the investment banking and the private banking fields are mainly due to performance issues highly sensitive to economic upheavals, such as those of September 11, 2001, and the stock market as well as the global capital market declines throughout the year.

The fact that the return on equity remained stable at 3.9% reflects that the company is working hard to maintain

its promises to its shareholders and that its revenues are still enough to cover any expected and unexpected expenses.

As it is reported in the 2002 annual report of JP Morgan Chase, its biggest business contributions come from the investment bank and the Chase Financial Services, which was also the case in 2001.

It is clear to see from other financial and social indicators reported in this annual report that JP Morgan at this point obviously needed something to give the company that extra push to get to the top of its competition, and historically, it is at these points that JP Morgan Chase would decides to merge with another bank, like it did in the case of Chase Manhattan bank. The merger now becomes even better justified because we see that JP Morgan Chase's greatest contribution comes from the Chase Financial Services, which include the credit card business, and Bank One is that one complementing link which is able to improve JP Morgan's greatest contributor by giving the company more credit card and retail customers. JP Morgan Chase thus made a very smart business move in expanding the corporation, its biggest contributor and its market exposure, all by merging with Bank One.

Now taking a look at JP Morgan Chase's annual report for 2003 we see that reported revenues have increased even

further, to 33.3 million; net income made an incredible leap to 6.7 million, from being only 1.6 million just a year before (in 2002), while noninterest expenses remained relatively unchanged. Net income per share also tripled, reflecting the company's improved performance. Higher revenues and higher earnings in 2003 definitely show that Bill Harrison's promise to improve performance and execution is slowly becoming a reality. Even return on common equity doubled in comparison with 2002, reporting at 16% for 2003 (being at only 8% just a year earlier).

It is clear, that even before the merger was finalized in the summer of 2004, the promises made earlier by Bill Harrison of improved performance and of a stronger corporation, already began to shine through in JP Morgan Chase's annual report for 2003. The rising returns and greater share prices also reflect that investors had an interest as well as trust in the better and brighter future for JP Morgan Chase.

To complete the picture, JP Morgan Chase's earnings release for the 3rd quarter of 2004 reports that for the Investment bank, operating revenues were at 2.7 million, and operating earnings were at 0.6 million for the 3rd quarter, both down 3% and 10% respectively, in comparison to the previous year; expenses were also reported to have increased

by 6% from the previous year, to becoming 1.9 million, an event which is normal due to increased expenses arising from the recent merger, since the investment bank was one of the more affected areas by the merger. Retail financial services thrived, with steep increase, as did the card services; an event which was to be expected after the merger, since Bank One expanded these areas in particular through the merger. Once again, these results further justify and support the merger.

In addition, the consolidated financial highlights for JP Morgan Chase and Bank One, which are now one single accounting, financial and legal entity, and which can be found in the appendix of this thesis (in the 3rd quarter earnings release), report that revenues were up significantly from the 2nd quarter, as shown by the income statement; and total assets went up as well, as shown by the balance sheet, from 39% in the 2nd quarter to 44% in the 3rd quarter.

It is evident from the data provided in the appendix, the highlights of which are presented above, that the merger between JP Morgan Chase and Bank One, or as can be read in the Merger Proposal, which was extended to the shareholders of JP Morgan Chase and Bank One – Bank One “merging into” JP Morgan Chase, thus signaling an acquisition of Bank One, that the acquisition was a very smart strategic move on the part

of both company heads. The acquisition has mainly benefited JP Morgan Chase by increasing its revenues, net income, card member services business, as well as its market share, as can be seen by JP Morgan Chase’s annual reports. It has made the company stronger and more equipped to compete with its number one rival – Citigroup.

Mergers and acquisitions are the most frequently used methods of growth for companies in the twenty first century. They present a company with a potentially larger market share and open it up to a more diversified market.

A merger is considered to be successful, if it increases the acquiring firm's value. Clearly, judging from the various statistics charts found in the appendix, there is a considerable amount of companies in the United States which believe that a merger will increase their company's value, and after reading this thesis, one can see that this is not always so. The evidence is diverse as to whether mergers improve company's performance. As times, companies make predictions for growth, increased efficiency, and greater profits. There are certain imperfections in the capital markets which contribute to imperfect information and at times even merger failures.

Most mergers have actually been known to benefit both competition and consumers by allowing firms to operate more efficiently. However, it has to be noted that some mergers and acquisitions have the capacity to decrease competition.

Usually, a merger can be construed as being anti competitive if it makes the market very saturated after the merger, as opposed to before the merger's completion, and if the merger in addition makes it impossible or highly

difficult for new firms to enter the market and present a challenge to the existing corporations.

Going deeper into the subject of mergers, it became clear that there are three main types of mergers: horizontal mergers, vertical mergers, and potential competition or conglomerate mergers.

As was also presented, the United Nations' “World Investment Report 2000” suggests that the recent increase in cross-border mergers and acquisitions is mainly due to an increase in the globalization of markets. Supporting this fact is the statistic that more than 24,000 [mergers and acquisitions] took place during the last 20 years.” The ease of communication has undoubtedly been a major factor in increasing mergers and acquisitions, since most mergers take place in more developed countries.

To make the process of mergers and acquisitions fair for both the consumers and firms in the market several controls have been put into place to regulate M&As. The European Commission, which investigates the grounds for approving or rejecting a merger between two European companies, the FDIC and the Monopolies and Mergers Commission are examples of these controls. Growth of interest in the concept of a so called contestable market effectively complements the idea of the free market approach to mergers. By concentrating on

removing entry barriers to a market, monopolies and mergers can only remain strong by producing high quality products efficiently.

To reiterate on the point, the main economic argument for rejecting a merger is that mergers and acquisitions contribute to the risk of monopolies, because in the case of monopolies, consumers become exploited and resources become misallocated if these mergers create major entry barriers restricting competition, which can potentially lead to market failure and a decline in economic welfare. As a case in point, JP Morgan Chase is a perfect example of how a smart strategic move can make significant improvements to a company's performance. After the acquisition, as we have already established the "merger" between Bank One and JP Morgan Chase is, the latter company's market share, revenues, and net income all rose to impressive highs, marking the initial success of the acquisition.

Appendix

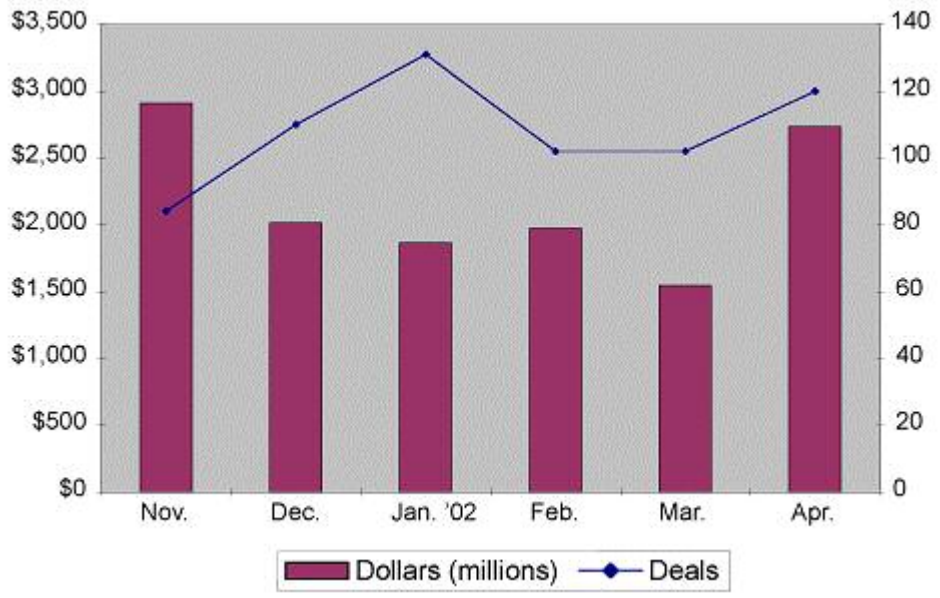
M&A STATS AT A GLANCE:

Internet M&A hit six-month high in April 2002

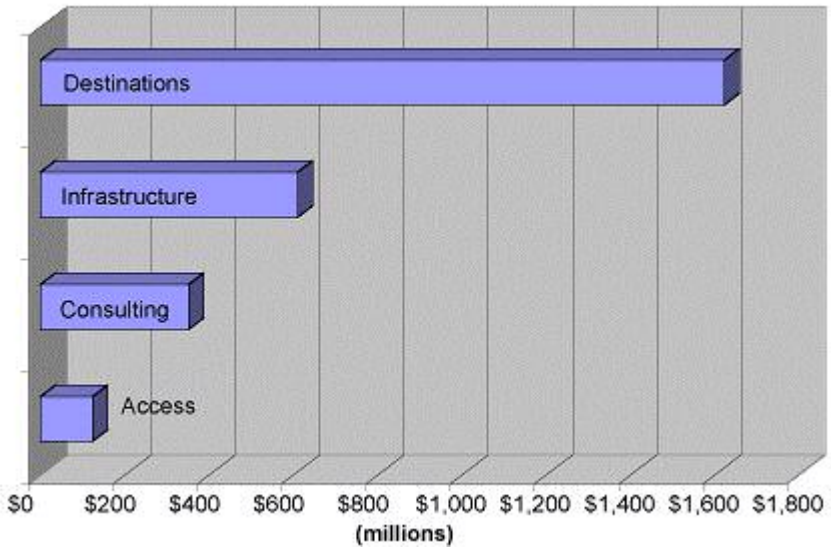
Acquirers spent just over $2.7 billion to acquire 120 Internet properties in April as deal making revived among destinations and Internet consultancies. Spending reached its highest monthly level in six months, while the number of deals reached its third-highest level in the past 16 months. A flurry of deals in the e-finance sector, capped by Ameritrade's $1.3 billion acquisition of Datek, helped fuel activity. Recent pockets of M&A activity within e-commerce services, such as travel, finance and employment, illustrate the gradual rebuilding of faith in certain areas of the dot-com destinations or in sites that were once roundly dismissed by many investors.

Source: Webmergers M&A database.

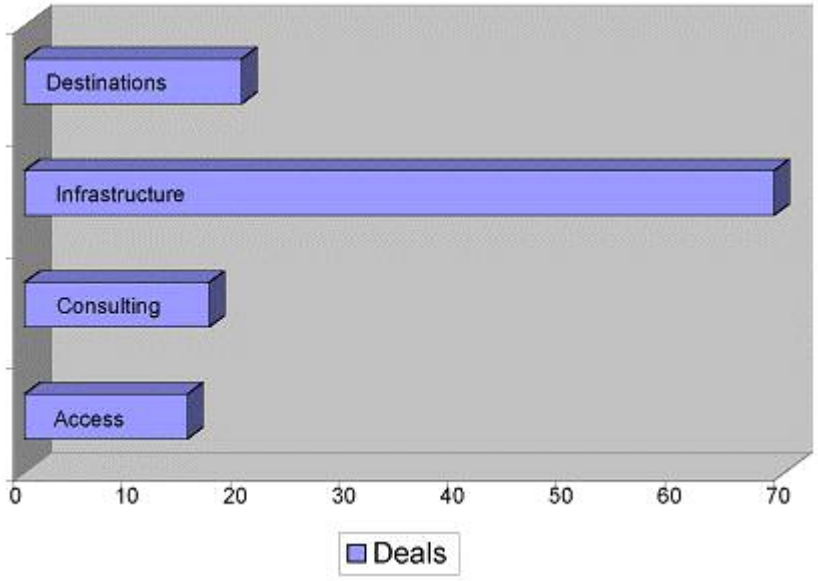
Internet M&A deals & dollars: past six months



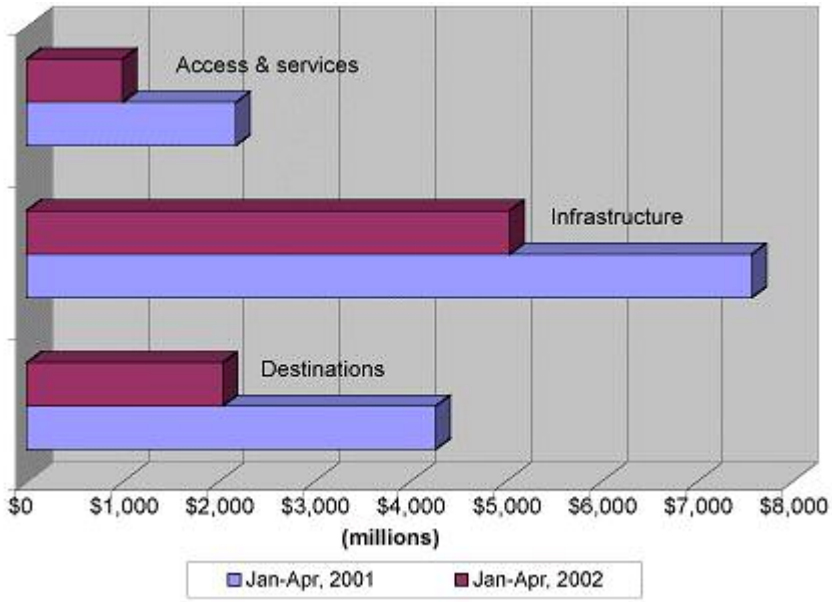
April M&A spending by Internet sector



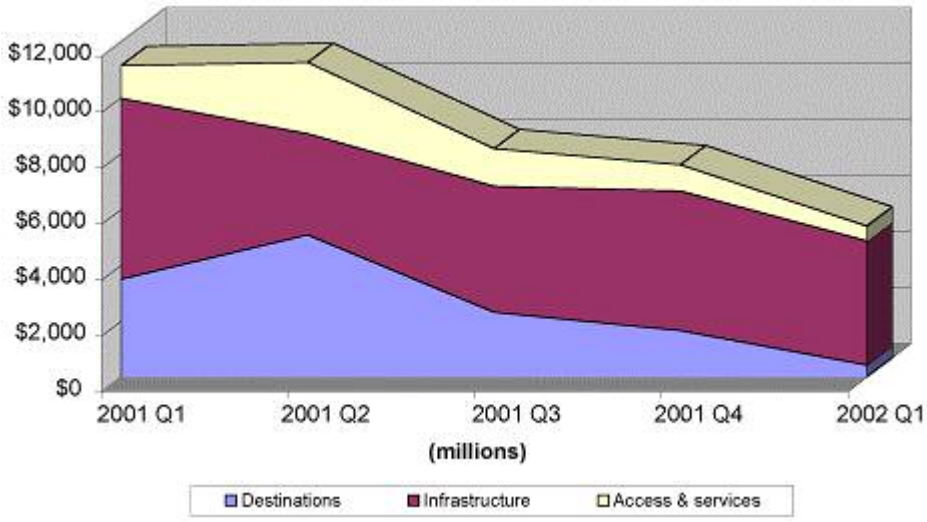
April deals by Internet sector



M&A spending by sector Jan-Apr 2001 vs. 2002



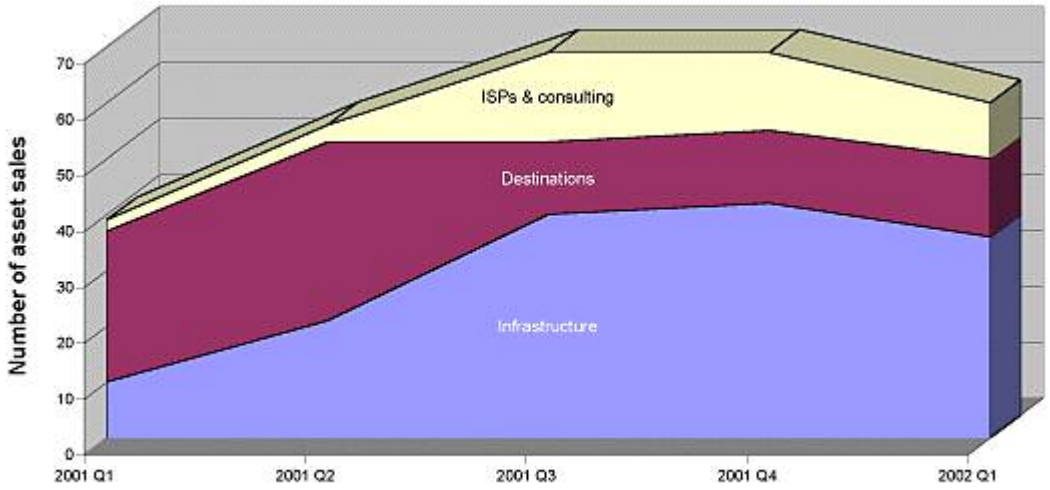
Infrastructure spending increasingly dominates Internet M&A: total deal values by category since Q1, 2001



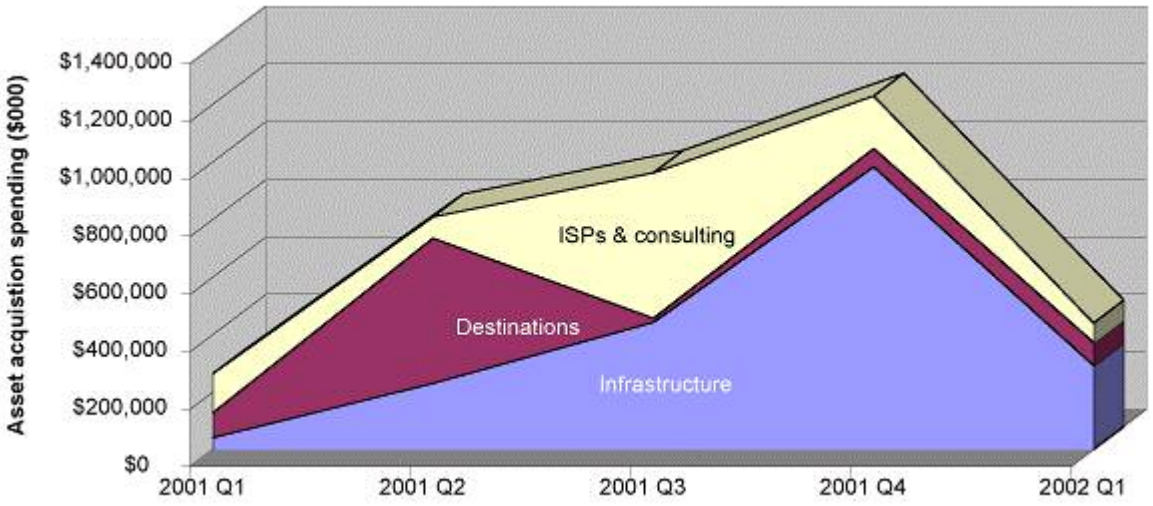
M&A stats at a glance – asset sales

The Internet shakeout that we examined in last week's M&A Stats at a Glance left a veritable smorgasbord of distressed assets for sale. Opportunistic acquirers have bought up the assets of at least 300 Internet companies between the first quarter of 2001 and the end of the first quarter of 2002. Internet infrastructure companies account for the majority of both deals and dollars, as buyers accumulate valuable software and hardware to deploy in the next phase of the Internet's development.

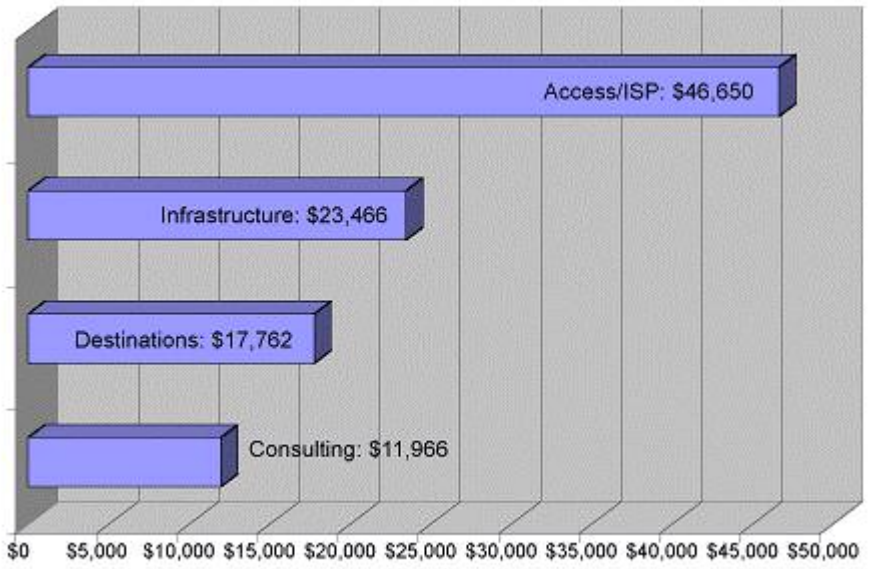
Asset sales – number of deals



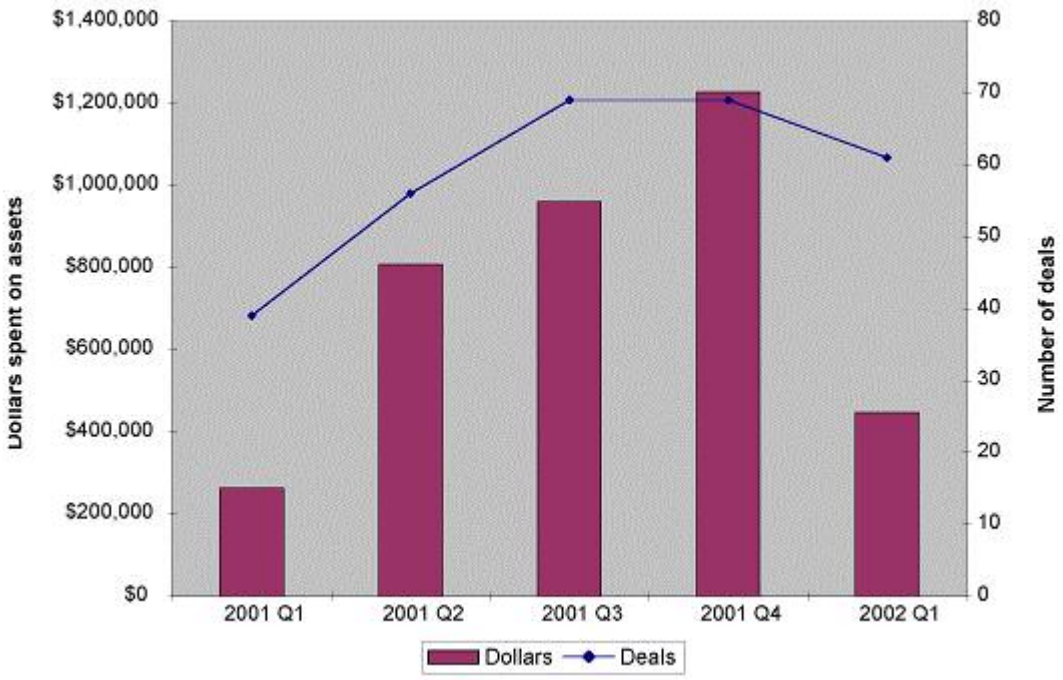
Asset sales – dollars

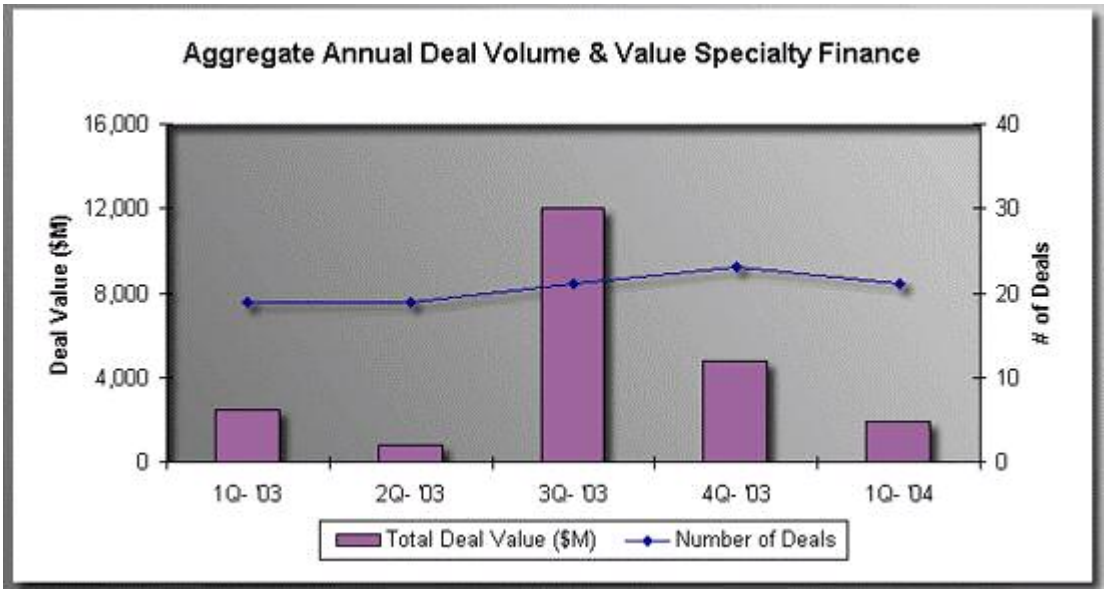


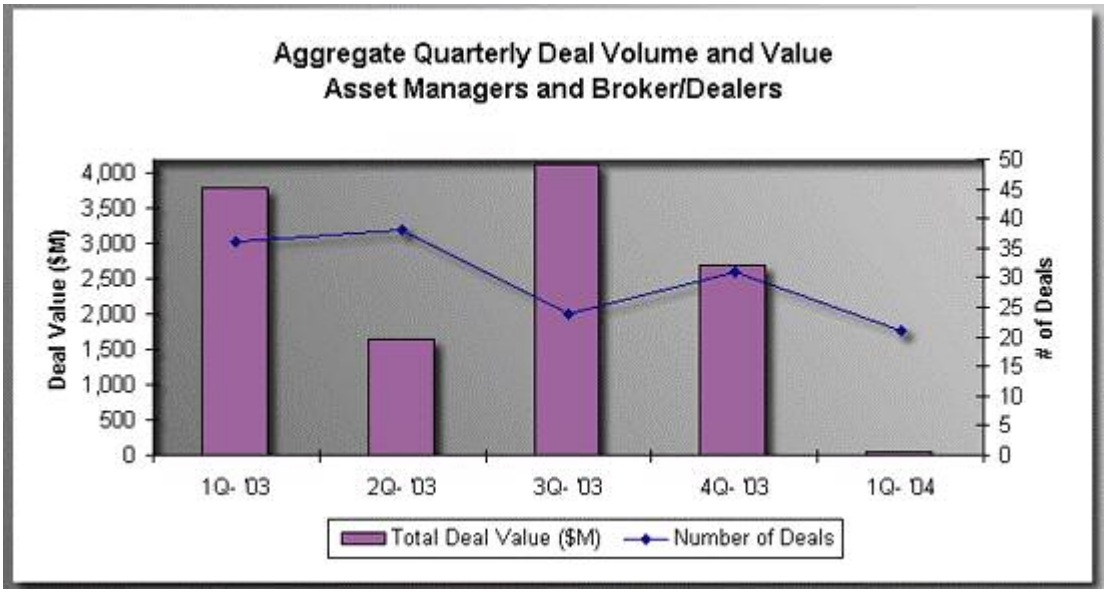
Average asset sale ($000)



Asset Sales by Quarter







Source: SNL Financial Services M&A DataSource

JP Morgan Chase press release as of January 14, 2004

JP Morgan Chase/Bank One: The Merger at a Glance

(potential numbers post merger)

Two Great Banking Companies

JP Morgan Chase (as of 9/30/03)	**Bank One (as of 9/30/03)**
- 92,900 employees - 3rd largest bank holding company in U.S. - $793 billion assets - Operations in virtually every state and more than 50 countries	- 71,200 employees - 6th largest bank holding company in U.S. - $290 billion assets - 1,800 branches in 14 states

When Combined, Top Positions Across the Full Spectrum of Wholesale and Retail Financial Services

Retail Banking	**Investment Banking**	**Treasury & Securities Services**	**Investment Management & Private Banking**	**Private Equity**
Branch Banking #4 Branch Network #2 Core Deposits *Retail Lending* #2 Credit Card #2 Middle Market #1 Auto (Non Captive) #4 Mortgage #2 Home Equity	#1 Global Syndicated Loans #1 Derivatives House #2 U.S. Investment Grade Corporate Debt #4 Global Equity & Equity-Related #5 Global Announced M&A	#1 U.S. Dollar Clearing #1 U.S. Corporate Trustee #1 Securities Lending #1 CHIPS, Fedwire, ACH Origination	#1 U.S./#3 Global Private Bank #2 U.S. Active Asset Manager #2 Global Money Market Asset Manager #4 U.S. Mutual Fund Company	One of the largest private equity players

Second Largest Banking Company in the U.S. (as of 9/30/03, in $millions)

	JP Morgan Chase	Bank One	Combined
Loans	$236,201	$141,710	$ 377,911
Assets	792,700	290,006	1,082,706
Managed Assets	827,015	326,769	1,153,784
Deposits	$313,626	$163,411	$ 477,037
Total Liabilities	747,743	267,595	1,015,338
Total Equity	44,957	22,411	67,368

A Broad and Balanced Business Mix[1]

- Consumer Banking & Lending, Mortgage, Auto, Small Business & Middle Market	33%
- Card Services	16%
- Investment Banking	39%
- Treasury & Securities Services	7%
- Investment Management & Private Banking	5%

[1]Based on combined pre-tax income as of 9/30/03, excluding corporate and private equity results.

Extensive Branch Network					
Northeast		Midwest		Southwest	
New York	#1	Illinois	#1	Texas	#1
Connecticut	#8	Indiana	#1	Arizona	#1
New Jersey	#12	Michigan	#3	Louisiana	#2
		Ohio	#4	Utah	#3
		Wisconsin	#4	Colorado	#5
		W. Virginia	#4	Oklahoma	#6
		Kentucky	#4		

JPMorgan Chase & Co.
270 Park Avenue, New York, NY 10017-2070
NYSE symbol: JPM
www.jpmorganchase.com

News release: IMMEDIATE RELEASE

JPMORGAN CHASE REPORTS 2004 THIRD QUARTER NET INCOME OF $1.4 BILLION AFTER MERGER AND CONFORMING ACCOUNTING CHARGES OF $741 MILLION

- **REPORTED EPS of $0.39 per share and OPERATING EPS of $0.60 per share[(1)]**
- **INVESTMENT BANK – Weak Trading Results, Strength in Investment Banking Fees**
- **RETAIL MOMENTUM – Account, Deposit and Loan Growth**
- **CARD STRENGTH – Growth in Loans and Charge Volume**
- **CREDIT QUALITY & CAPITAL RATIOS – Remain Strong, Tier 1 Ratio 8.5%**

New York, October 20, 2004 – JPMorgan Chase & Co. (NYSE: JPM) today reported 2004 third quarter net income of $1.4 billion, or $0.39 per share, compared to net income of $1.6 billion, or $0.78 per share, for the third quarter of 2003. Current period results include $741 million in after-tax charges, or $0.21 per share, comprised of merger costs of $462 million and charges of $279 million to conform accounting policies, reflecting the merger with Bank One Corporation completed on July 1, 2004. Excluding these charges, operating earnings would have been $2.2 billion, or $0.60 per share. Prior year and second quarter 2004 reported results do not include Bank One. Refer to the "Merger and other financial information" section of this press release for additional information concerning the merger.

William B. Harrison, Jr., Chairman and Chief Executive Officer commented, "I am pleased with the progress to-date on merger integration, but current operating results were below expectations primarily due to weak trading results in the Investment Bank. However, I am pleased with the strong results and growth exhibited in the Retail Banking and Credit Card businesses."

James Dimon, President and Chief Operating Officer, commenting on merger integration said, "We continue to be on track in all phases of the merger integration. Progress on integration during the quarter included the decision on technology insourcing, conversion of 20% of the Bank One credit card portfolio in August, and standardization of compensation and benefit plans across the firm, which will be implemented beginning in 2005. Additionally, the process of consolidating legal entities gained momentum with the merger of our broker-dealers and credit card banks and the planned November merger of the lead banks."

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Media Contact: Joe Evangelisti
(212) 270-7438

In the discussion of the business segments below, information is presented on an operating basis[1]. Operating basis excludes the after-tax impact of litigation charges taken in the second quarter of 2004, merger costs and conformance of accounting policies. In the case of Card Services, operating basis excludes the impact of credit card securitizations. For more information about operating basis, as well as other non-GAAP financial measures used by management, see Note 1 below.

The following discussion compares the third quarter of 2004 to the third quarter of 2003. Unless otherwise indicated, results for the 2003 third quarter are JPMorgan Chase (h-JPMC) on a standalone basis. The proforma combined historical lines of business information present the new business segments of the company as if these segments had existed as of the earliest date indicated and which reflects (i) the firm's new business segments, and (ii) purchase accounting adjustments, reporting reclassifications and management accounting policy changes. For further information regarding the proforma combined historical financial information, including reconciliation to JPMorgan Chase GAAP financial information, see information furnished pursuant to Regulation FD by JPMorgan Chase on Form 8-K dated October 1, 2004, as amended on October 20, 2004. In management's view, the proforma combined historical financial results provide investors with information to enable them to understand better the underlying dynamics of each of the lines of business. For a description of the firm's business segments, see Note 2 below.

INVESTMENT BANK (IB)

Operating Results - IB		3Q03 $ O/(U)		3Q03 % O/(U)	
($ millions)	3Q04	h-JPMC	Proforma	h-JPMC	Proforma
Revenues	$2,701	($91)	($501)	(3%)	(16%)
Provision for Credit Losses	(151)	30	147	17	49
Expenses	1,924	103	4	6	--
Earnings	$627	($66)	($403)	(10%)	(39%)

Discussion of Historical Results:
Operating earnings were $627 million, down 10% from the prior year. These results were positively affected by the acquisition of Bank One, offset by weak trading results in Fixed Income Markets.

Revenues of $2.7 billion were down 3%. Investment banking fees of $911 million increased 43% due to continued strength in debt underwriting and advisory fees, relatively flat equity underwriting fees and the acquisition. Fixed Income Markets revenues of $1.1 billion were down 23%, or $336 million, primarily reflecting lower trading results. Equity Markets revenues increased 46% to $455 million due to higher trading revenues. Credit Portfolio revenues of $220 million were down 44%, reflecting lower net interest income and lending fees and lower gains from workouts, partially offset by revenue from the acquisition.

The provision for credit losses was a benefit of $151 million reflecting continued favorable credit performance.

Expenses of $1.9 billion were up 6% due to the acquisition, increased personnel costs, higher technology costs and higher legal costs. These increases were partially offset by reduced levels of performance-related incentive compensation.

Discussion of Proforma Combined Results:
Operating earnings were $627 million, down 39% from the prior year. The earnings decline was primarily from lower trading results in Fixed Income Markets. In addition, lower loan volumes led to reductions in net interest income. These declines were partially offset by higher investment banking fees and improved equity trading results.

Revenues of $2.7 billion were down 16%, or $501 million. Investment banking fees of $911 million increased 23% due to the continued strength in advisory fees, up 70%, debt underwriting fees, up 16%, and relatively flat equity underwriting fees. Fixed Income Markets revenues of $1.1 billion were down

32%, or $517 million, reflecting lower trading results in both client and portfolio management activities. Equity Markets revenues increased 31% to $455 million due to higher trading revenues. Credit Portfolio revenues of $220 million were down 55%, reflecting lower net interest income and lending fees from reduced loan balances and commitments, as well as lower gains from workouts.

The provision for credit losses was a benefit of $151 million, compared to a $298 million benefit last year. The reduction in benefit is attributable to moderating but ongoing improvements in the risk of the loan portfolio, reduced loan balances and net loan loss recoveries for the quarter.

Expenses of $1.9 billion were flat to last year and reflected reduced levels of performance-related incentive compensation offset by higher personnel costs, technology costs, and legal fees.

Other Highlights Include:

- Loans down significantly to $46 billion from $67 billion in the prior year and $49 billion in the prior quarter.
- Nonperforming assets down to $1.3 billion from $3.2 billion in the prior year.
- Allowance for loan losses to average loans of 4.78% up from 3.82%.
- #1 in U.S. Syndicated Loans with 33% market share year-to-date(3).
- #3 in Global Debt, Equity, and Equity-related(3).
- Improved to #4 from #15 in U.S. IPOs with U.S. Equity & Equity-related #5 down from #4(3).

RETAIL FINANCIAL SERVICES (RFS)

Operating Results - RFS ($ millions)	3Q04	3Q03 $ O/(U) h-JPMC	3Q03 $ O/(U) Proforma	3Q03 % O/(U) h-JPMC	3Q03 % O/(U) Proforma
Revenues	$3,800	$2,271	$410	149%	12%
Provision for Credit Losses	239	81	(136)	51	(36)
Expenses	2,238	1,152	90	106	4
Earnings	$822	$641	$280	354%	52%

Discussion of Historical Results:

Operating earnings were $822 million compared to $181 million in the prior year. The primary reason for growth was the acquisition of Bank One. Other factors affecting performance included growth in loan and deposit balances, higher margin and fee income on deposit products, and improved secondary marketing in the prime mortgage business.

Total revenue increased to $3.8 billion, up from $1.5 billion. Net interest income of $2.7 billion, up from $1.3 billion, benefited from the acquisition and growth in retained loan and core deposit balances, as well as wider spreads on deposit products. Noninterest revenue of $1.1 billion, up from $184 million, benefited from the acquisition, higher deposit-related fees and higher revenue associated with hedging of the prime mortgage pipeline and warehouse, reflective of hedging losses in the prior year. Both components of total revenue included declines related to lower prime mortgage originations.

The provision for credit losses totaled $239 million, compared to $158 million last year, reflecting the Bank One acquisition. Credit quality trends remain favorable.

Expenses rose to $2.2 billion, from $1.1 billion, primarily due to the acquisition.

Home Finance operating earnings were $340 million, up from $115 million last year. Total revenues were $1.2 billion, up from $686 million. Operating earnings for the prime production and servicing segment were $103 million. Growth in this segment reflected improved performance in secondary marketing activities, a result of losses associated with hedging the pipeline and warehouse in the prior year. This was partially offset by lower prime mortgage production revenue. Earnings for the real estate lending segment increased to $237 million. Growth over the prior year was largely due to the acquisition of Bank One, but also reflected higher retained loan balances.

Consumer and Small Business operating earnings totaled $377 million, up from $14 million last year. While growth largely reflected the inclusion of the Bank One retail franchise, it also benefited from strong deposit growth and wider spreads. The provision for credit losses increased to $79 million reflecting portfolio write-downs in both the small business and community development loan portfolios.

Auto Finance operating earnings were $85 million, up from $49 million last year. The increase was primarily due to the acquisition of Bank One. Total revenue of $397 million reflected a competitive operating environment, which contributed to narrower spreads on new loans and reduced origination volumes.

Insurance operating earnings totaled $20 million on gross revenues of $429 million. The increase over the prior year was almost entirely due to the acquisition of Bank One.

Discussion of Proforma Combined Results:

Operating earnings were $822 million, up from $542 million in the prior year. Earnings growth was driven by Home Finance, Retail Banking and, to a lesser extent, Insurance. Factors affecting performance included growth in loan and deposit balances, higher margin and fee income on deposit products, and improved secondary marketing income in the mortgage business.

Total revenue increased to $3.8 billion, up $0.4 billion versus the prior year. Net interest income rose 2% to $2.7 billion. The benefits of growth in retained loan and core deposit balances and of wider spreads on deposit products were mostly offset by reduced mortgage warehouse balances given a drop in prime mortgage originations. Noninterest revenue of $1.1 billion was $0.4 billion better than the prior year. This increase included higher deposit-related fees and higher revenue associated with hedging of the prime mortgage pipeline and warehouse, reflective of hedging losses in the prior year and was net of declines in fees due to lower mortgage originations.

The provision for credit losses totaled $239 million, down $136 million due to reductions in both Home and Auto Finance. Credit quality trends remain favorable.

Expenses rose to $2.2 billion, up 4% or $90 million, demonstrating positive operating leverage. The increase was largely due to the acquisition of certain Zurich insurance entities and investments in the branch distribution network.

Home Finance operating earnings totaled $340 million, up from $163 million in the prior year. Operating earnings for the prime production and servicing segment were $103 million, up $65 million. Growth in revenue reflected improved performance in secondary marketing activities, a result of losses associated with hedging the pipeline and warehouse in the prior year. This was partially offset by lower prime mortgage production revenue. Earnings for the consumer real estate lending segment increased to $237 million, up $111 million. Growth reflected increases in retained mortgage and home equity loans, partially offset by a drop in revenue associated with gains on sales of sub-prime loans, a result of management's intent to retain these loans on balance sheet rather than to continue to securitize. The provision for credit losses declined due to improved delinquency trends and higher credit costs in the prior year related to a portfolio that was subsequently sold.

Other Highlights Include:

- Home loan originations of $48 billion, down from $100 billion in the prior year and $63 billion in the prior quarter.
- Mortgage loans serviced increased to $554 billion from $502 billion.
- Mortgage servicing rights (net) increased from $4.1 billion to $5.2 billion.
- Average mortgage loans retained increased to $44 billion from $35 billion.
- Average home equity loans increased to $66 billion from $55 billion.
- Nonperforming assets declined to $1.0 billion from $1.5 billion.
- Net charge-offs of $63 million declined from $154 million.

Consumer and Small Business operating earnings totaled $377 million, up from $283 million. Total revenue of $2.1 billion increased 11%, reflecting strong deposit growth and wider spreads. Expenses of $1.4 billion were up 2% primarily due to higher compensation and marketing costs, reflecting ongoing investments in the distribution network.

Other Highlights Include:

- Number of branches increased by 97 from the prior year to 2,467.
- Number of ATMs increased by 283 from the prior year to 6,587.
- Core deposits increased to $148 billion, or 9% from prior year.
- Checking accounts grew by 187,000 to 8.1 million during the quarter.
- Number of personal bankers was 5,341, up 442 from the prior year.

Auto Finance operating earnings were $85 million, down 4%. Total revenue of $397 million was down $35 million or 8%, reflecting a continued competitive operating environment, which contributed to narrower spreads on new loans and reduced origination volumes. The provision for credit losses declined to $95 million and the net charge-off rate dropped to 0.64% from 0.79%, but was up from the prior quarter rate of 0.45%.

Other Highlights Include:

- Average loan receivables were $53 billion, up from $50 billion in the prior year and down from $54 billion in the prior quarter.
- Lease receivables declined from $12 billion to $9 billion over the past year. **Insurance** operating earnings totaled $20 million on gross revenues of $429 million. Compared to last year, this quarter included three full months of results from the Zurich acquisition, which was acquired by Bank One in September 2003.

CARD SERVICES (CS)

Operating Results - CS		3Q03 $ O/(U)		3Q03 % O/(U)	
($ millions)	3Q04	h-JPMC	Proforma	h-JPMC	Proforma
Revenues	$3,771	$2,206	$219	141%	6%
Provision for Credit Losses	1,662	957	(43)	136	(3)
Expenses	1,437	886	165	161	13
Earnings	$421	$222	$62	112%	17%

Discussion of Historical Results:
Operating earnings were $421 million, up $222 million from the prior year primarily due to the Bank One acquisition. In addition to the acquisition, higher loan balances and charge volume positively affected results. Partially offsetting these benefits were increased marketing and a higher managed provision for credit losses.

Total revenue was $3.8 billion, up $2.2 billion, or 141%. Net interest income of $2.9 billion increased due to the Bank One acquisition and higher loan balances. Noninterest income of $0.9 billion improved because of the acquisition and higher charge volume, which generated increased interchange income. This was partially offset by higher volume-driven payments to partners and rewards expense.

The managed provision for credit losses was $1.7 billion, primarily reflecting the Bank One acquisition. Managed provision increased due to higher loan balances partially offset by lower credit losses. Managed credit ratios remained strong, benefiting from reduced bankruptcy filings. The managed net charge-off ratio for the quarter was 4.88%. The 30-day managed delinquency ratio was 3.81%.

Expenses were $1.4 billion, up 161%, primarily related to the Bank One acquisition. In addition to the acquisition and the impact of amortization of purchased credit card relationships, expenses were up due to increased marketing expenses.

Discussion of Proforma Combined Results:
Operating earnings of $421 million were up $62 million, or 17% from the prior year. Higher loan balances and spread, increased charge volume, and lower managed provision for credit losses were the primary drivers of the increase in earnings.

Total revenue was $3.8 billion, up 6% from $3.6 billion. Net interest income of $2.9 billion increased 6% and benefited from the acquisition of a private label portfolio, higher loan balances, and a wider loan spread. Noninterest income of $0.9 billion increased 6% due to higher charge volume, which generated increased interchange income. This was partially offset by higher volume-driven payments to partners and rewards expense.

The managed provision for credit losses was $1.7 billion, down 3%. This decrease was due to lower losses, partially offset by the acquisition of a private label portfolio and an increase in the managed provision due to higher loan balances. Managed credit ratios remained strong, benefiting from reduced bankruptcy filings. The managed net charge-off ratio for the quarter was 4.88%. The 30-day managed delinquency ratio was 3.81%.

Expenses of $1.4 billion were up 13% from the prior year. The primary drivers were increased marketing costs and the acquisition of a private label portfolio.

Other Highlights Include:

- Margin as a percentage of average managed loans was 8.90%, up 19 basis points.
- Average managed loans increased $5 billion, or 4%, to $130 billion.
- Charge volume increased $8 billion, or 12%, to $73 billion.
- Merchant processing volume increased $16 billion, or 14%, to $124 billion, and total transactions increased by 357 million, or 10%, to 4 billion.
- Managed net charge-off ratio declined to 4.88% from 5.43% in the prior year and 5.56% in the prior quarter.
- 30-day managed delinquency ratio was 3.81%, down from 4.24% in the prior year and up from 3.72% in the prior quarter.
- Successfully converted 20%, or 10 million accounts, of the Bank One portfolio to the Total Systems processing platform with the remainder scheduled to convert in October.

COMMERCIAL BANKING (CB)

Operating Results - CB		3Q03 $ O/(U)		3Q03 % O/(U)	
($ millions)	3Q04	h-JPMC	Proforma	h-JPMC	Proforma
Revenues	$833	$492	($22)	144%	(3%)
Provision for Credit Losses	14	(7)	(70)	(33)	(83)
Expenses	480	267	19	125	4
Earnings	$215	$152	$24	241%	13%

Discussion of Historical Results:
Operating earnings were $215 million, an increase of $152 million from the prior year, primarily due to the acquisition of Bank One.

Revenues were $833 million, an increase of $492 million, primarily as a result of the acquisition of Bank One. In addition to the overall increase related to the acquisition, net interest income of $608 million was positively affected by improved deposit spreads, and noninterest income of $225 million was negatively affected by lower investment banking revenues and lower service charges on deposits.

Provision for credit losses was $14 million for the quarter. Net recoveries for the quarter were $13 million, reflecting the continued improvement in credit quality and a decline in nonperforming loans.

Expenses increased to $480 million, primarily related to the acquisition of Bank One.

Discussion of Proforma Combined Results:
Operating earnings were $215 million, an increase of $24 million, or 13% from the prior year, resulting from continued improvements in credit quality.

Revenues were $833 million, a decline of $22 million, or 3%. Net interest income was $608 million, an increase of $19 million, or 3%, related to increased deposit balances and spreads, loan fees, and modest loan growth. This improvement was partially offset by lower loan spreads. Noninterest income was $225 million, a $41 million or 15% decline, due primarily to lower service charges on deposits. As interest rates rise, the payment of services through fees, in lieu of balances, such as service charges on deposits, often decline. Noninterest income was also negatively impacted by a decline in investment banking revenues.

Provision for credit losses was $14 million for the quarter reflecting the continued improvement in credit quality. Net recoveries for the quarter were $13 million, as gross charge-offs declined and recoveries remained strong.

Expenses of $480 million were up 4%. Compensation expenses grew by 9% and non-compensation expenses were up 2%.

Other Highlights Include:

- Deposits increased 11% to $64.8 billion.
- Average loan balances grew 5% on an annualized basis from second quarter 2004.
- Nonperforming loans declined to $579 million, down almost 50% from $1.1 billion.
- Allowance for loan losses to average loans was 2.68%.

TREASURY & SECURITIES SERVICES (TSS)

Operating Results - TSS		3Q03 $ O/(U)		3Q03 % O/(U)	
($ millions)	3Q04	h-JPMC	Proforma	h-JPMC	Proforma
Revenues	$1,339	$433	$140	48%	12%
Expenses	1,156	407	198	54	21
Earnings	$96	($19)	($29)	(17%)	(23%)

Discussion of Historical Results:

Operating earnings for the quarter were $96 million, down $19 million compared to the prior year. Results were negatively affected by an $85 million pre-tax software charge and incremental merger related operating costs, partially offset by the acquisition of Bank One, the prior acquisition of the Corporate Trust business of Bank One (November 2003), and the acquisition of Electronic Funds Services (EFS).

TSS net revenue increased 48% to $1.3 billion from $906 million. This revenue growth reflects the benefit of acquisitions, growth in net interest income due to deposit balances increasing to $139 billion and a July 1, 2004 change in corporate deposit pricing methodology. Net revenue also benefited from a 19% growth in assets under custody to $8.3 trillion, reflecting market appreciation and underlying business growth. While asset servicing revenues declined, trade-related products, commercial cards, and global equity volumes led to increased revenue.

Treasury Services revenue grew to $629 million, Investor Services to $404 million and Institutional Trust Services to $306 million. TSS firmwide revenue, which includes reported TSS net revenue and Treasury Services net revenue recorded in certain other lines of business, grew 63% to $1.9 billion from $1.2 billion.

Credit reimbursement to the Investment Bank was $43 million compared to a credit of $10 million principally due to the Bank One acquisition and a change in methodology. Management charges TSS a credit reimbursement, which is the pre-tax amount of earnings, less cost of capital, related to certain exposures managed within the Investment Bank credit portfolio on behalf of clients shared with TSS.

Expenses totaled $1.2 billion compared to $749 million reflecting acquisitions, the $85 million software charge, increases in compensation and technology related expenses, and incremental merger related operating costs.

Discussion of Proforma Combined Results:
Operating earnings for the quarter were $96 million, down $29 million from the prior year. Earnings were negatively impacted by an $85 million pre-tax software charge and incremental merger related operating costs.

TSS net revenue increased 12% to $1.3 billion from $1.2 billion. This growth reflects the benefit of the January 2004 acquisition of EFS. Growth in net interest income was largely due to a 20% increase in deposit balances to $139 billion partially offset by deposit spread compression. Net revenue also benefited from a 19% growth in assets under custody to $8.3 trillion, reflecting market appreciation and underlying business growth. While asset servicing revenues declined, trade related products, commercial cards, and global equity volumes led to increased revenue.

Treasury Services revenue grew 22% to $629 million, Investor Services revenue increased 5% to $404 million and Institutional Trust Services revenue increased 2% to $306 million. TSS firmwide revenue, which includes reported TSS net revenue and Treasury Services net revenue recorded in certain other lines of business, grew 7% to $1.9 billion from $1.8 billion.

Expenses totaled $1.2 billion compared to $958 million reflecting the $85 million software charge, the EFS acquisition, increased compensation and technology related expenses, and incremental merger related operating costs.

Other Highlights Include:

- Total average deposits of $139 billion, an increase of 20%.
- Assets under custody increased to $8.3 trillion, up 19%.

ASSET & WEALTH MANAGEMENT (AWM)

Operating Results - AWM ($ millions)	3Q04	3Q03 $ O/(U) h-JPMC	3Q03 $ O/(U) Proforma	3Q03 % O/(U) h-JPMC	3Q03 % O/(U) Proforma
Revenues	$1,193	$433	$97	57%	9%
Provision for Credit Losses	1	8	4	NM	NM
Expenses	884	249	64	39	8
Earnings	$197	$112	$19	132%	11%

Discussion of Historical Results:
Operating earnings were $197 million, up 132% from the prior year. The primary reason for this growth was the acquisition of Bank One. In addition, performance was driven by global equity market appreciation, growth in assets under supervision and net customer flows.

Total revenue was $1.2 billion, up 57% or $433 million. The primary driver of the increase was the Bank One acquisition. In addition, asset management fees increased due to global equity market appreciation, improved product mix and net asset inflows. Net interest income increased due to higher deposit product balances. These improvements were partially offset by lower revenue from brokerage fees and commissions.

The provision for credit losses increased due to higher net charge-offs. Nonperforming loans to average loans decreased to 0.49% from 0.75% and the allowance for loan losses to average loans was 0.95%.

Expenses were $884 million, up 39%, due to the Bank One acquisition and increased compensation expenses.

Discussion of Proforma Combined Results:
Operating earnings were $197 million, up 11% from the prior year. Performance was driven by global equity market appreciation, growth in assets under supervision, and net customer inflows.

Revenues were $1.2 billion, up 9%. Asset management fees were up 9% to $859 million. In addition, net interest income was up 11% to $269 million, benefiting from higher deposit product balances. These improvements were partially offset by lower revenue from brokerage fees and commissions.

Provision for credit losses increased primarily due to higher net charge-offs. Nonperforming loans to average loans decreased to 0.49% from 0.86% and the allowance for loan losses to average loans was 0.95%.

Expenses of $884 million increased 8%, reflecting increased compensation expenses.

Other Highlights Include:

- Assets under supervision were $1.17 trillion, an increase of 8%.
- Assets under management were $735 billion, an increase of 5%.
- Loans were up 12% to $25.4 billion.
- Deposits were up 23% to $38.5 billion.
- Announced intention to acquire a majority interest in Highbridge Capital Management, a leading hedge fund with $7 billion in assets under management.

CORPORATE

Operating Results - Corporate		3Q03 $ O/(U)		3Q03 % O/(U)	
($ millions)	3Q04	h-JPMC	Proforma	h-JPMC	Proforma
Revenues	($86)	($446)	($170)	NM	NM
Expenses	506	434	138	NM	38%
Earnings	($219)	($511)	($168)	NM	NM

Discussion of Historical Results:
Operating earnings were a loss of $219 million down from earnings of $292 million in the prior year. Corporate includes the firm's treasury activities, private equity business, and unallocated corporate expenses.

Noninterest income was $414 million, down $16 million from the prior year. The primary components of noninterest income are securities and private equity gains (losses), which totaled $347 million, roughly flat with the prior year.

Net interest income was negative $500 million compared to negative $72 million in the prior year. The decline was driven primarily by actions and policies adopted in conjunction with the Bank One acquisition.

Corporate unallocated expenses of $506 million were up $434 million from the prior year, due to the Bank One acquisition and policies adopted in conjunction with the acquisition. These expenses include the expenses of the private equity and global treasury businesses.

Discussion of Proforma Combined Results:
Corporate net loss totaled $219 million, which compares to a net loss of $51 million in the prior year. Noninterest income was $414 million, an increase of $154 million over the prior year. Noninterest income included $109 million of gains on sale of treasury investment securities which was flat compared to the prior year. Also included in noninterest income were private equity gains of $235 million, $80 million lower than the prior year, which included a sizeable gain in One Equity Partners' portfolio. The book value of the private equity portfolio at the end of the quarter was $8.1 billion, down from $9.9 billion in the prior year. The investment portfolio quarterly average balance was $65.5 billion, down $28.5 billion from the prior year.

Net interest income was negative $500 million versus negative $176 million in the prior year. The decrease was primarily driven by a $28.5 billion reduction from the prior year in the firm's quarterly average treasury investment portfolio.

Corporate unallocated expenses of $506 million were up $138 million from the prior year. These expenses include the expenses of the private equity and global treasury businesses. Compensation expenses were up $105 million primarily due to incentive compensation. Non-compensation expenses were up $63 million primarily related to technology costs.

JPMORGAN CHASE (JPMC)

Operating Results - JPMC		3Q03 $ O/(U)		3Q03 % O/(U)	
($ millions)	3Q04	h-JPMC	Proforma	h-JPMC	Proforma
Revenues	$13,551	$5,300	$173	64%	1%
Provision for credit losses	1,764	1,070	(100)	154%	(5%)
Expenses	8,625	3,498	678	68	9
Earnings	$2,159	$531	($215)	33%	(9%)

Discussion of Historical Results:
Operating earnings were $2.2 billion, up $531 million, or 33% from the prior year due to the acquisition of Bank One.

Total revenues were $13.6 billion, up $5.3 billion or 64%, due to the acquisition. Noninterest revenues were $6.7 billion, up $2.1 billion or 45% from the prior year, benefiting from higher mortgage and investment banking fees, partially offset by lower trading revenues. Net interest income was $6.8 billion, up $3.2 billion from the prior year, primarily due to the acquisition.

The provision for credit losses was $1.8 billion, up 154% primarily due to the Bank One acquisition. Total wholesale (includes IB, CB, AWM, and TSS) provision for credit losses was a benefit of $137 million for the quarter, compared to a benefit of $169 million in the prior year. The wholesale loan charge-off rate was a benefit of 0.08% for the quarter due to net loan loss recoveries, compared to a net charge-off rate of 1.25% in the prior year. Credit quality in the consumer (includes RFS and CS) portfolio reflects reduced bankruptcy filings and favorable delinquency trends. The managed net charge-off rate for Card Services declined to 4.88% from 5.84% in the prior year. Retail Financial Services net charge-off rate was 0.47% compared to 0.37% in the prior year. The firm had total nonperforming assets of $3.6 billion at September 30, 2004, down 6% from the prior year's level of $3.9 billion.

Expenses of $8.6 billion were up $3.5 billion from the prior year. Compensation expenses of $4.1 billion drove $1.4 billion of the increase, related primarily to the acquisition and to higher incentive

compensation. Non-compensation expenses of $4.6 billion increased $2.1 billion due to the affect of the acquisition and, to a lesser extent, higher technology expenses.

Discussion of Proforma Combined Results:

Operating earnings were $2.2 billion, down $215 million from the prior year. The decrease in earnings was caused by an increase in expenses of $678 million, partially offset by a revenue increase of $173 million and a lower provision for credit losses of $100 million.

Total revenues were $13.6 billion, up $173 million. Noninterest revenues were $6.7 billion, up 6% due to higher mortgage fees, other income, investment banking fees, and asset management, administration and commissions, partially offset by lower trading revenues. Net interest income was $6.8 billion, down $212 million, or 3%. The decline was due to the reduction in the investment portfolio, partially offset by higher spreads on deposits and higher deposit balances.

The provision for credit losses was $1.8 billion, down 5%. Total wholesale provision for credit losses was a benefit of $137 million for the quarter, compared to a benefit of $216 million in the prior year. The wholesale loan charge-off rate was a benefit of 0.08% for the quarter due to net loan loss recoveries, compared to a net charge-off rate of 0.96% in the prior year. Total consumer managed provision for credit losses remained stable at $1.9 billion, reflecting lower charge-offs, lower bankruptcies and positive delinquency trends. The managed net charge-off rate for Card Services declined to 4.88% from 5.43% in the prior year. Retail Financial Services net charge-off rate was 0.47% compared to 0.77% in the prior year. The improvement compared to the prior year reflects the run-off of higher risk, non-strategic portfolios. The firm had total nonperforming assets of $3.6 billion at September 30, 2004, down 46% from the prior year's level of $6.8 billion.

Expenses were $8.6 billion, up $678 million or 9% from the prior year driven primarily by an 11% increase in non-compensation expenses to $4.6 billion. The increase was due to higher technology expenses, technology impairment charges, higher marketing expenses, higher occupancy costs and higher professional services expenses.

Compensation expenses were $4.1 billion, up 6% or $240 million, primarily driven by salaries and benefits including higher incentive compensation. The increase in incentive compensation is largely driven by higher restricted stock amortization and also includes the cost of expensing stock options. Incentive compensation is adjusted regularly to reflect year-to-date performance.

Other Corporate Items

- Tier 1 capital ratio was 8.5% at September 30, 2004 (estimated), 8.2% at June 30, 2004 and 8.7% at September 30, 2003.
- During the quarter 3.5 million shares of common stock were repurchased at an average price of $38.89 per share.
- Headcount of 162,200 is down 5,300 since January 1, 2004.

Merger and other financial information

- ***Merger between JPMorgan Chase & Co. and Bank One Corporation:*** On July 1, 2004, JPMorgan Chase and Bank One completed the merger of their holding companies. The merger was accounted for as a purchase. Accordingly, the earnings for JPMorgan Chase and Bank One are combined for the third quarter; all other time periods on a reported basis are JPMorgan Chase only.
- ***Merger saves and costs:*** Management continues to estimate annual merger savings of approximately $3.0 billion. Approximately two-thirds of the savings are anticipated to be realized by the end of 2005. During the third quarter of 2004, approximately $140 million of merger savings were realized. The total headcount of the firm has been reduced by 5,300 since December 31, 2003 and by 3,300 since June 30, 2004. Management continues to estimate one-time merger costs of approximately $4.0 billion. Of the $4.0 billion, approximately $1.0 billion was accounted for as purchase accounting adjustments and recorded as goodwill during the third quarter of 2004. Of the remaining $3.0 billion of merger costs, approximately $752 million (pre-tax) were incurred in the third quarter of 2004. The remaining $2.2 billion is expected to be incurred over the next three years.
- ***Conformance of accounting policies:*** As part of the merger, certain accounting policies and practices were conformed, resulting in charges to income. It is estimated that in the third and fourth quarters these charges will aggregate approximately $1.2 billion (pre-tax), slightly lower than the original estimate of $1.3 billion to $1.5 billion. The largest impact is related to the decertification of the seller's retained interest in credit card securitizations. During the third quarter of 2004 net charges of $451 million (pre-tax) were taken to conform accounting policies, of which $721 million (pre-tax) related to the decertification of the seller's retained interest in credit card securitizations. It is anticipated a similar amount, approximately $721 million, will be taken in the fourth quarter of 2004 related to the decertification of credit card securitizations.

Notes:

1. In addition to analyzing the firm's results on a reported basis, management reviews the line of business results on an operating basis, which is a non-GAAP financial measure. The definition of operating basis starts with the reported U.S. GAAP results. In the case of the Investment Bank, operating basis includes in trading revenue net interest income related to trading activities. Trading activities generate revenues that are recorded for GAAP purposes in two line items on the income statement: trading revenue, which includes the mark to market gains or losses on trading positions; and net interest income, which includes the interest income or expense related to those positions. Combining both the trading revenue and related net interest income enables management to evaluate the Investment Bank's trading activities, by considering all revenue related to these activities, and facilitates operating comparisons to other competitors. In the case of Chase Cardmember Services, operating or managed basis excludes the impact of credit card securitizations on revenue, the provision for credit losses, net charge-offs and receivables. JPMorgan Chase uses the concept of "managed receivables" to evaluate the credit performance of the underlying credit card loans, both sold and not sold; as the same borrower is continuing to use the credit card for ongoing charges, a borrower's credit performance will impact both the receivables sold under SFAS 140 and those not sold. Thus, in its disclosures regarding managed receivables, JPMorgan Chase treats the sold receivables as if they were still on the balance sheet in order to disclose the credit performance (such as charge-off rates) of the entire managed credit card portfolio. Operating basis excludes the litigation reserve charge taken in the second quarter of 2004 and merger costs, as management believes these items are not part of the firm's normal daily business operations and, therefore, not indicative of trends, and also do not provide meaningful comparisons with other periods. See page 7 of JPMorgan Chase's Earnings Release Financial Supplement (Third Quarter 2004) for a reconciliation of JPMorgan Chase's income statement from reported to operating basis.
2. Following the merger with Bank One, JPMorgan Chase reorganized its business segments. The Investment Bank now includes portions of Bank One's Commercial Bank; Global Treasury has been transferred to the Corporate segment. Retail Financial Services is comprised of Chase Financial Services, excluding Card Services and Middle Market and includes Bank One's Retail line of business and insurance activities. Card Services is the combination of Chase Card Services and Bank One Card Services. The Commercial Banking segment is comprised of Chase Middle Market, and the Middle Market portion of Bank One's Commercial Bank. Treasury & Securities Services added Bank One's Global Treasury Services (formerly in Commercial Bank). Asset & Wealth Management is JPMorgan Chase's Investment Management & Private Bank plus Bank One's Investment Management Group (excluding insurance activity). The Corporate segment is Bank One's Corporate line of business excluding discontinued loan and lease portfolios (now in Retail Financial Services), plus JPMorgan Partners and Global Treasury.
3. Thomson Financial market share data is proforma for the merger of JPMorgan Chase and Bank One.

JPMorgan Chase & Co. (NYSE: JPM) is a leading global financial services firm with assets of $1.1 trillion and operations in more than 50 countries. The firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing, asset and wealth management, and private equity. A component of the Dow Jones Industrial Average, JPMorgan Chase & Co. has its corporate headquarters in New York and its U.S. retail financial services and commercial banking headquarters in Chicago. Under the JPMorgan, Chase and Bank One brands, the firm serves millions of consumers in the United States and many of the world's most prominent corporate, institutional and government clients. Information about the firm is available at www.jpmorganchase.com.

JPMorgan Chase will host a meeting and a conference call for the investment community today at 9:00 a.m. (Eastern Time) to review third quarter financial results. The meeting will be held at 270 Park Avenue on the 49th floor. Investors unable to attend the meeting can dial (973) 935-8515 or listen via live audio webcast. The webcast and presentation slides will be available on www.jpmorganchase.com. A replay of the meeting will be available beginning at 12:00 p.m. (Eastern Time) on October 20, 2004 and continuing through 6:00 p.m. (Eastern Daylight Time) on October 27, 2004 at (973) 341-3080 pin #5194846. The replay also will be available on www.jpmorganchase.com. Additional detailed financial, statistical and business-related information is included in a financial supplement. The earnings release and the financial supplement are available on the JPMorgan Chase web site (www.jpmorganchase.com).

This earnings release/presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based upon the current beliefs and expectations of JPMorgan Chase's management and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements.

The following factors, among others, could cause actual results to differ from those set forth in the forward-looking statements: the risk that the cost savings and any revenue synergies from the merger may not be fully realized or may take longer to realize than expected; the risk that excess capital is not generated from the merger as anticipated or not utilized in an accretive manner; and the risk that disruption from the merger may make it more difficult to maintain relationships with clients, employees or suppliers. Additional factors that could cause JPMorgan Chase's results to differ materially from those described in the forward-looking statements can be found in the Quarterly Report on Form 10-Q for the quarters ended June 30, 2004 and March 31, 2004, and in the 2003 Annual Report on Form 10-K of JPMorgan Chase filed with the Securities and Exchange Commission and available at the Securities and Exchange Commission's internet site (http://www.sec.gov).

JPMORGAN CHASE & CO.
CONSOLIDATED FINANCIAL HIGHLIGHTS
(in millions, except per share, ratio and headcount data)

	Heritage JPMC Only			3QTR 2004 Change		H-JPMC Only		YTD 2004 Change
	3QTR 2004	2QTR 2004	3QTR 2003	2Q 2004	3Q 2003	Year-to-date 2004	Year-to-date 2003	2003
SELECTED INCOME STATEMENT								
Revenue	$ 12,505	$ 8,631	$ 7,780	45 %	61 %	$ 30,147	$ 25,278	19 %
Provision for Credit Losses	1,169	203	223	476	424	1,387	1,401	(1)
Noninterest Expense	9,377	9,503	5,127	(1)	83	24,973	16,558	51
Net Income (Loss)	1,418	(548)	1,628	NM	(13)	2,800	4,855	(42)
Per Common Share:								
Net Income Per Share - Diluted	0.39		(0.27)		0.78	NM	(50)	1.06
	2.35	(55) Cash Dividends Declared Per Share			0.34		0.34	
	0.34	-	-	1.02	1.02		- Book Value Per Share	
	29.42	21.52	21.55	37	37			
Closing Share Price	39.73	38.77	34.33	2	16			
Common Shares Outstanding:								
Average - Diluted	3,592.0	2,042.8	2,068.2	76	74	2,598.5	2,047.0	27
Common Shares at Period-end	3,564.1	2,087.5	2,039.2	71	75			
SELECTED RATIOS:								
Return on Common Equity ("ROE") (a)	5 %	NM	15 %	NM	(1,000) bp	6 %	15 %	(900) bp
Return on Equity-Goodwill ("ROE-GW") (a) (b)	9	NM	18	NM	(900)	8	19	(1,100)
Return on Assets ("ROA") (a) (c)	0.50	NM	0.83	NM	(33)	0.42	0.84	(42)
Tier 1 Capital Ratio	8.5	8.2 %	8.7	30 bp	(20)			
Total Capital Ratio	11.9	11.2	12.1	70	(20)			
SELECTED BALANCE SHEET (Period-end)								
Total Assets	$ 1,138,469	$ 817,763	$ 792,700	39 %	44 %			
Wholesale Loans	132,344	77,044	74,847	72	77			
Consumer Loans	261,357	148,894	150,440	76	74			
Deposits	496,454	346,539	313,626	43	58			
Common Stockholders' Equity	104,844	44,932	43,948	133	139			
Headcount	162,275	94,615	95,931	72	69			
LINE OF BUSINESS EARNINGS								
Investment Bank	$ 627	$ 644	$ 693	(3)	(10)	$ 2,288	$ 1,996	15 %
Retail Financial Services	822	396	181	108	354	1,424	1,242	15
Card Services	421	176	199	139	112	759	510	49
Commercial Banking	215	65	63	231	241	354	218	62
Treasury & Securities Services	96	101	115	(5)	(17)	295	299	(1)
Asset & Wealth Management	197	99	85	99	132	418	181	131
Corporate (d)	(219)	325	292	NM	NM	357	409	(13)
Total Operating Earnings	**2,159**	**1,806**	**1,628**	20	33	**5,895**	**4,855**	21
Reconciling Items (Net of Taxes):								
Merger Costs	(462)	(60)	-	NM	NM	(522)	-	NM
Litigation Reserve Charge	-	(2,294)	-	NM	NM	(2,294)	-	NM
Accounting Policy Conformity	(279)	-	-	NM	NM	(279)	-	NM
Net Income (Loss)	**$ 1,418**	**$ (548)**	**$ 1,628**	NM	(13)	**$ 2,800**	**$ 4,855**	(42)

Note: Effective July 1, 2004, Bank One Corporation ("Bank One"), merged with and into JPMorgan Chase. Bank One's results of operations are included in JPMorgan Chase's results beginning July 1, 2004. In accordance with U.S. GAAP, the results of operations for the quarter and year-to-date periods ended September 30, 2004, reflect three months of results of operations for the combined Firm. The results of operations for all other quarterly periods presented herein, and for the nine months ended September 30, 2003, reflect only the results of operations for heritage JPMorgan Chase.

(a) Based on annualized amounts.
(b) Net income applicable to common stock / Total average common equity (net of goodwill). The Firm uses return on equity less goodwill, a non-GAAP financial measure, to evaluate the operating performance of the Firm. The Firm utilizes this measure to facilitate operating comparisons to other competitors.
(c) U.S. GAAP earnings / Total average assets
(d) Includes Global Treasury, Private Equity, Support Units and the net effects remaining at the corporate level after the implementation of management accounting policies.

NM - Not meaningful due to net loss.

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