

J P MORGAN CHASE & CO

Form 10-Q

November 09, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30,
2004

Commission file number 1-5805

JP MORGAN CHASE & CO.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

10017
(Zip Code)

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

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

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Common Stock, \$1 Par Value

3,562,463,202

Number of shares outstanding of each of the issuer's classes of common stock on October 31, 2004.

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JPMORGAN CHASE & CO.
CONSOLIDATED FINANCIAL HIGHLIGHTS

| <i>(Amounts, except per share, ratio and headcount data)</i> | 3Q 2004 | 2Q 2004 | Heritage JPMC Only | | 3Q 2003 | Nine months ended Sept. 30, 2004 | 2003 |
|--|----------------|------------|---------------------------|------------|------------|---|-----------|
| | | | 1Q 2004 | 4Q 2003 | | | |
| Income statement data | | | | | | | |
| Net revenue | \$ 12,505 | \$ 8,631 | \$ 9,011 | \$ 8,106 | \$ 7,780 | \$ 30,147 | \$ 28,111 |
| Provision for credit losses | 1,169 | 203 | 15 | 139 | 223 | 1,387 | 1,387 |
| Interest expense | 9,377 | 9,503 | 6,093 | 5,258 | 5,127 | 24,973 | 24,973 |
| Income (loss) | 1,418 | (548) | 1,930 | 1,864 | 1,628 | 2,800 | 2,800 |
| Common share | | | | | | | |
| Income (loss) per share - diluted | \$ 0.39 | \$ (0.27) | \$ 0.92 | \$ 0.89 | \$ 0.78 | \$ 1.06 | \$ 1.06 |
| Dividends declared per share | 0.34 | 0.34 | 0.34 | 0.34 | 0.34 | 1.02 | 1.02 |
| Book value per share | 29.42 | 21.52 | 22.62 | 22.10 | 21.55 | | |
| Common shares outstanding: | | | | | | | |
| Weighted average shares - diluted | 3,592.0 | 2,042.8 | 2,092.7 | 2,079.3 | 2,068.2 | 2,598.5 | 2,598.5 |
| Common shares at period-end | 3,564.1 | 2,087.5 | 2,081.7 | 2,042.6 | 2,039.2 | | |
| Key ratios | | | | | | | |
| Return on common equity (ROE) (b) | 5% | NM | 17% | 17% | 15% | 6% | 6% |
| Return on equity-goodwill (ROE-GW) (b) (c) | 9 | NM | 21 | 20 | 18 | 8 | 8 |
| Return on assets (ROA) (b) (d) | 0.50 | NM | 1.01 | 0.95 | 0.83 | 0.42 | 0.42 |
| Capital ratio | 8.6 | 8.2% | 8.4 | 8.5 | 8.7 | | |
| Capital ratio | 12.0 | 11.2 | 11.4 | 11.8 | 12.1 | | |
| Balance sheet data (period end) | | | | | | | |
| Assets | \$ 1,138,469 | \$ 817,763 | \$ 801,078 | \$ 770,912 | \$ 792,700 | | |
| Available loans | 132,344 | 77,044 | 77,068 | 75,419 | 74,847 | | |
| Other loans | 261,357 | 148,894 | 140,562 | 139,347 | 150,440 | | |
| Assets | 496,454 | 346,539 | 336,886 | 326,492 | 313,626 | | |
| Common stockholders' equity | 104,844 | 44,932 | 47,092 | 45,145 | 43,948 | | |
| Liabilities | 162,275 | 94,615 | 96,010 | 96,367 | 95,931 | | |
| Book value per share (e) | \$ 40.25 | \$ 42.57 | \$ 43.84 | \$ 36.99 | \$ 38.26 | \$ 43.84 | \$ 43.84 |
| | 35.50 | 34.62 | 36.30 | 34.45 | 32.40 | 34.62 | 34.62 |
| | 39.73 | 38.77 | 41.95 | 36.73 | 34.33 | | |
| Business earnings (f) | | | | | | | |
| Investment Bank | \$ 627 | \$ 644 | \$ 1,017 | \$ 809 | \$ 693 | \$ 2,288 | \$ 2,288 |
| Financial Services | 822 | 396 | 206 | 305 | 181 | 1,424 | 1,424 |
| Services | 421 | 176 | 162 | 173 | 199 | 759 | 759 |
| Commercial Banking | 215 | 65 | 74 | 89 | 63 | 354 | 354 |
| Investment & Securities Services | 96 | 101 | 98 | 123 | 115 | 295 | 295 |
| Private Wealth Management | 197 | 99 | 122 | 106 | 85 | 418 | 418 |
| Other (g) | (219) | 325 | 251 | 259 | 292 | 357 | 357 |
| Operating earnings | 2,159 | 1,806 | 1,930 | 1,864 | 1,628 | 5,895 | 5,895 |
| Non-recurring items (after-tax) | | | | | | | |

| | | | | | | |
|------------------------|----------|----------|----------|----------|----------|----------|
| costs | (462) | (60) | | | | (522) |
| on reserve charge | | (2,294) | | | | (2,294) |
| ting policy conformity | (279) | | | | | (279) |
| ome (loss) | \$ 1,418 | \$ (548) | \$ 1,930 | \$ 1,864 | \$ 1,628 | \$ 2,800 |

- (a) 2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.
- (b) Based on annualized amounts.
- (c) 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 comparisons to other competitors.
- (d) U.S. GAAP earnings / Total average assets.
- (e) JPMorgan Chase's common stock is listed and traded on the New York Stock Exchange, the London Stock Exchange Limited and the Tokyo Stock Exchange. The high, low and closing prices of JPMorgan Chase's common stock are from The New York Stock Exchange Composite Transaction Tape.
- (f) Business segment earnings are presented on an operating basis. Operating basis excludes the after-tax impact of litigation charges taken in the second quarter of 2004, merger costs and accounting policy conformity adjustments. For more information about operating basis, see page 9 of this Form 10-Q.
- (g) 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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See Glossary of Terms on pages 88 - 89 of this Form 10-Q for definitions of terms used throughout this Form 10-Q.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

FORWARD-LOOKING STATEMENTS

The Management's Discussion and Analysis included in this Form 10-Q contains statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based upon the current beliefs and expectations of the management of JPMorgan Chase & Co. (JPMorgan Chase or the Firm) and are subject to significant risks and uncertainties. These risks and uncertainties could cause the Firm's results to differ materially from those set forth in such forward-looking statements. Such risks and uncertainties are described herein and in the JPMorgan Chase Annual Report on Form 10-K for the year ended December 31, 2003, filed with the U.S. Securities and Exchange Commission (SEC) and available at the SEC's Internet site (www.sec.gov), to which reference is hereby made.

Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. Words such as believes, anticipates, expects, intends, plans, estimates, targeted and similar expressions, and conditional verbs, such as will, would, should, could or may, are intended to identify forward-looking statements. These words are not the only means to identify these statements.

Forward-looking statements involve risks and uncertainties. Actual conditions, events or results may differ materially from those contemplated by a forward-looking statement. Factors that could cause this difference many of which are beyond the Firm's control include the following, without limitation:

Local, regional and international business or economic conditions may differ from those expected.

The effects of and changes in trade, monetary and fiscal policies and laws, including the U.S. Federal Reserve Board's interest rate policies, may adversely affect the Firm's business.

The timeliness of development and acceptance of new products and services may be different than anticipated.

Technological changes instituted by the Firm and by persons who may affect the Firm's business may be more difficult to accomplish or more expensive than anticipated or may have unforeseen consequences.

Mergers and/or acquisitions and integration of merged and/or acquired businesses may be more difficult or expensive than expected.

The ability to increase market share and control expenses may be more difficult than anticipated.

Competitive pressures among financial services companies may increase significantly.

Changes in laws and regulatory requirements (including those concerning taxes, banking, securities and insurance) may adversely affect the Firm or its businesses.

Changes in accounting policies and practices, as may be adopted by regulatory agencies, the Public Company Accounting Oversight Board and the Financial Accounting Standards Board, may affect expected financial reporting.

The costs, effects and outcomes of litigation may adversely affect the Firm or its businesses.

The Firm may not manage the risks involved in the foregoing as well as anticipated.

Any forward-looking statements made by or on behalf of the Firm in this Form 10-Q speak only as of the date of this Form 10-Q. JPMorgan Chase does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statement was made. The reader should, however, consult any further disclosures of a forward-looking nature JPMorgan Chase may make in its Annual Reports on Form 10-K, its Quarterly Reports on Form 10-Q and its Current Reports on Form 8-K.

INTRODUCTION

JPMorgan Chase is a financial holding company incorporated under Delaware law in 1968. JPMorgan Chase is a leading global financial services firm and one of the largest banking institutions in the United States, with more than \$1.1 trillion in assets 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. JPMorgan Chase serves more than 90 million customers consisting of consumers nationwide and many of the world's most prominent wholesale clients. Its principal bank subsidiaries are JPMorgan Chase Bank, a New York banking corporation; Chase Manhattan Bank USA, National Association; Bank One, National Association with its main office located in Chicago, Illinois; and Bank One, National Association with its main office located in Columbus, Ohio. JPMorgan Chase's principal nonbank subsidiary is J.P. Morgan Securities Inc. The bank and nonbank subsidiaries of JPMorgan Chase operate nationally as well as through overseas branches and subsidiaries, representative offices and affiliated banks.

JPMorgan Chase's activities are internally organized, for management reporting purposes, into seven major business segments: Investment Bank; Retail Financial Services; Card Services; Commercial Banking; Treasury & Securities Services; Asset & Wealth Management and Corporate.

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MERGER WITH BANK ONE CORPORATION

Effective July 1, 2004, Bank One Corporation (Bank One) merged with and into JPMorgan Chase (the Merger), pursuant to the Agreement and Plan of Merger dated January 14, 2004. As a result of the Merger, each outstanding share of common stock of Bank One was converted in a stock-for-stock exchange into 1.32 shares of common stock of JPMorgan Chase. The Merger was accounted for using the purchase method of accounting. The purchase price to complete the Merger was \$58.5 billion.

Bank One s results of operations were included in the Firm s results beginning July 1, 2004. Therefore, the results of operations for the three and nine months ended September 30, 2004, reflect three months of operations of the combined Firm. The results of operations for the three and nine months ended September 30, 2003, reflect only the operations of heritage JPMorgan Chase.

It is expected that cost savings of approximately \$3.0 billion (pre-tax) will be achieved by 2007. Merger costs to combine the operations of JPMorgan Chase and Bank One are expected to be approximately \$4.0 billion (pre-tax). Of these costs, approximately \$1.0 billion, specifically related to Bank One, were accounted for as purchase accounting adjustments and were recorded as an increase to goodwill in the third quarter of 2004. Of the remaining approximately \$3.0 billion in merger-related costs, \$752 million (pre-tax) of the costs were incurred in the third quarter of 2004. The remaining approximately \$2.2 billion is expected to be incurred over the next three years. The estimated merger-related charges will result from actions taken with respect to both JPMorgan Chase s and Bank One s operations, facilities and employees. The charges will be recorded based on the nature and timing of these integration actions. To date, Merger costs of \$842 million have been charged to income.

As part of the Merger, certain accounting policies and practices were conformed, which resulted in \$451 million (pre-tax) of charges in the third quarter of 2004, of which \$721 million (pre-tax) related to the decertification of the seller s retained interest in credit card securitizations. It is anticipated that a similar amount, approximately \$700 million, will be taken in the fourth quarter of 2004 related to the decertification of credit card securitizations.

EXECUTIVE OVERVIEW

This overview of management s discussion and analysis highlights selected information in this Form 10-Q and may not contain all of the information that is important to readers of this Form 10-Q. For a more complete understanding of trends, events, commitments, uncertainties, liquidity, capital resources and critical accounting estimates, this entire Form 10-Q should be read carefully. Each of these items could have an impact on the Firm s financial condition and results of operations. All comparisons are to the same period in prior years unless otherwise specified.

BUSINESS OVERVIEW

JPMorgan Chase reported 2004 third quarter net income of \$1.4 billion, or \$0.39 per share, compared with 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 completed on July 1, 2004. Excluding these charges, operating earnings would have been \$2.2 billion, or \$0.60 per share.

For the first nine months of 2004, reported net income was \$2.8 billion, or \$1.06 per share, compared with \$4.9 billion, or \$2.35 per share in the same period last year. Excluding year-to-date merger costs of \$522 million (after-tax), or \$0.20 per share, a \$2.3 billion (after-tax) charge to increase litigation reserves, or \$0.88 per share, and the aforementioned accounting policy conformity adjustments, or \$0.11 per share, year-to-date operating earnings would have been \$5.9 billion, or \$2.25 per share.

Total revenues of \$12.5 billion, in the third quarter, rose \$4.7 billion or 61%, primarily due to the Merger with Bank One. Net interest income increased \$2.3 billion primarily due to the Merger. Also contributing to the increase were higher residential mortgage, home equity and credit card loan balances, strong institutional and retail deposit growth, and improved spreads on deposits. These were partially offset by lower wholesale loan balances in the Investment Bank and lower investment securities, as well as tighter spreads on loans, investment securities and trading assets, stemming from the rise in interest rates.

Noninterest income increased \$2.5 billion primarily due to the Merger. Also contributing to the increase were higher investment banking fees, the result of continued strength in debt underwriting and advisory fees. Credit card income increased due to higher charge volume, which generated increased interchange income. Asset management, administration and commissions were up due to the acquisitions of the Corporate Trust business of Bank One in November 2003, and Electronic Financial Services (EFS) in January 2004. In addition, global equity market appreciation, improved product mix and net asset inflows favorably impacted asset management and administration fees. Mortgage fees and related income were up reflecting improved performance in secondary marketing activities, partially offset by lower prime mortgage production. Private equity gains were also up due to improvement in the market for investment sales. These benefits were partially offset by the decline in trading revenues in the Investment Bank primarily related to the fixed income markets. Also negatively impacting noninterest income was lower lending and deposit-related fees due to rising interest rates.

For the first nine months of 2004, total revenues of \$30.1 billion were up \$4.9 billion or 19%, due primarily to the Merger with Bank One. Net interest income and noninterest income both were affected year-to-date in similar fashion to the discussion above for the third quarter of 2004 versus the third quarter of 2003.

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Expenses were \$9.4 billion in the third quarter, up \$4.3 billion or 83%, due to the addition of Bank One and \$752 million of merger costs, partly offset by merger-related savings of \$140 million. In addition to the Merger, expenses increased primarily due to the continuing effort to enhance the capabilities and infrastructure of the lines of business. Higher compensation expenses were related to increased salaries primarily in the Investment Bank and higher personnel costs across the Firm, partly offset by lower performance-related incentive accruals. Marketing expense reflected increased marketing activities in Card Services. Technology and communications expenses were impacted by higher usage driven by growth in businesses. Other expense was higher due to software impairment write-offs primarily in Treasury & Securities Services.

For the first nine months of 2004, expenses were \$25.0 billion, up \$8.4 billion or 51% from last year, primarily due to the addition of Bank One and merger costs of \$842 million, partly offset by merger-related savings of \$170 million. In addition, a litigation reserve charge of \$3.7 billion was recorded in the second quarter of 2004. Absent these factors, expense increases were affected year-to-date in similar fashion to the discussion above for the third quarter of 2004 compared with the third quarter of 2003.

The third quarter of 2004 provision for credit losses of \$1.2 billion increased by \$946 million from the third quarter of 2003, primarily attributable to the Merger including accounting policy conformity charges.

The provision for credit losses for the first nine months of 2004 of \$1.4 billion was flat compared with the same period in 2003. The effect of the Merger and accounting policy conformity charges was offset by releases in the Allowance for credit losses related to the wholesale loan portfolio primarily due to reduced risk in the Investment Bank. Retail Financial Services also experienced lower losses, which resulted in a lower provision. Nonperforming loans declined by 6% compared with the third quarter of 2003. The effect of the Merger was offset by improvement in the wholesale loan portfolio, which saw wholesale nonperforming loans drop 33% even after the inclusion of Bank One.

Tier 1 capital of \$69.3 billion increased by 63% year-over-year and by 59% from June 30, 2004, due to the Merger. The Tier 1 capital ratio was 8.6% at September 30, 2004, 8.2% at June 30, 2004, and 8.7% at September 30, 2003.

BUSINESS OUTLOOK

Capital markets remain challenging overall with generally lower client activity and a more difficult trading environment. The Investment Bank remains cautious about trading revenues. The investment banking pipeline for underwriting and mergers and acquisition advisory activities, while lower than levels at the beginning of the third quarter, remains at significantly higher levels than a year ago. Realization of revenues in the Investment Bank fee pipeline is uncertain and can be impacted by changes in market conditions. Likewise, returns in private equity are difficult to predict, and the potential for realization of gains can vary from quarter to quarter.

In the consumer sector, earnings in Retail Financial Services are expected to moderate, as Home Finance earnings are likely to decline due to a market-driven drop in mortgage originations. Earnings in Auto & Education Finance are expected to remain under pressure as well given the competitive nature of the current operating environment. Growth is expected to continue in Consumer & Small Business Banking, with increases in core deposits and associated revenue, partially offset by ongoing investments in the branch network. In addition, Card Services operating results are expected to increase as the fourth quarter is generally seasonally strong.

The reduction in the Firm's investment securities portfolio negatively impacted Net interest income during the third quarter. This change in the investment securities portfolio will continue to have an impact on Net interest income going forward.

Consumer credit trends are expected to remain stable, although a higher provision for credit losses is anticipated for Card Services due to the seasonal pattern of that business. Wholesale credit costs are expected to increase from the current negative provision level, and should return to more normal levels over time.

Charges to earnings resulting from the conformance of the Firm's accounting policies will continue to affect earnings for the remainder of the year. The fourth quarter will include a charge of approximately \$700 million related to the decertification of retained interests in credit card securitizations.

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The following section provides a discussion of JPMorgan Chase's results of operations on a reported basis. All comparisons are to the same period in the prior year unless otherwise specified. Factors that are primarily related to a single business segment are discussed in more detail within that business segment than they are in this consolidated section.

TOTAL NET REVENUE

The following table presents the components of Total net revenue:

| <i>(in millions)</i> | H-JPMC Only | | | Nine months ended September 30, | | |
|---|--------------------|-----------------|---------------|--|---------------------|---------------|
| | 3Q 2004 | 3Q 2003 | Change | 2004 | (a) 2003 | Change |
| Investment banking fees | \$ 879 | \$ 649 | 35% | \$ 2,464 | \$ 2,044 | 21% |
| Trading revenue (b) | 408 | 829 | (51) | 3,001 | 3,673 | (18) |
| Lending & deposit related fees | 943 | 456 | 107 | 1,769 | 1,276 | 39 |
| Asset management, administration and commissions | 2,141 | 1,518 | 41 | 5,682 | 4,320 | 32 |
| Securities/private equity gains (losses) | 413 | 284 | 45 | 1,305 | 1,287 | 1 |
| Mortgage fees and related income | 277 | 15 | NM | 874 | 774 | 13 |
| Credit card income (c) | 1,782 | 635 | 181 | 3,018 | 1,781 | 69 |
| Other income | 210 | 196 | 7 | 602 | 340 | 77 |
| Subtotal | 7,053 | 4,582 | 54 | 18,715 | 15,495 | 21 |
| Net interest income (b) | 5,452 | 3,198 | 70 | 11,432 | 9,783 | 17 |
| Total net revenue | \$ 12,505 | \$ 7,780 | 61% | \$ 30,147 | \$ 25,278 | 19% |

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

(b) Trading NII is not included in trading revenue. See IB on pages 13-16 for additional details.

(c) Includes debit card revenue in Retail Financial Services.

For a discussion of **Investment banking fees** and **Trading revenue**, which are primarily recorded in the Investment Bank, see the Investment Bank's segment results on pages 13-16 of this Form 10-Q.

Lending & deposit-related fees were up from the 2003 quarterly and year-to-date periods due to Bank One's addition. This was partly offset by lower service charges on deposits resulting from a change in the calculation methodology and an increase in payment of services with deposits, versus fees, due to rising interest rates. Loan commitment fees also decreased from the prior quarter reflecting lower volumes of outstanding commitments.

The increase in **Asset management, administration and commissions** for all periods was driven by fees and commissions from Bank One. Also contributing to the growth was the impact of other acquisitions, such as Bank One's Corporate Trust business in November 2003, and EFS in January 2004, and the effect of favorable global equity

markets, better product mix and net asset inflows. For additional information on these fees and commissions, see the segment discussions for Asset & Wealth Management on pages 32-34, Treasury & Securities Services on pages 30-31 and Retail Financial Services on pages 17-24 of this Form 10-Q.

Securities/private equity gains (losses) for the three months ended September 30, 2004, rose significantly from the same period of 2003, primarily fueled by the improvement in the Firm's private equity investment results. This was partly offset by lower securities gains on the treasury investment portfolio as a result of lower volumes of securities sold and lower gains on sales due to higher interest rates. For a further discussion of Private equity gains (losses), which are primarily recorded in the Firm's private equity business, see the Corporate segment discussion on pages 35-37 of this Form 10-Q.

For a discussion of **Mortgage fees and related income**, which is primarily recorded in Retail Financial Services Home Finance business line, see the Home Finance discussion on pages 19-21 of this Form 10-Q.

The Merger and higher customer purchase volume, which resulted in increased interchange income, were the primary factors for the increases in **Credit card income** from the 2003 quarterly and year-to-date periods. The increases were partly offset by higher volume-driven payments to partners and reward expenses. See Card Services discussion on pages 25-27 of this Form 10-Q.

The increase in **Other income** from all prior periods reflected the inclusion of Bank One, as well as a gain on leveraged lease transactions in the third quarter of 2004, partially offset by lower gains from loan workouts and from the securitization of credit cards and wholesale loans backed by commercial real estate.

Net interest income rose from the 2003 quarterly and year-to-date periods principally as a result of the Merger. In addition, increases in volumes of consumer loans and deposits, as well as wider spreads on deposits contributed to higher net interest income compared with the 2003 periods. These were partially offset by lower wholesale loan balances in the Investment Bank and lower investment securities, as well as tighter spreads on loans, investment securities and trading assets, stemming from the rise in interest rates.

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On an aggregate basis, the Firm's total average interest-earning assets for the third quarter of 2004 were \$868 billion, up \$277 billion from 2003, largely resulting from the Merger. The net interest yield on these assets, on a fully taxable-equivalent basis, was 2.52% in the 2004 third quarter, 37 basis points higher than in the same period last year. The Firm's total average interest-earning assets for the nine month period ended September 30, 2004, were \$694 billion, up \$107 billion from 2003, largely due to the Merger. The net interest yield on these assets, on a fully taxable-equivalent basis, was 2.22% in 2004, two basis points lower than 2003.

PROVISION FOR CREDIT LOSSES

The Provision for credit losses for the third quarter of 2004 was \$1.2 billion, up \$946 million, primarily due to the Merger, including \$333 million of accounting policy conformity adjustments. The accounting policy conformity adjustments included \$721 million related to the decertification of the seller's retained interest in credit card securitizations, partially offset by a benefit of \$388 million related to conforming provision methodologies for the combined Firm. Excluding the impact of these adjustments, the total wholesale provision for credit losses was a benefit of \$137 million, compared with a benefit of \$169 million in the prior year. The total consumer provision for credit losses was \$973 million, compared with \$392 million in the prior year.

The 2004 year-to-date Provision for credit losses was \$1.4 billion, relatively flat when compared with the prior year. Excluding the aforementioned accounting policy conformity adjustments, the Provision for credit losses would have been \$1.1 billion, down \$347 million, from \$1.4 billion in 2003. The decrease was primarily due to improvement in credit quality of the wholesale portfolio. The total wholesale provision for credit losses was a benefit of \$546 million, compared with a provision of \$248 million in the prior year. The total consumer provision for credit losses was \$1.6 billion, compared with \$1.2 billion in 2003.

NONINTEREST EXPENSE

The following table presents the components of Noninterest expense:

| <i>(in millions)</i> | H-JPMC Only | | | Nine months ended September 30, | | |
|---|--------------------|----------------|---------------|--|---------------------|---------------|
| | 3Q 2004 | 3Q 2003 | Change | 2004 | (a) 2003 | Change |
| Compensation expense | \$ 4,050 | \$ 2,631 | 54% | \$ 10,295 | \$ 8,879 | 16% |
| Occupancy expense | 604 | 391 | 54 | 1,475 | 1,430 | 3 |
| Technology and communications expense | 1,046 | 719 | 45 | 2,651 | 2,088 | 27 |
| Professional & outside services | 1,103 | 703 | 57 | 2,671 | 2,098 | 27 |
| Marketing | 506 | 179 | 183 | 907 | 510 | 78 |
| Other expense | 920 | 431 | 113 | 1,878 | 1,233 | 52 |
| Amortization of intangibles | 396 | 73 | 442 | 554 | 220 | 152 |
| Total noninterest expense before merger costs and litigation reserve charge | 8,625 | 5,127 | 68 | 20,431 | 16,458 | 24 |
| Merger costs | 752 | | NM | 842 | | NM |
| Litigation reserve charge | | | NM | 3,700 | 100 | NM |

| | | | | | | |
|----------------------------------|-----------------|----------|-----|------------------|-----------|-----|
| Total noninterest expense | \$ 9,377 | \$ 5,127 | 83% | \$ 24,973 | \$ 16,558 | 51% |
|----------------------------------|-----------------|----------|-----|------------------|-----------|-----|

(a) *2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.*

The increase in **Compensation expense** from the prior-year third quarter and year-to-date periods was primarily driven by the Merger, as well as higher personnel costs, and stock-based incentive accruals, partly offset by lower pension costs and performance-related incentive accruals in 2004. The lower pension costs were mainly attributable to the increase in the expected return on plan assets from a discretionary \$1.1 billion contribution to the Firm's pension plan in April 2004, partially offset by changes in actuarial assumptions for 2004 compared with 2003.

The increase in **Occupancy expense** from the 2003 third quarter and year-to-date periods was primarily the result of the Merger. The Firm incurred \$42 million in higher charges for excess real estate in the 2004 third quarter, compared with 2003; these charges were \$138 million lower on a year-to-date basis compared with 2003. The Firm will continue to evaluate its current and projected space requirements in light of the Merger.

Growth in **Technology and communications expense** from the prior year quarter and year-to-date periods of 2003 were due to the merger with Bank One and higher costs associated with greater use of technology services.

Professional & outside services rose from both comparable 2003 periods as a result of the Merger, as well as higher legal costs. In particular, outside services increased as a result of acquisitions, primarily EFS, at Treasury & Securities Services and Card Services.

The increase in **Marketing expense** from the 2003 third quarter and year-to-date periods reflected the Merger. In addition, the costs of marketing campaigns in Card Services also contributed to the increase from the 2003 third quarter and year-to-date periods.

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Other expense was higher from both prior year periods due to Bank One, software impairment write-offs of \$101 million, primarily in Treasury & Securities Services, and the impact of growth in business volume.

The increase in **Amortization of Intangibles** was primarily attributable to the Merger.

For further details on **Merger costs**, refer to Note 7 on page 70 of this Form 10-Q.

At June 30, 2004, JPMorgan Chase recorded a **Litigation reserve charge** of \$3.7 billion for several regulatory and legal-related matters. For a further discussion, see Note 17 on page 82 of this Form 10-Q. The second quarter of 2003 included a charge of \$100 million for Enron-related litigation.

Income tax expense

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

| <i>(in millions)</i> | 3Q 2004 | H-JPMC | Nine months ended September 30, | |
|----------------------------------|-----------------|----------------|--|-------------|
| | | Only | (a) | |
| | | 3Q 2003 | 2004 | 2003 |
| Income before income tax expense | \$ 1,959 | \$ 2,430 | \$ 3,787 | \$ 7,319 |
| Income tax expense | 541 | 802 | 987 | 2,464 |
| Effective tax rate | 27.6% | 33.0% | 26.1% | 33.7% |

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

The reduction in the effective tax rates for the third quarter and first nine months of 2004, as compared with the prior periods was the result of various factors, including lower reported pre-tax income and changes in the proportion of income subject to federal, state and local taxes. The Merger costs and accounting policy conformity adjustments recorded in the third quarter of 2004 and the Litigation reserve charge recorded in the second quarter of 2004 reflect a tax benefit at a 38% marginal tax rate, contributing to the reduction in the effective tax rates compared with prior periods. Additionally, the third quarter and first nine months of 2004 reflect a reduction in income tax expense associated with the settlement of prior year income tax examinations, partly offset by an increase in income tax expense resulting from leveraged lease terminations.

EXPLANATION AND RECONCILIATION OF THE FIRM'S USE OF NON-GAAP FINANCIAL MEASURES

The Firm prepares its Consolidated financial statements using U.S. GAAP; these financial statements appear on pages 61-64 of this Form 10-Q. That presentation, which is referred to as reported basis, provides the reader with an understanding of the Firm's results that can be consistently tracked from year to year and enables a comparison of the Firm's performance with other companies' U.S. GAAP financial statements.

In addition to analyzing the Firm's results on a reported basis, management reviews the line-of-business results on an operating basis, which is a non-GAAP financial measure. The definition of operating basis starts with the reported U.S. GAAP results. In the case of the Investment Bank, operating basis noninterest revenue includes, in Trading revenue, net interest income related to trading activities. Trading activities generate revenues, which are recorded for

U.S. 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 Investment Bank's trading activities, by considering all revenue related to these activities, and facilitates operating comparisons to other competitors. For a further discussion of trading-related revenue, see the Investment Bank on pages 13-16 of this Form 10-Q.

In the case of Card 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 net charge-off rates) of the entire managed credit card portfolio. For a further discussion of credit card securitizations, see Card Services on pages 25-27 of this Form 10-Q.

Finally, operating basis excludes the Merger costs, the Litigation reserve charge and accounting policy conformity adjustments related to the Merger, as management believes these items are not part of the Firm's normal daily business operations (and, therefore, not indicative of trends), and do not provide meaningful comparisons with other periods.

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The following summary table provides a reconciliation from the Firm's reported to operating results:

Reconciliation from reported to operating basis

| <i>(in millions)</i> | H-JPMC Only | | | Nine months ended September 30, (a) | | |
|--|--------------------|----------|--------|--|----------|--------|
| | 3Q 2004 | 3Q 2003 | Change | 2004 | 2003 | Change |
| <u>Reported</u> | | | | | | |
| Revenue | | | | | | |
| Investment banking fees | \$ 879 | \$ 649 | 35% | \$ 2,464 | \$ 2,044 | 21% |
| Trading revenue | 408 | 829 | (51) | 3,001 | 3,673 | (18) |
| Lending & deposit related fees | 943 | 456 | 107 | 1,769 | 1,276 | 39 |
| Asset management, administration and commissions | 2,141 | 1,518 | 41 | 5,682 | 4,320 | 32 |
| Securities / private equity gains (losses) | 413 | 284 | 45 | 1,305 | 1,287 | 1 |
| Mortgage fees and related income | 277 | 15 | NM | 874 | 774 | 13 |
| Credit card income | 1,782 | 635 | 181 | 3,018 | 1,781 | 69 |
| Other income | 210 | 196 | 7 | 602 | 340 | 77 |
| Subtotal | 7,053 | 4,582 | 54 | 18,715 | 15,495 | 21 |
| Net interest income | 5,452 | 3,198 | 70 | 11,432 | 9,783 | 17 |
| Total net revenue | 12,505 | 7,780 | 61 | 30,147 | 25,278 | 19 |
| Provision for credit losses | 1,169 | 223 | 424 | 1,387 | 1,401 | (1) |
| Noninterest expense | | | | | | |
| Merger costs | 752 | | NM | 842 | | NM |
| Litigation reserve charge | | | NM | 3,700 | 100 | NM |
| All other noninterest expense | 8,625 | 5,127 | 68 | 20,431 | 16,458 | 24 |
| Total noninterest expense | 9,377 | 5,127 | 83 | 24,973 | 16,558 | 51 |
| Income before income tax expense | 1,959 | 2,430 | (19) | 3,787 | 7,319 | (48) |
| Income tax expense | 541 | 802 | (33) | 987 | 2,464 | (60) |
| Net income | \$ 1,418 | \$ 1,628 | (13) | \$ 2,800 | \$ 4,855 | (42) |
| <u>Reconciling items (b)</u> | | | | | | |
| Revenue | | | | | | |
| Trading-related revenue (c) | \$ 424 | \$ 449 | (6) | \$ 1,439 | \$ 1,611 | (11) |
| Credit card income (d) | (848) | (363) | (134) | (1,481) | (1,011) | (46) |
| Other income | | | | | | |
| Credit card securitizations (d) | (3) | (14) | 79 | (87) | (42) | (107) |
| Accounting policy conformity (e) | 118 | | NM | 118 | | NM |
| Total other income | 115 | (14) | NM | 31 | (42) | NM |

| | | | | | | |
|-----------------------------------|---------------|-----------|-----|-----------------|-----------|-----|
| Net interest income: | | | | | | |
| Trading-related (c) | (424) | (449) | 6 | (1,439) | (1,611) | 11 |
| Credit card securitizations (d) | 1,779 | 848 | 110 | 3,455 | 2,461 | 40 |
| Total net interest income | 1,355 | 399 | 240 | 2,016 | 850 | 137 |
| Total net revenue | 1,046 | 471 | 122 | 2,005 | 1,408 | 42 |
| Provision for credit losses | | | | | | |
| Credit card securitizations (d) | 928 | 471 | 97 | 1,887 | 1,408 | 34 |
| Accounting policy conformity (e) | (333) | | NM | (333) | | NM |
| Total provision for credit losses | 595 | 471 | 26 | 1,554 | 1,408 | 10 |
| Noninterest expense | | | | | | |
| Merger costs (e) | (752) | | NM | (842) | | NM |
| Litigation reserve charge (e) | | | NM | (3,700) | | NM |
| All other noninterest expense | | | NM | | | NM |
| Total noninterest expense | (752) | | NM | (4,542) | | NM |
| Income before income tax expense | 1,203 | | NM | 4,993 | | NM |
| Income tax expense | 462 | | NM | 1,898 | | NM |
| Net income | \$ 741 | \$ | NM | \$ 3,095 | \$ | NM |

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| <i>(in millions)</i> | H-JPMC Only | | | Nine months ended September 30, | | |
|--|--------------------|-----------------|---------------|--|-----------------|---------------|
| | 3Q 2004 | 3Q 2003 | Change | 2004 | 2003 | Change |
| | | | | | (a) | |
| Operating Revenue | | | | | | |
| Investment banking fees | \$ 879 | \$ 649 | 35% | \$ 2,464 | \$ 2,044 | 21% |
| Trading-related revenue (including trading NII) | 832 | 1,278 | (35) | 4,440 | 5,284 | (16) |
| Lending & deposit related fees | 943 | 456 | 107 | 1,769 | 1,276 | 39 |
| Asset management, administration and commissions | 2,141 | 1,518 | 41 | 5,682 | 4,320 | 32 |
| Securities / private equity gains (losses) | 413 | 284 | 45 | 1,305 | 1,287 | 1 |
| Mortgage fees and related income | 277 | 15 | NM | 874 | 774 | 13 |
| Credit card income | 934 | 272 | 243 | 1,537 | 770 | 100 |
| Other income | 325 | 182 | 79 | 633 | 298 | 112 |
| Subtotal | 6,744 | 4,654 | 45 | 18,704 | 16,053 | 17 |
| Net interest income | 6,807 | 3,597 | 89 | 13,448 | 10,633 | 26 |
| Total net revenue | 13,551 | 8,251 | 64 | 32,152 | 26,686 | 20 |
| Managed provision for credit losses | 1,764 | 694 | 154 | 2,941 | 2,809 | 5 |
| Noninterest expense | | | | | | |
| Merger costs | | | NM | | | NM |
| Litigation reserve charge | | | NM | | | NM |
| All other noninterest expense | 8,625 | 5,127 | 68 | 20,431 | 16,558 | 23 |
| Total noninterest expense | 8,625 | 5,127 | 68 | 20,431 | 16,558 | 23 |
| Operating earnings before income tax expense | 3,162 | 2,430 | 30 | 8,780 | 7,319 | 20 |
| Income tax expense | 1,003 | 802 | 25 | 2,885 | 2,464 | 17 |
| Operating earnings | \$ 2,159 | \$ 1,628 | 33% | \$ 5,895 | \$ 4,855 | 21% |

- (a) 2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.
- (b) Represents only those line items in the Consolidated statements of income affected by the reclassification of trading-related net interest income and the impact of credit card securitizations, as well as, for the third quarter and first nine months of 2004, the Merger costs and Litigation reserve charge line items on the Consolidated statements of income and the accounting policy conformity adjustments.
- (c) The reclassification of trading-related net interest income from Net interest income to Trading revenue primarily impacts the Investment Bank segment results. See pages 13-16 of this Form 10-Q for further information.

- (d) *The impact of credit card securitizations impacts Card Services. See pages 25-27 of this Form 10-Q for further information.*
- (e) *The impact of the Merger costs, Litigation reserve charge and accounting policy conformity adjustments are excluded from Operating earnings, as management believes these items are not part of the Firm's normal daily business operations (and, therefore, not indicative of trends), and do not provide meaningful comparisons with other periods.*

Management uses certain non-GAAP financial measures at the segment level. Management believes these non-GAAP financial measures provide information to investors in understanding the underlying operational performance and performance trends of the particular business segment and facilitate a comparison with the performance of competitors. These include managed loans and managed assets in Card Services. For a discussion of these business segment-specific non-GAAP financial measures, see the disclosures in Card Services on pages 25-27 of this Form 10-Q.

For a reconciliation of the Firm's consolidated average assets to average managed assets, a non-GAAP financial measure, see Note 20 of this Form 10-Q.

BUSINESS SEGMENT RESULTS

The Firm is managed on a line-of-business basis. The business segment financial results presented reflect the current organization of JPMorgan Chase. There are seven major segments: the Investment Bank (IB), Retail Financial Services (RFS), Card Services (CS), Commercial Banking (CB), Treasury & Securities Services (TSS), Asset & Wealth Management (AWM) and Corporate. These segments are based on the products and services provided, or the type of customer served, and they reflect the manner in which financial information is currently evaluated by management. Results of these lines of business are presented on an operating basis.

In connection with the Merger, business segment reporting was realigned to reflect the new business structure of the combined Firm. Global Treasury was transferred from the IB into Corporate. TSS remains unchanged. Investment Management & Private Banking has been renamed Asset & Wealth Management. JPMorgan Partners, which formerly was a stand-alone business segment, was moved into Corporate. The segment formerly known as Chase Financial Services was comprised of Chase Home Finance,

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Chase Cardmember Services, Chase Auto Finance, Chase Regional Banking and Chase Middle Market. As a result of the Merger, this segment is now called Retail Financial Services and is comprised of Home Finance, Auto & Education Finance, Consumer & Small Business Banking and Insurance. Chase Middle Market moved into CB, and Chase Cardmember Services is now its own segment called Card Services. Lastly, Corporate is currently comprised of Global Treasury and Private Equity, formerly JPMorgan Partners, as well as corporate support areas which include Corporate Treasury, Central Technology and Operations, Internal Audit, the Executive Office, General Services, Global Finance, Human Resources, Marketing and Communications, Office of the General Counsel, Real Estate Business Services, Risk Management and Strategy and Development.

Segment results for periods prior to the third quarter of 2004 reflect heritage JPMorgan Chase only results and have been restated to reflect the current business segments and reporting classifications. The following table summarizes Operating earnings by line of business for the periods indicated:

| Operating earnings (loss) <i>(in millions)</i> | H-JPMC | | Nine months ended | |
|--|-----------------|-------------------------|--------------------------|----------------------------------|
| | 3Q 2004 | Only 3Q 2003 | 2004 | September 30, (a) 2003 |
| Investment Bank | \$ 627 | \$ 693 | \$ 2,288 | \$ 1,996 |
| Retail Financial Services | 822 | 181 | 1,424 | 1,242 |
| Card Services | 421 | 199 | 759 | 510 |
| Commercial Banking | 215 | 63 | 354 | 218 |
| Treasury & Securities Services | 96 | 115 | 295 | 299 |
| Asset & Wealth Management | 197 | 85 | 418 | 181 |
| Corporate | (219) | 292 | 357 | 409 |
| Total operating earnings | \$ 2,159 | \$ 1,628 | \$ 5,895 | \$ 4,855 |

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

Description of Methodology

The results of the business segments are intended to reflect each segment as if it were essentially a stand-alone business. The management reporting process that derives these results allocates income and expenses using market-based methodologies. Funds transfer pricing is used to allocate interest income and interest expense to each line of business. Business segments retain interest rate exposure related to customer pricing and other business specific risks that cannot be efficiently risk managed using market-based instruments. The balance of the Firm's overall interest rate exposure is included and managed in the Corporate sector. In addition, each business segment is allocated capital based on new capital allocation methodologies implemented during the third quarter of 2004 in connection with the Merger. For each line of business, the amount of capital allocated to each of the business segments considers several factors: stand-alone peer comparables, economic risk measures and regulatory capital requirements. The amount of capital assigned to each business is referred to as equity. In addition, effective with the third quarter of 2004, goodwill, as well as the associated capital, is allocated solely to the Corporate line of business. Although U.S. GAAP requires the allocation of goodwill to the business segments for impairment testing (see Note 14), the Firm has elected not to include goodwill or the related capital in each of the businesses for management reporting purposes. Prior periods have not been revised to reflect these new methodologies and thus may not be comparable to the presentation beginning in the third quarter of 2004. See the Capital Management section on page 39 of this Form 10-Q for a discussion of the equity framework.

The costs of certain support units are allocated to the lines of business based on actual cost, or the lower of actual or market cost, as well as usage of services provided. This method is consistently applied to all lines of business. Certain expenses related to corporate functions, technology and operations are not allocated to the business segments and are reflected in Corporate. Expenses that have been retained in Corporate and not charged to the business segments include parent company costs that would not be incurred if the segments were stand-alone businesses; market price adjustments for certain corporate functions, technology and operations; and certain start-up and development costs of corporate-wide initiatives.

Certain information provided in the following business segment tables (e.g., Financial Ratios, Business Metrics, Financial Metrics, Market Share/Rankings) is included herein for analytical purposes only and is based on management information systems, assumptions and methodologies that are under continual review by management. It is expected that the Firm will continuously assess the assumptions, methodologies and reporting reclassifications used for segment reporting and further refinements may be implemented in future periods.

Table of Contents**INVESTMENT BANK**

JPMorgan Chase's IB is one of the world's leading investment banks, with broad client relationships and product capabilities. The Firm's customers are corporations, financial institutions, governments and institutional investors worldwide. The IB provides a complete platform for its clients, including advising on corporate strategy and structure, equity and debt capital raising, sophisticated risk management and market-making in cash securities and derivative instruments around the world. The IB also participates in proprietary investing and trading. As a result of the Merger, the Global Treasury business has been transferred to the Corporate sector and prior periods have been restated to reflect the reorganization. For a discussion of the business profile of the IB, see pages 29-30 of JPMorgan Chase's 2003 Annual Report. The following table sets forth selected IB financial and business-related data:

| | H-JPMC Only | | | Nine months ended September | | |
|---|-------------|------------|--------|-----------------------------|----------|--------|
| | 3Q 2004 | 3Q 2003 | Change | 2004 | 2003 | Change |
| <i>(in millions, except headcount and ratio data)</i> | | | | | | |
| Revenue | | | | | | |
| Investment banking fees: | | | | | | |
| Advisory | \$ 273 | \$ 161 | 70% | \$ 688 | \$ 483 | 42% |
| Equity underwriting | 170 | 173 | (2) | 568 | 444 | 28 |
| Debt underwriting | 468 | 305 | 53 | 1,236 | 1,104 | 12 |
| Total investment banking fees | 911 | 639 | 43 | 2,492 | 2,031 | 23 |
| Trading-related revenue: (b) | | | | | | |
| Fixed income and other | 657 | 1,163 | (44) | 3,835 | 4,857 | (21) |
| Equities | 220 | 97 | 127 | 469 | 460 | 2 |
| Credit portfolio | (35) | (17) | (106) | 50 | (136) | NM |
| Total trading-related revenue | 842 | 1,243 | (32) | 4,354 | 5,181 | (16) |
| Lending & deposit related fees | 155 | 115 | 35 | 363 | 309 | 17 |
| Asset management, administration and commissions | 313 | 314 | | 1,054 | 908 | 16 |
| Other income | 91 | 50 | 82 | 150 | 38 | 295 |
| Subtotal | 2,312 | 2,361 | (2) | 8,413 | 8,467 | (1) |
| Net interest income (b) | 389 | 431 | (10) | 991 | 1,319 | (25) |
| Total net revenue (c) | \$ 2,701 | \$ 2,792 | (3) | \$ 9,404 | \$ 9,786 | (4) |
| Provision for credit losses | (151) | (181) | 17 | (467) | 60 | NM |
| Credit reimbursement from TSS (d) | 43 | (10) | NM | 47 | (31) | NM |
| Noninterest expense | | | | | | |
| Compensation expense | 992 | 956 | 4 | 3,504 | 3,641 | (4) |
| Noncompensation expense | 932 | 865 | 8 | 2,802 | 2,860 | (2) |
| Amortization of intangibles | | | NM | | | NM |
| Total noninterest expense | 1,924 | 1,821 | 6 | 6,306 | 6,501 | (3) |
| Operating earnings before income tax expense | | | | | | |
| Income tax expense | 971 | 1,142 | (15) | 3,612 | 3,194 | 13 |
| | 344 | 449 | (23) | 1,324 | 1,198 | 11 |

| | | | | | | |
|--|-----------------|----------|---------|-----------------|----------|-------|
| Operating earnings | \$ 627 | \$ 693 | (10) | \$ 2,288 | \$ 1,996 | 15 |
| Financial ratios | | | | | | |
| ROE | 12% | 15% | (300)bp | 19% | 14% | 500bp |
| ROA | 0.50 | 0.63 | (13) | 0.68 | 0.61 | 7 |
| Overhead ratio | 71 | 65 | 600 | 67 | 66 | 100 |
| Compensation expense as % of total net revenue | 37 | 34 | 300 | 37 | 37 | |
| Revenue by business: | | | | | | |
| Investment banking | \$ 911 | \$ 639 | 43% | \$ 2,492 | \$ 2,031 | 23% |
| Fixed income markets | 1,115 | 1,451 | (23) | 4,784 | 5,608 | (15) |
| Equities markets | 455 | 312 | 46 | 1,248 | 1,088 | 15 |
| Credit portfolio | 220 | 390 | (44) | 880 | 1,059 | (17) |
| Total net revenue | \$ 2,701 | \$ 2,792 | (3) | \$ 9,404 | \$ 9,786 | (4) |
| Revenue by region: | | | | | | |
| Americas | \$ 1,591 | \$ 1,651 | (4) | \$ 5,041 | \$ 5,532 | (9) |
| Europe/Middle East/Africa | 741 | 904 | (18) | 3,069 | 3,434 | (11) |
| Asia/Pacific | 369 | 237 | 56 | 1,294 | 820 | 58 |
| Total net revenue | \$ 2,701 | \$ 2,792 | (3) | \$ 9,404 | \$ 9,786 | (4) |

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| <i>(in millions, except headcount and ratio data)</i> | H-JPMC Only | | | Nine months ended September 30, (a) | | |
|--|--------------------|----------------|---------------|--|-------------|---------------|
| | 3Q 2004 | 3Q 2003 | Change | 2004 | 2003 | Change |
| Selected Balance Sheet (Average) | | | | | | |
| Total assets | \$ 496,347 | \$ 434,911 | 14% | \$ 452,714 | \$ 434,717 | 4% |
| Trading assets debt and equity instruments | 166,795 | 144,130 | 16 | 170,073 | 152,199 | 12 |
| Trading assets derivative receivables | 60,465 | 80,850 | (25) | 56,492 | 84,970 | (34) |
| Loans (e) | 45,779 | 42,932 | 7 | 40,920 | 46,815 | (13) |
| Adjusted assets (f) | 431,772 | 387,804 | 11 | 408,841 | 391,835 | 4 |
| Equity (g) | 20,000 | 17,949 | 11 | 16,380 | 19,074 | (14) |
| Headcount | 17,420 | 14,470 | 20 | | | |
| Credit Data and Quality Statistics: | | | | | | |
| Net charge-offs | \$ (16) | \$ 217 | NM | \$ 33 | \$ 695 | (95) |
| Nonperforming assets: | | | | | | |
| Nonperforming loans (h) | 1,075 | 2,400 | (55) | 1,075 | 2,400 | (55) |
| Other nonperforming assets | 246 | 378 | (35) | 246 | 378 | (35) |
| Allowance for loan losses | 1,841 | 1,270 | 45 | 1,841 | 1,270 | 45 |
| Allowance for lending related commitments | 358 | 247 | 45 | 358 | 247 | 45 |
| Net charge-off rate | (0.17)% | 2.17% | (234)bp | 0.13% | 2.16% | (203)bp |
| Allowance for loan losses to average loans | 4.78 | 3.21 | 157 | 5.26 | 2.95 | 231 |
| Allowance for loan losses to nonperforming loans | 172 | 56 | NM | 172 | 56 | NM |
| Nonperforming loans to average loans | 2.35 | 5.59 | (324) | 2.63 | 5.13 | (250) |
| Market risk average trading and credit portfolio VAR (i)(j) | | | | | | |
| Trading activities: | | | | | | |
| Fixed income (i) | \$ 80 | \$ 62 | 29% | \$ 77 | \$ 60 | 28% |
| Foreign exchange | 13 | 15 | (13) | 17 | 16 | 6 |
| Equities | 25 | 12 | 108 | 31 | 11 | 182 |
| Commodities and other | 10 | 9 | 11 | 9 | 8 | 13 |
| Diversification | (43) | (32) | (34) | (45) | (38) | (18) |
| Total trading VAR | 85 | 66 | 29 | 89 | 57 | 56 |
| Credit portfolio VAR (j) | 13 | 19 | (32) | 14 | 18 | (22) |
| Diversification | (9) | (17) | 47 | (8) | (14) | 43 |
| Total trading and credit portfolio VAR | \$ 89 | \$ 68 | 31 | \$ 95 | \$ 61 | 56 |

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

(b) Trading revenue, on a reported basis, excludes the impact of net interest income related to IB's trading activities; this income is recorded in Net interest income. However, in this presentation, to assess the profitability of IB's trading business, the Firm combines these revenues for segment reporting. The amount reclassified from Net interest income to Trading revenue was \$0.4 billion during both of the quarters ended September 30, 2004 and 2003, and \$1.4 billion and \$1.6 billion for the nine months ended September 30, 2004 and 2003, respectively.

- (c) *Operating revenue includes tax equivalent adjustments of \$9 million and \$57 million during the quarter ended September 30, 2004 and 2003, respectively, and \$180 million and \$173 million for the nine months ended September 30, 2004 and 2003, respectively.*
- (d) *Management has charged TSS a credit reimbursement, which is the pre-tax amount of earnings, less cost of capital, related to certain exposures managed within the IB credit portfolio on behalf of clients shared with TSS.*
- (e) *Loans include loans held for sale of \$7.3 billion and \$3.3 billion as of September 30, 2004, and September 30, 2003, respectively. The year-to-date average loans held for sale are \$5.9 billion and \$3.8 billion for 2004 and 2003, respectively. These amounts are not included in the allowance coverage ratios and net charge-off rates.*
- (f) *Adjusted assets equals total assets minus (1) securities purchased under resale agreements and securities borrowed less securities sold, not yet purchased; (2) assets of VIEs consolidated under FIN46R; (3) cash and securities segregated and on deposit for regulatory and other purposes; and (4) goodwill and intangibles. The amount of adjusted assets is presented to assist the reader in comparing the IB's asset and capital levels to other investment banks in the securities industry. Asset to equity leverage ratios are commonly used as one measure to assess a company's capital adequacy. The IB believes an adjusted asset amount, which excludes certain assets considered to have a low risk profile, provides a more meaningful measure of balance sheet leverage in the securities industry. See page 37 for a discussion of the Firm's overall capital adequacy and capital management.*
- (g) *Equity includes \$15.7 billion of economic risk capital assigned to the IB for the three months ended September 30, 2004.*
- (h) *Nonperforming loans include loans held for sale of \$4 million and \$138 million as of September 30, 2004, and September 30, 2003, respectively. These amounts are not included in the allowance coverage ratios and net charge-off rates.*
- (i) *Includes all mark-to-market trading activities, plus available-for-sale securities held for IB investing purposes.*
- (j) *Includes VAR on derivative credit valuation adjustments, credit valuation adjustment hedges and mark-to-market loan hedges, which are reported in Trading revenue. This VAR does not include the accrual loan portfolio, which is not marked to market.*

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Quarterly Results

Operating earnings were \$627 million, down 10% from the prior year. These results were positively affected by the Merger with 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 by 43%, due to continued strength in debt underwriting and advisory fees, relatively flat equity underwriting fees and the Merger. Fixed income market revenues of \$1.1 billion were down 23%, or \$336 million, primarily reflecting lower trading results. Equity markets revenues increased by 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 securities acquired from loan workouts, partially offset by revenue from the Merger.

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

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

Year-to-date Results

Year-to-date operating earnings of \$2.3 billion increased by 15% compared with the prior year primarily driven by a reduction in the Provision for credit losses. On a year-to-date basis, ROE of 19% was up from the prior year's first nine months, primarily due to lower equity driven by reduced credit risk capital.

Year-to-date operating revenues of \$9.4 billion were down 4% from the prior year primarily due to lower Fixed income trading results and Credit portfolio revenues, partially offset by increases in Investment banking fees and Equity market revenues, as well as the Merger. The Fixed income markets revenue decline was driven by lower trading results. Credit portfolio revenues were down due to lower net interest income and lending fees, due to lower loan balances, and lower gains from workouts. The increases in Investment banking fees and Equity markets revenue were the result of stronger client activity.

For the first nine months of 2004, noninterest expense of \$6.3 billion was down 3% from last year. The expense decline from 2003 was driven by lower incentives resulting from lower financial performance, in addition to the Enron-related litigation reserve in 2003 of \$100 million, and real estate write-offs in 2003. Partially offsetting these reductions were higher expenses associated with strategic investments, amortization of restricted stock and options expense, increased legal fees and the Merger.

Year-to-date, the provision for credit losses was a benefit of \$467 million, compared with \$60 million of Provision for credit losses in the first nine months of 2003. The improvement in the provision was the result of a \$662 million decline in net charge-offs, partially offset by lower credit reserve releases from moderating improvement in the overall credit quality of the portfolio. For additional information, see Credit risk management on pages 42-53 of this Form 10-Q.

Composition of Revenue

**Asset
Lending
& management,
Trading-**

| <i>(in millions)</i> | Investment banking fees | related revenue | deposit- related fees | administration and commissions | Other Income | NII | Total net revenue |
|-------------------------------|--|----------------------------|--------------------------------------|---|-------------------------|---------------|----------------------------------|
| Third quarter 2004 | | | | | | | |
| Investment banking | \$ 911 | | | | | | \$ 911 |
| Fixed income markets | | 657 | 69 | 54 | 154 | 181 | 1,115 |
| Equities markets | | 220 | | 252 | (29) | 12 | 455 |
| Credit portfolio | | (35) | 86 | 7 | (34) | 196 | 220 |
| Total | \$ 911 | \$ 842 | \$ 155 | \$ 313 | \$ 91 | \$ 389 | \$ 2,701 |
| Third quarter 2003 (a) | | | | | | | |
| Investment banking | \$ 639 | | | | | | \$ 639 |
| Fixed income markets | | 1,163 | 29 | 80 | 42 | 137 | 1,451 |
| Equities markets | | 97 | | 225 | (27) | 17 | 312 |
| Credit portfolio | | (17) | 86 | 9 | 35 | 277 | 390 |
| Total | \$ 639 | \$ 1,243 | \$ 115 | \$ 314 | \$ 50 | \$ 431 | \$ 2,792 |

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| <i>(in millions)</i> | Investment banking fees | Trading- related revenue | Lending & deposit- related fees | Asset | | Other Income | NII | Total net revenue |
|---|-------------------------------|--------------------------------|---|---|-------|-----------------|----------|-------------------------|
| | | | | management, administration and commissions | | | | |
| Nine months ended September 30, 2004 (b) | | | | | | | | |
| Investment banking | \$ 2,492 | \$ | \$ | \$ | \$ | \$ | \$ | \$ 2,492 |
| Fixed income markets | | 3,835 | 123 | | 222 | 215 | 389 | 4,784 |
| Equities markets | | 469 | | | 809 | (80) | 50 | 1,248 |
| Credit portfolio | | 50 | 240 | | 23 | 15 | 552 | 880 |
| Total | \$ 2,492 | \$ 4,354 | \$ 363 | \$ | 1,054 | \$ 150 | \$ 991 | \$ 9,404 |
| Nine months ended September 30, 2003 (a) | | | | | | | | |
| Investment banking | \$ 2,031 | \$ | \$ | \$ | \$ | \$ | \$ | \$ 2,031 |
| Fixed income markets | | 4,857 | 75 | | 267 | 63 | 346 | 5,608 |
| Equities markets | | 460 | | | 614 | (52) | 66 | 1,088 |
| Credit portfolio | | (136) | 234 | | 27 | 27 | 907 | 1,059 |
| Total | \$ 2,031 | \$ 5,181 | \$ 309 | \$ | 908 | \$ 38 | \$ 1,319 | \$ 9,786 |

(a) *Heritage JPMorgan Chase only.*

(b) *Includes three months of the combined Firm's activity and six months of heritage JPMorgan Chase activity.*

According to Thomson Financial, for the first nine months of 2004 compared with full-year 2003, the Investment Bank increased its market share of U.S. initial public offerings to #4 from #15, with the Firm moving to #5 from #4 in the U.S. Equity & Equity-related category. The IB maintained its #1 ranking in U.S. syndicated loans, with a 33% market share year-to-date, and its #3 position in Global debt, Equity and Equity-related.

| Market Share/Rankings (a) | Market Share/Rankings | |
|--|---|-------------------|
| | Nine months ended September 30, 2004 | Full year 2003 |
| Global debt, equity and equity-related | 7% / #3 | 8% / #3 |
| Global syndicated loans | 20% / #1 | 20% / #1 |
| Global long-term debt | 7% / #2 | 8% / #2 |
| Global equity and equity-related | 6% / #6 | 8% / #4 |
| Global announced M&A | 24% / #2 | 16% / #4 |
| U.S. debt, equity and equity-related | 8% / #5 | 9% / #3 |
| U.S. syndicated loans | 33% / #1 | 35% / #1 |
| U.S. long-term debt | 8% / #3 | 10% / #3 |

| | | |
|--------------------------------|----------|----------|
| U.S. equity and equity-related | 8% / #5 | 11% / #4 |
| U.S. announced M&A | 27% / #1 | 13% / #8 |

(a) *Derived from Thomson Financial Securities data. Global announced M&A is based on rank value; all other rankings are based on proceeds, with full credit to each book manager/equal if joint. Because of joint assignments, market share of all participants will add up to more than 100%. The market share and rankings are presented on a combined basis for all periods presented reflecting the merger of JPMorgan Chase and Bank One, as disclosed by Thomson Financial Securities data.*

Outlook: The Investment Bank remains cautious about trading revenues. The investment banking pipeline for underwriting and mergers and acquisition advisory activities, while lower than levels at the beginning of the third quarter, remains at significantly higher levels than a year ago. Realization of revenues in the Investment Bank fee pipeline is uncertain and can be impacted by changes in market conditions.

Table of ContentsRETAIL FINANCIAL SERVICES

RFS includes Home Finance, Consumer & Small Business Banking, Auto & Education Finance and Insurance. RFS provides consumers and small businesses a broad range of financial products and services including deposits, investments, loans and insurance. Through Consumer & Small Business Banking, the Firm has the fourth largest branch network in the United States, covering 17 states with 2,467 branches and 6,587 ATMs. Home Finance is a leading provider of consumer real estate loan products and is one of the largest originators and servicers of home mortgages. Auto & Education Finance is the largest bank originator of automobile loans as well as a top provider of loans to college students. Through its Insurance operations, the company sells and underwrites an extensive range of financial protection and investment alternatives, including life insurance, annuities and debt protection products.

The following table reflects selected financial data of RFS:

| <i>(in millions, except headcount and ratio data)</i> | H-JPMC Only | | | Nine months ended September 30, | | |
|---|-------------|---------|---------|---------------------------------|-------------|-----------|
| | 3Q 2004 | 3Q 2003 | Change | 2004 | (a) 2003 | Change |
| Revenue | | | | | | |
| Lending & deposit related fees | \$ 395 | \$ 125 | 216% | \$ 640 | \$ 360 | 78% |
| Asset management, administration and commissions | 331 | 86 | 285 | 526 | 262 | 101 |
| Securities / private equity gains (losses) | 6 | (62) | NM | 6 | 363 | (98) |
| Mortgage fees and related income | 255 | 12 | NM | 875 | 765 | 14 |
| Credit card income | 89 | 27 | 230 | 133 | 83 | 60 |
| Other income | 18 | (4) | NM | 4 | (13) | NM |
| Subtotal | 1,094 | 184 | 495 | 2,184 | 1,820 | 20 |
| Net interest income | 2,706 | 1,345 | 101 | 5,062 | 3,886 | 30 |
| Total net revenue | 3,800 | 1,529 | 149 | 7,246 | 5,706 | 27 |
| Provision for credit losses | 239 | 158 | 51 | 371 | 449 | (17) |
| Noninterest expense | | | | | | |
| Compensation expense | 855 | 381 | 124 | 1,814 | 1,252 | 45 |
| Noncompensation expense | 1,250 | 704 | 78 | 2,661 | 2,046 | 30 |
| Amortization of intangibles | 133 | 1 | NM | 135 | 3 | NM |
| Total noninterest expense | 2,238 | 1,086 | 106 | 4,610 | 3,301 | 40 |
| Operating earnings before income tax expense | 1,323 | 285 | 364 | 2,265 | 1,956 | 16 |
| Income tax expense | 501 | 104 | 382 | 841 | 714 | 18 |
| Operating earnings | \$ 822 | \$ 181 | 354 | \$ 1,424 | \$ 1,242 | 15 |
| Financial ratios | | | | | | |
| ROE | 25% | 16% | 900bp | 24% | 41% | (1,700)bp |
| ROA | 1.44 | 0.46 | 98 | 1.11 | 1.13 | (2) |
| Overhead ratio | 59 | 71 | (1,200) | 64 | 58 | 600 |
| Selected balance sheet (ending) | | | | | | |
| Total assets | \$ 227,952 | NA | NM | \$ 227,952 | NA | NM |

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| | | | | | | |
|---|-------------------|------------|-----|-------------------|------------|-----|
| Loans (b) | 201,116 | \$ 133,828 | 50% | 201,116 | \$ 133,828 | 50% |
| Core deposits (c) | 154,986 | NA | NM | 154,986 | NA | NM |
| Total deposits | 180,727 | NA | NM | 180,727 | NA | NM |
| Selected balance sheet (average) | | | | | | |
| Total assets | \$ 227,716 | \$ 155,247 | 47 | \$ 171,585 | \$ 146,425 | 17 |
| Loans (d) | 198,244 | 127,601 | 55 | 149,454 | 118,364 | 26 |
| Core deposits (c) | 159,197 | 85,059 | 87 | 108,274 | 80,478 | 35 |
| Total deposits | 183,921 | 94,563 | 94 | 122,451 | 90,334 | 36 |
| Equity | 13,050 | 4,422 | 195 | 7,764 | 4,095 | 90 |
| Headcount | 60,691 | 32,271 | 88 | | | |

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| <i>(in millions, except headcount and ratio data)</i> | H-JPMC Only | | | Nine months ended September 30, (a) | | |
|---|-------------|---------|---------|-------------------------------------|--------|---------|
| | 3Q 2004 | 3Q 2003 | Change | 2004 | 2003 | Change |
| Credit data and quality statistics | | | | | | |
| Net charge-offs | \$ 219 | \$ 92 | 138 | \$ 384 | \$ 277 | 39 |
| Nonperforming loans | 1,308 | 592 | 121 | 1,308 | 592 | 121 |
| Nonperforming assets | 1,557 | 783 | 99 | 1,557 | 783 | 99 |
| Allowance for loan losses | 1,764 | 1,126 | 57 | 1,764 | 1,126 | 57 |
| Net charge-off rate (d) | 0.47% | 0.37% | 10bp | 0.38% | 0.40% | (2)bp |
| Allowance for loan losses to ending loans (b) | 0.94 | 1.12 | (18) | 0.94 | 1.12 | (18) |
| Allowance for loan losses to nonperforming loans (e) | 143 | 201 | (5,800) | 143 | 201 | (5,800) |
| Nonperforming loans to total loans | 0.65 | 0.44 | 21 | 0.65 | 0.44 | 21 |

- (a) 2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.
- (b) End of period loans include loans held for sale of \$12,816 million and \$32,857 million at September 30, 2004 and 2003, respectively. Those amounts are not included in the allowance coverage ratios.
- (c) Includes demand and savings deposits.
- (d) Average loans include loans held for sale of \$14,479 million and \$30,178 million at September 30, 2004 and 2003, respectively. The year-to-date average loans held for sale are \$15,140 million and \$26,683 million for 2004 and 2003, respectively. These amounts are not included in the net charge-off rate.
- (e) Nonperforming loans include loans held for sale of \$74 million and \$33 million at September 30, 2004 and 2003, respectively. These amounts are not included in the allowance coverage ratios.

Quarterly Results

Operating earnings were \$822 million compared with \$181 million in the prior year. The primary reason for growth was the Merger. 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 Merger 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 Merger, 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 with \$158 million last year, reflecting the Merger. Credit quality trends remain favorable.

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

Year-to-date Results

Operating earnings were \$1.4 billion, up from \$1.2 billion a year ago. The increase was largely due to the Merger, but also reflected growth in loan and deposit balances, higher margin and fee income on deposit products and improvement in credit costs from the year-ago period. These were partially offset by revenue decreases in the Home and Auto Finance businesses.

Total revenue rose to \$7.2 billion, from \$5.7 billion in the prior year. Net interest income increased to \$5.1 billion compared with \$3.9 billion primarily due to the Merger, growth in retained loan and deposit balances, and wider spreads on deposit products. Noninterest revenue increased to \$2.2 billion from \$1.8 billion due to the Merger. Higher deposit-related fees were offset by a decline in revenue as a result of lower prime mortgage originations.

The provision for credit losses of \$371 million was down from \$449 million in the year-ago period despite the Merger. This was a result of lower credit costs in the Home and Auto Finance portfolios.

Noninterest expenses totaled \$4.6 billion, up from \$3.3 billion in the prior year. The increase was primarily due to the Merger, but also included incremental costs associated with the realignment of resources in the Home Finance business in response to lower business volumes.

Outlook: Operating results for Retail Financial Services are expected to moderate, as Home Finance earnings are likely to decline due to a market-driven drop in mortgage originations. The drop in revenue at Home Finance will be partially mitigated by ongoing efforts to bring expenses in line with lower expected origination volumes. Earnings in the Auto & Education Finance business will remain under pressure as well given the competitive nature of the current operating environment. Growth is expected to continue in Consumer & Small Business Banking, with increases in core deposits and associated revenue partially offset by ongoing

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investments in the branch distribution network. New branch openings should continue at a pace consistent with prior quarters. Expanded hours and realigned compensation plans for heritage Chase branches are expected to provide improvements in productivity and incremental net revenue growth. Across all RFS businesses, credit quality trends remain stable with credit costs expected to moderate slightly in the near future.

Home Finance

Home Finance is comprised of two key business segments: Prime Production & Servicing and Consumer Real Estate Lending. The Prime Production & Servicing segment includes the operating results associated with the origination, sale and servicing of prime mortgages. Consumer Real Estate Lending reflects the results of loans secured by real estate made to consumers that are held by the Firm for investment purposes. These include fixed and adjustable-rate first mortgage loans, home equity lines and loans, and manufactured housing loans, a product the Firm stopped originating earlier this year.

The following table sets forth key financial and business-related components of the Home Finance business:

| <i>(in millions, except ratios and where otherwise noted)</i> | H-JPMC Only | | | Nine months ended September 30, (a) | | |
|---|--------------------|--------------------|---------------|--|-------------|---------------|
| | 3Q 2004 | 3Q 2003 | Change | 2004 | 2003 | Change |
| Prime production and servicing | | | | | | |
| Production | \$ 168 | \$ 25 | NM | \$ 532 | \$ 1,021 | (48)% |
| Servicing | | | | | | |
| Mortgage servicing revenue, net of amortization | 134 | 168 | (20)% | 482 | 312 | 54 |
| MSR, net of hedging | 153 | 89 | 72 | 300 | 790 | (62) |
| Total Revenue | 455 | 282 | 61 | 1,314 | 2,123 | (38) |
| Noninterest expense | 296 | 293 | 1 | 849 | 813 | 4 |
| Operating earnings | 103 | (9) | NM | 296 | 828 | (64) |
| Consumer real estate lending | | | | | | |
| Net revenue | \$ 704 | \$ 404 | 74 | \$ 1,651 | \$ 1,055 | 56 |
| Provision for credit losses | 65 | 61 | 7 | 94 | 227 | (59) |
| Noninterest expense | 264 | 156 | 69 | 639 | 430 | 49 |
| Operating earnings | 237 | 124 | 91 | 586 | 266 | 120 |
| Total home finance | | | | | | |
| Total revenue | 1,159 | 686 | 69 | 2,965 | 3,178 | (7) |
| Provision for credit losses | 65 | 61 | 7 | 94 | 227 | (59) |
| Noninterest expense | 560 | 449 | 25 | 1,488 | 1,243 | 20 |
| Operating earnings | 340 | 115 | 196 | 882 | 1,094 | (19) |
| Origination volume by channel (in billions) | | | | | | |
| Retail | \$ 19.7 | \$ 29.7 | (34) | \$ 55.7 | \$ 74.2 | (25) |
| Wholesale | 11.6 | 22.8 | (49) | 36.8 | 54.5 | (32) |
| Correspondent | 5.4 | 15.5 | (65) | 18.6 | 35.2 | (47) |
| Correspondent negotiated transactions | 11.3 | 25.7 | (56) | 31.5 | 69.3 | (55) |
| Total | 48.0 | 93.7 | (49) | 142.6 | 233.2 | (39) |

Origination volume by business (in billions)

| | | | | | | |
|-------------|---------|---------|------|----------|----------|------|
| Mortgage | \$ 34.1 | \$ 86.3 | (60) | \$ 112.2 | \$ 215.8 | (48) |
| Home equity | 13.9 | 7.4 | 88 | 30.4 | 17.4 | 75 |

| | | | | | | |
|-------|------|------|------|-------|-------|------|
| Total | 48.0 | 93.7 | (49) | 142.6 | 233.2 | (39) |
|-------|------|------|------|-------|-------|------|

Business metrics (in billions)

| | | | | | | |
|---------------------------------|----------|----------|----|----------|----------|----|
| Loans serviced (ending) | \$ 553.5 | \$ 454.9 | 22 | \$ 553.5 | \$ 454.9 | 22 |
| MSR net carrying value (ending) | 5.2 | 4.0 | 30 | 5.2 | 4.0 | 30 |

End of period loans owned

| | | | | | | |
|------------------------------|------|------|------|------|------|------|
| Mortgage loans held for sale | 9.5 | 31.4 | (70) | 9.5 | 31.4 | (70) |
| Mortgage loans retained | 46.5 | 33.6 | 38 | 46.5 | 33.6 | 38 |
| Home equity and other loans | 67.3 | 21.6 | 212 | 67.3 | 21.6 | 212 |

| | | | | | | |
|---------------------------------|-------|------|----|-------|------|----|
| Total end of period loans owned | 123.3 | 86.6 | 42 | 123.3 | 86.6 | 42 |
|---------------------------------|-------|------|----|-------|------|----|

Average loans owned

| | | | | | | |
|------------------------------|------|------|------|------|------|------|
| Mortgage loans held for sale | 10.9 | 28.5 | (62) | 12.9 | 24.9 | (48) |
| Mortgage loans retained | 44.0 | 32.8 | 34 | 40.2 | 29.2 | 38 |
| Home equity and other loans | 66.2 | 20.1 | 229 | 38.8 | 18.9 | 105 |

| | | | | | | |
|---------------------------|-------|------|----|------|------|----|
| Total average loans owned | 121.1 | 81.4 | 49 | 91.9 | 73.0 | 26 |
|---------------------------|-------|------|----|------|------|----|

| | | | | | | |
|----------------|-----|-----|------------|-----|-----|---------|
| Overhead ratio | 48% | 65% | (1,700) bp | 50% | 39% | 1,100bp |
|----------------|-----|-----|------------|-----|-----|---------|

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| | H-JPMC Only | | | Nine months ended September 30, (a) | | |
|---|---------------|------------|--------|--|--------|--------|
| | 3Q 2004 | 3Q 2003 | Change | 2004 | 2003 | Change |
| <i>(in millions, except ratios and where otherwise noted)</i> | | | | | | |
| Credit quality statistics | | | | | | |
| 30+ day delinquency rate | 1.50% | 2.05% | (55) | 1.50% | 2.05% | (55) |
| Net charge-offs | \$ 6 | \$ 4 | 50% | \$ 14 | \$ 18 | (22)% |
| Mortgage | | | | | | |
| Home equity and other loans | 57 | 26 | 119 | 105 | 80 | 31 |
| Total net charge-offs | 63 | 30 | 110 | 119 | 98 | 21 |
| Net charge-off rate | | | | | | |
| Mortgage | 0.05% | 0.05% | bp | 0.05% | 0.08% | (3)bp |
| Home equity and other loans | 0.34 | 0.51 | (17) | 0.36 | 0.57 | (21) |
| Total net charge-off rate (b) | 0.23 | 0.22 | 1 | 0.20 | 0.27 | (7) |
| Nonperforming assets | \$ 997 | \$ 542 | 84% | \$ 997 | \$ 542 | 84% |

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

(b) Excludes mortgage loans held for sale.

Quarterly Results

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 Consumer Real Estate Lending segment increased to \$237 million. Growth over the prior year was largely due to the Merger, but also reflected higher retained loan balances.

Year-to-date Results

The decrease in operating earnings of \$882 million from \$1.1 billion in the year-ago period was the result of significantly lower origination volume and lower mortgage servicing rights (MSRs) hedging results, partially offset by the Merger, higher retained loan balances and improved credit trends in 2004.

Operating earnings in the Prime Production & Servicing segment dropped to \$296 million from \$828 million in the prior year. This was due to a decline in mortgage originations, which resulted in total revenue in this segment dropping to \$1.3 billion from \$2.1 billion in the prior year. The drop in revenue also included reduced earnings derived from the risk management activities associated with the MSR asset, \$300 million in the current period versus \$790 million in the prior year. Noninterest expense totaled \$849 million up from \$813 million in the year ago period. The increase reflected costs to realign resources with declining prime mortgage origination volume and higher marketing expenses.

Operating earnings for the Consumer Real Estate Lending segment rose to \$586 million from \$266 million in the prior year. The increase was largely due to the acquisition of the Bank One home equity lending business, but also reflected growth in retained loan balances. These factors contributed to total revenue rising to \$1.7 billion from \$1.1 billion.

The provision for credit losses of \$94 million decreased from \$227 million a year ago due to improved credit quality and lower delinquencies, partially offset by the Merger. Noninterest expenses totaled \$639 million up from \$430 million in the year ago period, largely due to the Merger.

The table below reconciles management's disclosure on Home Finance's business to the reported U.S. GAAP line items shown on the Consolidated statement of income and in the related Notes to Consolidated financial statements:

| <i>(in millions)</i> | Prime production and servicing | | Consumer real estate lending | | Total revenue | |
|--|--------------------------------|---------------|------------------------------|---------------|--------------------|---------------|
| | 3Q 2004 | 3Q 2003(a) | 3Q 2004 | 3Q 2003(a) | 3Q 2004 | 3Q 2003(a) |
| Net interest income | \$ 183 | \$ 425 | \$ 732 | \$ 312 | \$ 915 | \$ 737 |
| Securities / private equity gains (losses) | 5 | (63) | | | 5 | (63) |
| Mortgage fees and related income | 267 | (80) | (28) | 92 | 239 | 12 |
| Total | \$ 455 | \$ 282 | \$ 704 | \$ 404 | \$ 1,159 | \$ 686 |

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| <i>(in millions)</i> | Prime production and servicing | | Consumer real estate lending | | Total revenue | |
|--|--------------------------------|--------------------------------------|------------------------------|--------------------------------------|------------------------------|--------------------------------------|
| | Nine months ended Sept. 2004 | Nine months ended Sept. 30, (b) 2003 | Nine months ended Sept. 2004 | Nine months ended Sept. 30, (b) 2003 | Nine months ended Sept. 2004 | Nine months ended Sept. 30, (b) 2003 |
| Net interest income | \$ 568 | \$ 1,216 | \$ 1,538 | \$ 851 | \$ 2,106 | \$ 2,067 |
| Securities / private equity gains (losses) | 1 | 345 | | | 1 | 345 |
| Mortgage fees and related income | 745 | 562 | 113 | 204 | 858 | 766 |
| Total | \$ 1,314 | \$ 2,123 | \$ 1,651 | \$ 1,055 | \$ 2,965 | \$ 3,178 |

(a) *Heritage JPMorgan Chase only.*

(b) *2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.*

The decline in the Net interest income component of Prime Production & Servicing revenue from the third quarter and year-to-date 2003 is primarily due to a lower level of both mortgage loans held for sale and AFS securities used to manage the interest rate risk associated with the MSR asset. The improvement in the Mortgage fees and related income component of Prime Production & Servicing revenue from the third quarter and year-to-date 2003 reflects losses in hedging the pipeline and warehouse in 2003. Lastly, the use of differing risk management strategies to manage the interest rate risk in the MSR asset in response to changing market conditions impacts the line items in which these results are reported. Consequently, current results may not be indicative of a particular trend.

MSR Hedging Results

The following table details the amounts shown as MSR, net of hedging in the Home Finance business:

| <i>(in millions)</i> | Three months ended September 30, | | Nine months ended September 30,(b) | |
|---|----------------------------------|---------|------------------------------------|----------|
| | 2004 | 2003(a) | 2004 | 2003 |
| SFAS 133 hedge MSR valuation adjustments | \$ (931) | \$ (20) | \$ (804) | \$ (502) |
| SFAS 133 hedge derivative valuation adjustments | 899 | (230) | 563 | 684 |
| SFAS 140 MSR recovery (impairment) | 205 | 371 | 678 | (54) |
| Other risk management gains (losses) (c) | (20) | (32) | (137) | 662 |
| MSR, net of hedging | \$ 153 | \$ 89 | \$ 300 | \$ 790 |

(a) *Heritage JPMorgan Chase only.*

(b) *Year-to-date 2004 results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.*

(c) *Includes gains, losses and interest income associated with derivatives not designated as a hedge, and securities classified as both trading and available for sale.*

In its risk management activities, Home Finance uses a combination of derivatives, AFS securities and trading instruments to manage changes in the fair value of the MSR asset. The intent is to offset any changes in the fair value of the MSR asset with changes in the fair value of the related risk management instrument. During the third quarter of 2004, negative MSR valuation adjustments of \$726 million were offset by \$879 million of aggregate risk management gains, including net interest earned on AFS securities. For a further discussion of the most significant assumptions used to value the MSR asset, please see *MSRs and certain other retained interests* in the Critical Accounting Estimates used by the Firm section and in Notes 13 and 16 on pages 100 103 and 107 109 of JPMorgan Chase's 2003 Annual Report.

Table of Contents**Consumer & Small Business Banking**

The following table sets forth key financial and business-related components of the Consumer & Small Business Banking business:

| <i>(in millions, except ratios)</i> | H-JPMC Only | | | Nine months ended September 30,(a) | | |
|--|--------------------|----------------|---------------|---|-------------|---------------|
| | 3Q 2004 | 3Q 2003 | Change | 2004 | 2003 | Change |
| Net revenue | \$ 2,076 | \$ 599 | 247% | \$ 3,280 | \$ 1,807 | 82% |
| Provision for credit losses | 79 | 36 | 119 | 126 | 58 | 117 |
| Noninterest expense | 1,379 | 541 | 155 | 2,619 | 1,778 | 47 |
| Operating earnings | \$ 377 | \$ 14 | NM | \$ 330 | \$ (16) | NM |
| Business metrics (in billions) | | | | | | |
| End of period balances | | | | | | |
| Small business loans | \$ 12.4 | \$ 2.1 | 490 | \$ 12.4 | \$ 2.1 | 490 |
| Consumer and other loans (b) | 2.3 | 2.3 | | 2.3 | 2.3 | |
| Total loans | 14.7 | 4.4 | 234 | 14.7 | 4.4 | 234 |
| Core deposits (c) | 144.9 | 66.8 | 117 | 144.9 | 66.8 | 117 |
| Total deposits | 176.6 | 75.9 | 133 | 176.6 | 75.9 | 133 |
| Average balances | | | | | | |
| Small business loans | 12.4 | 2.1 | 490 | 5.1 | 2.1 | 143 |
| Consumer and other loans (b) | 2.3 | 2.0 | 15 | 2.6 | 2.0 | 30 |
| Total loans | 14.7 | 4.1 | 259 | 7.7 | 4.1 | 88 |
| Core deposits (c) | 148.2 | 65.8 | 125 | 97.2 | 64.0 | 52 |
| Total deposits | 172.9 | 75.2 | 130 | 111.3 | 73.7 | 51 |
| Number of: | | | | | | |
| Branches | 2,467 | 560 | 1,907# | 2,467 | 560 | 1,907# |
| ATMs | 6,587 | 1,954 | 4,633 | 6,587 | 1,954 | 4,633 |
| Personal bankers | 5,341 | 1,760 | 3,581 | 5,341 | 1,760 | 3,581 |
| Personal checking accounts (in thousands) | 7,222 | 2,007 | 5,215 | 7,222 | 2,007 | 5,215 |
| Business checking accounts (in thousands) | 891 | 348 | 543 | 891 | 348 | 543 |
| Online customers (in thousands) | 6,084 | NA | NM | 6,084 | NA | NM |
| Debit cards issued (in thousands) | 8,282 | 2,381 | 5,901 | 8,282 | 2,381 | 5,901 |
| Overhead ratio | 66% | 90% | (2,400)bp | 80% | 98% | (1,800)bp |
| Retail brokerage business metrics | | | | | | |
| Investment sales volume | \$ 2,563 | \$ 857 | 199% | \$ 4,554 | \$ 2,655 | 72% |
| Number of dedicated investment sales representatives | 1,393 | 346 | 303 | 1,393 | 346 | 303 |
| Credit quality statistics | | | | | | |
| Net charge-offs | | | | | | |
| Small business | \$ 24 | \$ 9 | 167 | \$ 45 | \$ 27 | 67% |
| Consumer and other loans | 36 | 10 | 260 | 53 | 24 | 121 |

| | | | | | | |
|---------------------------|---------------|-------|--------|---------------|-------|--------|
| Total net charge-offs | 60 | 19 | 216 | 98 | 51 | 92 |
| Net charge-off rate | | | | | | |
| Small business | 0.77% | 1.70% | (93)bp | 1.18% | 1.72% | (54)bp |
| Consumer and other loans | 6.23 | 1.98 | 425 | 2.72 | 1.60 | 112 |
| Total net charge-off rate | 1.62 | 1.84 | (22) | 1.70 | 1.66 | 4 |
| Nonperforming assets | \$ 313 | \$ 91 | 244% | \$ 313 | \$ 91 | 244% |

- (a) 2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.
- (b) Primarily community development loans.
- (c) Includes demand and savings deposits.

Quarterly Results

Consumer & 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.

Year-to-date Results

Operating earnings totaled \$330 million, up from a loss of \$16 million in the prior year period. The increase is largely due to the Merger, but also reflected higher core deposits, wider spreads on these balances, and higher banking and deposit fee income.

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These benefits were partially offset by higher credit costs.

Total revenue was \$3.3 billion compared with \$1.8 billion in the prior year. While the increase is primarily attributable to the Merger, revenue also benefited from higher deposit balances and wider spreads on deposits, as well as higher banking and deposit fees.

The provision for credit losses increased to \$126 million from \$58 million in the first nine months of 2004. The increase primarily reflected the need to build the allowance for credit losses in small business and community development loan portfolios in the third quarter of 2004, and to a lesser extent, the Merger.

The increase in expenses in 2004 to \$2.6 billion from \$1.8 billion in the year ago period was almost entirely attributable to the Merger. Incremental expense from investments in the distribution network was also a contributing factor.

Auto & Education Finance

The following table sets forth key financial and business-related components of Auto & Education Finance's business:

| | H-JPMC Only | | | Nine months ended September 30,(a) | | |
|---|-------------|------------|--------|---------------------------------------|---------|--------|
| | 3Q 2004 | 3Q 2003 | Change | 2004 | 2003 | Change |
| <i>(in millions, except ratios and where otherwise noted)</i> | | | | | | |
| Net revenue | \$ 397 | \$ 216 | 84% | \$ 781 | \$ 635 | 23% |
| Provision for credit losses | 95 | 61 | 56 | 151 | 164 | (8) |
| Noninterest expense | 163 | 74 | 120 | 324 | 214 | 51 |
| Operating earnings | \$ 85 | \$ 49 | 73 | \$ 186 | \$ 153 | 22 |
| Business metrics (in billions) | | | | | | |
| End of period loans and lease receivables | | | | | | |
| Loans outstanding | \$ 53.7 | \$ 33.0 | 63 | \$ 53.7 | \$ 33.0 | 63 |
| Lease receivables | 8.9 | 9.8 | (9) | 8.9 | 9.8 | (9) |
| Total end of period loans and lease receivables | 62.6 | 42.8 | 46 | 62.6 | 42.8 | 46 |
| Average loans and lease receivables | | | | | | |
| Loans outstanding (average) (b) | 52.9 | 32.2 | 64 | 41.1 | 31.4 | 31 |
| Lease receivables (average) | 9.2 | 9.9 | (7) | 9.1 | 9.8 | (7) |
| Total average loans and lease receivables (b) | 62.1 | 42.1 | 48 | 50.2 | 41.2 | 22 |
| Overhead ratio | 41% | 34% | 700bp | 41% | 34% | 700bp |
| Credit quality statistics | | | | | | |
| 30+ day delinquency rate | 1.38% | 1.12% | 26 | 1.38% | 1.12% | 26 |
| Net charge-offs | | | | | | |
| Loans | \$ 83 | \$ 32 | 159% | \$ 134 | \$ 97 | 38% |
| Lease receivables | 13 | 11 | 18 | 33 | 31 | 6 |
| Total net charge-offs | 96 | 43 | 123 | 167 | 128 | 30 |
| Net Charge-off Rate | | | | | | |
| Loans (b) | 0.65% | 0.42% | 23bp | 0.46% | 0.44% | 2bp |
| Lease receivables | 0.56 | 0.44 | 12 | 0.48 | 0.42 | 6 |

| | | | | | | |
|-------------------------------|---------------|--------|-----|---------------|--------|-----|
| Total net charge-off rate (b) | 0.64 | 0.42 | 22 | 0.46 | 0.43 | 3 |
| Nonperforming assets | \$ 247 | \$ 150 | 65% | \$ 247 | \$ 150 | 65% |

- (a) 2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.
- (b) Average loans include loans held for sale of \$2.2 billion and \$1.7 billion at September 30, 2004 and 2003, respectively. The year-to-date average loans held for sale are \$1.9 billion and \$1.8 billion for 2004 and 2003, respectively. These are not included in the net charge-off rate.

Quarterly Results

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

Year-to-date Results

Operating earnings totaled \$186 million, up from \$153 million a year ago. The increase was due to the Merger and lower credit costs, partially offset by lower revenue given a competitive operating environment.

Total revenue increased to \$781 million compared with \$635 million in the prior year. This reflected the addition of Bank One, but was partially offset by a \$40 million first quarter 2004 write-off of prepaid premiums for residual risk insurance, and a decline in margin revenue given a competitive operating environment that contributed to narrower spreads on new loans and reduced origination volumes in 2004.

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Expenses increased to \$324 million in the first nine months of 2004 compared with \$214 million in the year ago period. This increase was largely due to the Merger.

The provision for credit losses totaled \$151 million, down from \$164 million a year ago. The decrease was primarily due to improved credit quality trends, partially offset by the Merger.

Insurance

The following table sets forth key financial and business-related components of the Insurance business:

| <i>(in millions, except ratios and where otherwise noted)</i> | H-JPMC Only | | | Nine months ended | | |
|---|-------------|----------|------------|-------------------|----------|--------|
| | 3Q 2004 | 3Q | 2003Change | 2004 | 2003 | Change |
| Insurance | | | | | | |
| Net revenue | \$ 168 | \$ 28 | 500% | \$ 220 | \$ 86 | 156% |
| Noninterest expense | 136 | 22 | NM | 179 | 67 | 167 |
| Operating earnings | 20 | 3 | NM | 26 | 11 | 136 |
| <i>Memo:</i> | | | | | | |
| Consolidated gross insurance-related revenue (b) | 429 | 146 | 194 | 770 | 452 | 70 |
| Business metrics ending balances | | | | | | |
| Invested assets | \$ 7,489 | \$ 1,458 | 414 | \$ 7,489 | \$ 1,458 | 414 |
| Policy loans | 398 | | NM | 398 | | NM |
| Insurance Policy and Claims Reserves | 7,477 | 1,019 | NM | 7,477 | 1,019 | NM |
| Term life premiums first year annualized | 15 | | NM | 15 | | NM |
| Policies in force direct / assumed (in thousands) | 2,633 | 655 | 302 | 2,633 | 655 | 302 |
| Insurance in force direct / assumed | 274,390 | 32,434 | NM | 274,390 | 32,434 | NM |
| Insurance in force retained | 76,727 | 32,434 | 137 | 76,727 | 32,434 | 137 |
| Proprietary annuity sales | 39 | 127 | (69) | 173 | 468 | (63) |
| A.M. Best rating | A | A | | A | A | |

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

(b) Includes revenue reported in the results of other businesses.

Quarterly and Year-to-date Results

Insurance operating earnings totaled \$20 million and \$26 million on gross revenues of \$429 million and \$770 million in the third quarter and first nine months of 2004, respectively. The increases in net revenue and expenses over the prior quarter and prior year periods were almost entirely due to the Merger.

Table of Contents**CARD SERVICES**

With approximately 96 million cards in circulation, JPMorgan Chase is the second largest issuer of credit cards in the United States and the largest merchant acquirer. JPMorgan Chase offers a wide variety of cards to satisfy the needs of its cardmembers, including cards issued on behalf of major airlines, hotels, universities, top retailers, other financial institutions and other well-known brands.

Through securitization the Firm transforms a substantial portion of its credit card receivables into securities, which are sold to investors. The credit card receivables are removed from the consolidated balance sheet through the transfer of principal credit card receivables to a trust and the sale of undivided interests to investors that entitle the investors to specific cash flows generated from the credit card receivables. The Firm retains the remaining undivided interests as seller's interest, which is recorded in Loans on the Consolidated balance sheet. A gain or loss on the sale of credit card receivables to investors is recorded in Other income. Securitization also impacts the Firm's consolidated income statement by reclassifying as credit card income, interest income, fee revenue, and recoveries in excess of interest paid to the investors, gross credit losses and other trust expenses related to the securitized receivables. For a reconciliation from reported to managed basis of Card Services results see page 27 of this Form 10-Q.

For information regarding loans and residual interests sold and securitized, see Note 12 on pages 73-76 of this Form 10-Q. The following table reflects selected financial data of CS on a managed basis:

| <i>(in millions, except headcount and ratios)</i> | 3Q 2004 | H-JPMC Only | | Nine months ended September 30,(a) | | |
|---|--------------------|------------------------|------------|---|---------------|-----------|
| | | 3Q 2003 | Change | 2004 | 2003 | Change |
| Revenue | | | | | | |
| Asset management, administration and commissions | \$ 26 | \$ 25 | 4% | \$ 75 | \$ 82 | (9)% |
| Credit card income | 784 | 236 | 232 | 1,293 | 659 | 96 |
| Other income | 44 | 13 | 238 | 86 | 31 | 177 |
| Subtotal | 854 | 274 | 212 | 1,454 | 772 | 88 |
| Net interest income | 2,917 | 1,291 | 126 | 5,461 | 3,757 | 45 |
| Total net revenue | 3,771 | 1,565 | 141 | 6,915 | 4,529 | 53 |
| Managed provision for credit losses | 1,662 | 705 | 136 | 3,116 | 2,112 | 48 |
| Noninterest expense | | | | | | |
| Compensation expense | 317 | 149 | 113 | 623 | 438 | 42 |
| Noncompensation expense | 926 | 337 | 175 | 1,660 | 991 | 68 |
| Amortization of intangibles | 194 | 65 | 198 | 318 | 195 | 63 |
| Total noninterest expense | 1,437 | 551 | 161 | 2,601 | 1,624 | 60 |
| Operating earnings before income tax expense | 672 | 309 | 117 | 1,198 | 793 | 51 |
| Income tax expense | 251 | 110 | 128 | 439 | 283 | 55 |
| Operating earnings | \$ 421 | \$ 199 | 112 | \$ 759 | \$ 510 | 49 |

| | | | | | | |
|--|----------|---------|---------|----------|----------|---------|
| Memo: net securitization gains (amortization) | \$ (2) | \$ 1 | NM | \$ (8) | \$ (3) | (167) |
| Financial metrics | | | | | | |
| ROE | 14% | 23% | (900)bp | 16% | 20% | (400)bp |
| Overhead ratio | 38 | 35 | 300 | 38 | 36 | 200 |
| % of average managed outstandings: | | | | | | |
| Net interest income | 8.90 | 10.09 | (119) | 9.37 | 9.90 | (53) |
| Managed provision for credit losses | 5.07 | 5.51 | (44) | 5.35 | 5.57 | (22) |
| Noninterest income | 2.61 | 2.14 | 47 | 2.49 | 2.04 | 45 |
| Risk adjusted margin | 6.44 | 6.72 | (28) | 6.52 | 6.37 | 15 |
| Noninterest expense | 4.39 | 4.31 | 8 | 4.46 | 4.28 | 18 |
| Pre-tax income | 2.05 | 2.41 | (36) | 2.05 | 2.09 | (4) |
| Operating earnings | 1.28 | 1.55 | (27) | 1.30 | 1.34 | (4) |
| Business metrics | | | | | | |
| Charge volume (in billions) | \$ 73.3 | \$ 22.5 | 226% | \$ 118.3 | \$ 64.7 | 83% |
| Net accounts opened (in thousands) (b) | 2,755 | 1,080 | 155 | 4,794 | 3,153 | 52 |
| Credit cards issued (in thousands) | 95,946 | 34,649 | 177 | 95,946 | 34,649 | 177 |
| Number of registered internet customers (in millions) | 12.4 | 3.3 | 276 | 12.4 | 3.3 | 276 |
| Merchant acquiring business | | | | | | |
| Bank card volume (in billions) | \$ 123.5 | \$ 66.8 | 85 | \$ 260.3 | \$ 188.1 | 38 |
| Total transactions (in millions) | 3,972 | 1,845 | 115 | 7,604 | 5,187 | 47 |

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| <i>(in millions, except headcount and ratio data)</i> | H-JPMC Only | | | Nine months ended September 30,^(a) | | |
|---|------------------------|---------------|-----------|--|-----------|---------|
| | 3Q 2004 | 3Q 2003 | Change | 2004 | 2003 | Change |
| Selected ending balances | | | | | | |
| Loans: | | | | | | |
| Loans on balance sheet | \$ 60,241 | \$ 16,612 | 263% | \$ 60,241 | \$ 16,612 | 263% |
| Securitized loans | 71,256 | 34,315 | 108 | 71,256 | 34,315 | 108 |
| Managed loans | \$ 131,497 | \$ 50,927 | 158 | \$ 131,497 | \$ 50,927 | 158 |
| Selected average balances | | | | | | |
| Managed assets | \$ 136,753 | \$ 51,442 | 166 | \$ 80,211 | \$ 51,380 | 56 |
| Loans: | | | | | | |
| Loans on balance sheet | \$ 59,386 | \$ 17,249 | 244 | \$ 31,296 | \$ 17,995 | 74 |
| Securitized loans | 70,980 | 33,527 | 112 | 46,575 | 32,720 | 42 |
| Managed loans | \$ 130,366 | \$ 50,776 | 157 | \$ 77,871 | \$ 50,715 | 54 |
| Equity | 11,800 | 3,422 | 245 | 6,200 | 3,453 | 80 |
| Headcount | 20,473 | 10,575 | 94 | | | |
| Credit quality statistics | | | | | | |
| Net charge-offs | \$ 1,598 | \$ 748 | 114 | \$ 3,086 | \$ 2,255 | 37 |
| Net charge-off rate | 4.88% | 5.84% | (96)bp | 5.29% | 5.94% | (65)bp |
| Delinquency ratios | | | | | | |
| 30+ days | 3.81% | 4.62% | (81) | 3.81% | 4.62% | (81) |
| 90+ days | 1.75 | 2.08 | (33) | 1.75 | 2.08 | (33) |
| Allowance for loan losses | \$ 2,273 | \$ 1,175 | 93% | \$ 2,273 | \$ 1,175 | 93% |
| Allowance for loan losses to period-end loans (c) | 3.77% | 7.07% | (330)bp | 3.77% | 7.07% | (330)bp |

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

(b) Net accounts opened includes originations, purchases and sales.

(c) The heritage Bank One seller's interest was decertificated effective July 1, 2004, and is reported in Loans on the balance sheet. As a result, the Allowance for loan losses to period-end loans ratio for the third quarter 2004 declined as the remaining portion of the decertificated seller's interest is recorded at fair value without a corresponding allowance for loan loss at September 30, 2004.

Quarterly Results

Operating earnings were \$421 million, up \$222 million from the prior year primarily due to the Merger. In addition to the Merger, 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 Merger and higher loan balances. Noninterest income of \$0.9 billion improved because of the Merger 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 Merger. 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 rate 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 Merger. In addition to the Merger and the impact of amortization of purchased credit card relationships, expenses were up due to increased marketing expenses.

Year-to-date Results

Year-to-date operating earnings of \$759 million increased \$249 million or 49% compared with the prior year primarily due to the Merger. In addition to the Merger, higher loan balances and charge volume positively affected results. Partially offsetting this benefit was increased marketing spend and a higher managed provision for credit losses.

Year-to-date net revenue of \$6.9 billion increased \$2.4 billion or 53% compared with the prior year. Net interest income of \$5.5 billion increased \$1.7 billion or 45% primarily due to the Merger and higher loan balances and spread. Noninterest income of \$1.5 billion increased \$682 million or 88% primarily due to the Merger and higher charge volume, which generated increased interchange income. This was partially offset by higher volume-driven payments to partners under revenue-sharing agreements and rewards expenses.

Year-to-date operating expenses of \$2.6 billion increased \$977 million or 60% compared with the prior year primarily due to the Merger. In addition to the Merger and the impact of amortization of purchased credit card relationships, expenses were up due to the increased marketing spend.

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Compared with the prior year, the year-to-date provision of \$3.1 billion increased \$1.0 billion, or 48%, primarily due to the Merger. In addition, the allowance for loan losses 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 rate declined to 5.29%, from 5.94% in the prior year. The 30-day delinquency ratio was 3.81%, down from 4.62% in the prior year.

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

| <i>(in millions)</i> | 3Q 2004 | H-JPMC Only | | Nine months ended September 30, | | |
|---------------------------------------|----------------|------------------------|--------|--|-------------|--------|
| | | 3Q 2003 | Change | 2004 | (a) 2003 | Change |
| Income statement data (b) | | | | | | |
| Credit card income | | | | | | |
| Reported data for the period | \$ 1,632 | \$ 599 | 172% | \$ 2,774 | \$ 1,670 | 66% |
| Securitization adjustments | (848) | (363) | (134) | (1,481) | (1,011) | (46) |
| Managed credit card income | \$ 784 | \$ 236 | 232 | \$ 1,293 | \$ 659 | 96 |
| Other income | | | | | | |
| Reported data for the period | \$ 47 | \$ 27 | 74 | \$ 173 | \$ 73 | 137 |
| Securitization adjustments | (3) | (14) | 79 | (87) | (42) | (107) |
| Managed other income | \$ 44 | \$ 13 | 238 | \$ 86 | \$ 31 | 177 |
| Net interest income | | | | | | |
| Reported data for the period | \$ 1,138 | \$ 443 | 157 | \$ 2,006 | \$ 1,296 | 55 |
| Securitization adjustments | 1,779 | 848 | 110 | 3,455 | 2,461 | 40 |
| Managed net interest income | \$ 2,917 | \$ 1,291 | 126 | \$ 5,461 | \$ 3,757 | 45 |
| Total net revenue (c) | | | | | | |
| Reported data for the period | \$ 2,843 | \$ 1,094 | 160 | \$ 5,028 | \$ 3,121 | 61 |
| Securitization adjustments | 928 | 471 | 97 | 1,887 | 1,408 | 34 |
| Managed total net revenue | \$ 3,771 | \$ 1,565 | 141 | \$ 6,915 | \$ 4,529 | 53 |
| Provision for credit losses | | | | | | |
| Reported data for the period | \$ 734 | \$ 234 | 214 | \$ 1,229 | \$ 704 | 75 |
| Securitization adjustments | 928 | 471 | 97 | 1,887 | 1,408 | 34 |
| Managed provision for credit losses | \$ 1,662 | \$ 705 | 136 | \$ 3,116 | \$ 2,112 | 48 |
| Balance sheet average balances | | | | | | |
| Total average assets | | | | | | |
| Reported data for the period | \$ 67,718 | \$ 18,945 | 257 | \$ 34,984 | \$ 19,379 | 81 |
| Securitization adjustments | 69,035 | 32,497 | 112 | 45,227 | 32,001 | 41 |

| | | | | | | |
|--|-------------------|-----------|-----|------------------|-----------|----|
| Managed average assets | \$ 136,753 | \$ 51,442 | 166 | \$ 80,211 | \$ 51,380 | 56 |
| Credit quality statistics | | | | | | |
| Net charge-offs | | | | | | |
| Reported net charge-offs data for the period | \$ 670 | \$ 277 | 142 | \$ 1,199 | \$ 847 | 42 |
| Securitization adjustments | 928 | 471 | 97 | 1,887 | 1,408 | 34 |
| Managed net charge-offs | \$ 1,598 | \$ 748 | 114 | \$ 3,086 | \$ 2,255 | 37 |

- (a) 2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.
- (b) 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 Net charge-off rates) of the entire managed credit card portfolio. Operating results exclude the impact of credit card securitizations on revenue, the provision for credit losses, net charge-offs and receivables. Securitization does not change reported net income versus operating earnings; however, it does affect the classification of items on the Consolidated statement of income.
- (c) Includes Asset management, administration and commissions, Credit card income, Other income and Net interest income.

Outlook: Operating results for Card Services are expected to increase due to the seasonal nature of the credit card business. Higher interchange revenue will be partially offset by seasonally higher provision for credit losses.

Table of Contents**COMMERCIAL BANKING**

Commercial Banking was known prior to the Merger as Chase Middle Market and was a business within the former Chase Financial Services. Commercial Banking, either directly or through other lines of businesses, offers a broad array of products and services to its customer base, including lending and deposit, global cash management, treasury services, commercial card, investment banking and investment management. Commercial Banking's customer base includes corporations, municipalities, financial institutions and not-for-profit entities with a significant portion of these customers using the Firm exclusively for their financial needs. The loan portfolio is diversified across a broad range of industries and geographic locations.

Commercial Banking includes three client segments: Middle Market Banking, Corporate Banking and Commercial Real Estate, and two product segments: Chase Business Credit (asset-based lending) and Chase Equipment Leasing.

Middle Market Banking generally serves companies with revenues between \$10 million and \$500 million and is the second largest middle market bank in terms of primary or lending relationships with a position in 10 of the top 25 major metropolitan areas in the U.S. Corporate Banking, which focuses on U.S. companies with revenues in excess of \$500 million, delivers a broader range of traditional banking products and serves clients with more significant investment banking needs through a partnership between corporate and investment bankers and a regional coverage network. Commercial Real Estate serves investors and developers of for-sale housing, multifamily rental, retail, office and industrial properties. Chase Business Credit is a leading national provider of highly-structured asset-based financing, syndication and collateral analysis. Finally, Chase Equipment Leasing, which focuses on mid-to large-sized companies, finances a variety of equipment types and offers vendor programs for leading capital and technology equipment manufacturers and software companies. In addition to supporting Commercial Banking, Chase Equipment Leasing also serves as a product resource to the Private Bank, Private Client Services and the Investment Bank.

The following table reflects selected financial data of CB:

| <i>(in millions, except ratios and headcount)</i> | 3Q 2004 | H-JPMC Only | | Nine months ended September 30, (a) | | |
|---|--------------------|------------------------|--------|--|--------|--------|
| | | 3Q 2003 | Change | 2004 | 2003 | Change |
| Revenue | | | | | | |
| Lending & deposit related fees | \$ 162 | \$ 82 | 98% | \$ 294 | \$ 232 | 27% |
| Asset management, administration and commissions | 12 | 5 | 140 | 20 | 15 | 33 |
| Other income (b) | 51 | 14 | 264 | 106 | 46 | 130 |
| Subtotal | 225 | 101 | 123 | 420 | 293 | 43 |
| Net interest income | 608 | 240 | 153 | 1,069 | 719 | 49 |
| Total net revenue | 833 | 341 | 144 | 1,489 | 1,012 | 47 |
| Provision for credit losses | 14 | 21 | (33) | 20 | 16 | 25 |
| Noninterest expense | | | | | | |
| Compensation expense | 176 | 82 | 115 | 312 | 219 | 42 |
| Noncompensation expense | 286 | 130 | 120 | 562 | 403 | 39 |
| Amortization of intangibles | 18 | 1 | NM | 18 | 3 | 500 |

| | | | | | | | |
|---|---------------|----|-----|-----|-----------------|----------|----|
| Total noninterest expense | 480 | | 213 | 125 | 892 | 625 | 43 |
| Operating earnings before income tax expense | 339 | | 107 | 217 | 577 | 371 | 56 |
| Income tax expense | 124 | | 44 | 182 | 223 | 153 | 46 |
| Operating earnings | \$ 215 | \$ | 63 | 241 | \$ 354 | \$ 218 | 62 |
| Memo: | | | | | | | |
| Revenue by: | | | | | | | |
| Lending | \$ 310 | \$ | 97 | 220 | \$ 480 | \$ 301 | 59 |
| Treasury & securities services | 499 | | 235 | 112 | 939 | 676 | 39 |
| Investment banking | 24 | | 12 | 100 | 59 | 38 | 55 |
| Other | | | (3) | NM | 11 | (3) | NM |
| Total Commercial Banking revenue | \$ 833 | \$ | 341 | 144 | \$ 1,489 | \$ 1,012 | 47 |

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| <i>(in millions, except ratios and headcount)</i> | H-JPMC Only | | | Nine months ended September 30, (a) | | |
|---|------------------------|-----------|--------|--|-----------|--------|
| | 3Q 2004 | 3Q 2003 | Change | 2004 | 2003 | Change |
| Financial ratios | | | | | | |
| ROE | 25% | 24% | 100bp | 29% | 26% | 300bp |
| ROA | 1.53 | 1.49 | 4 | 1.58 | 1.75 | (17) |
| Overhead ratio | 58 | 62 | (400) | 60 | 62 | (200) |
| Selected balance sheet (average) | | | | | | |
| Total assets | \$ 55,957 | \$ 16,775 | 234% | \$ 29,921 | \$ 16,658 | 80% |
| Loans and leases | 50,324 | 14,256 | 253 | 26,356 | 14,269 | 85 |
| Deposits | 64,796 | 33,728 | 92 | 46,550 | 32,501 | 43 |
| Equity | 3,400 | 1,050 | 224 | 1,654 | 1,103 | 50 |
| Headcount | 4,595 | 1,784 | 158 | | | |
| Credit data and quality statistics | | | | | | |
| Net charge-offs (recoveries) | \$ (13) | \$ 30 | NM | \$ 16 | \$ 71 | (77) |
| Nonperforming loans | 579 | 156 | 271 | 579 | 156 | 271 |
| Allowance for loan losses | 1,350 | 142 | NM | 1,350 | 142 | NM |
| Allowance for lending related commitments | 164 | 28 | 486 | 164 | 28 | 486 |
| Net charge-off rate | (0.10)% | 0.83% | (93)bp | 0.08% | 0.67% | (59)bp |
| Allowance for loan losses to average loans | 2.68 | 1.00 | 168 | NM | 1.00 | NM |
| Allowance for loan losses to nonperforming loans | 233 | 91 | NM | 233 | 91 | NM |
| Nonperforming loans to average loans | 1.15 | 1.09 | 6 | NM | 1.09 | NM |

- (a) 2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.
- (b) IB-related and commercial card revenues are included in Other income.

Quarterly Results

Operating earnings were \$215 million, an increase of \$152 million from the prior year, primarily due to the Merger.

Total net revenues of \$833 million increased 144% from the third quarter, primarily as a result of the Merger. In addition to the overall increase related to the Merger, Net interest income of \$608 million was positively affected by increased deposit balances and spreads. Noninterest income of \$225 million was negatively affected by lower service charges on deposits resulting from a change in the calculation methodology and an increase in the payment of services with deposits, versus fees, due to rising interest rates and lower investment banking revenues, resulting from challenging market conditions.

Noninterest expenses of \$480 million increased 125%, primarily related to the Merger.

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.

Year-To-Date Results

Operating earnings of \$354 million increased 62%, primarily due to the Merger.

Operating revenues of \$1.5 billion increased 47%, primarily as a result of the Merger. In addition to the overall increase related to the Merger, Net interest income of \$1.1 billion was positively affected by increased deposit balances. Noninterest income of \$420 million was negatively affected by lower service charges on deposits resulting from a change in the calculation methodology and an increase in the payment of services with deposits, versus fees, due to rising interest rates, and lower cash management fees. Partially offsetting these decreases were higher gains in the current year on the sale of loans and securities acquired in satisfaction of debt.

Operating expenses of \$892 million, increased 43%, primarily related to the Merger.

Provision for credit losses was \$20 million and net charge-offs were \$16 million for the first three quarters of 2004, reflecting the continued improvement in credit quality and a decline in nonperforming loans.

Outlook: The Commercial Banking s provision for loan losses is expected to increase from the current level and return to more normal levels over time.

Table of Contents**TREASURY & SECURITIES SERVICES**

Treasury & Securities Services (TSS) is a global leader in providing transaction, investment and information services to support the needs of issuers and investors worldwide. JPMorgan Chase is one of the world's largest cash management providers and one of the world's largest custodians. For a discussion of the profiles for each business within TSS, see pages 32-33 of JPMorgan Chase's 2003 Annual Report. The following table sets forth selected financial data of TSS:

| <i>(in millions, except ratio and headcount data and where otherwise noted)</i> | H-JPMC | | | Nine months ended September | | |
|---|-----------------|----------------|---------------|------------------------------------|-----------------|---------------|
| | 3Q 2004 | 3Q 2003 | Change | 2004 | 2003 | Change |
| Revenue | | | | | | |
| Lending & deposit related fees | \$ 218 | \$ 120 | 82% | \$ 447 | \$ 355 | 26% |
| Asset management, administration and commissions | 600 | 484 | 24 | 1,815 | 1,385 | 31 |
| Other income | 103 | 61 | 69 | 270 | 177 | 53 |
| Subtotal | 921 | 665 | 38 | 2,532 | 1,917 | 32 |
| Net interest income | 418 | 241 | 73 | 912 | 711 | 28 |
| Total net revenue | 1,339 | 906 | 48 | 3,444 | 2,628 | 31 |
| Provision for credit losses | | (1) | NM | 4 | 1 | 300 |
| Credit reimbursement to IB (b) | (43) | 10 | NM | (47) | 31 | NM |
| Noninterest expense | | | | | | |
| Compensation expense | 472 | 310 | 52 | 1,158 | 927 | 25 |
| Noncompensation expense | 654 | 433 | 51 | 1,748 | 1,282 | 36 |
| Amortization of intangibles | 30 | 6 | 400 | 61 | 18 | 239 |
| Total noninterest expense | 1,156 | 749 | 54 | 2,967 | 2,227 | 33 |
| Operating earnings before income tax expense | 140 | 168 | (17) | 426 | 431 | (1) |
| Income tax expense | 44 | 53 | (17) | 131 | 132 | (1) |
| Operating earnings | \$ 96 | \$ 115 | (17) | \$ 295 | \$ 299 | (1) |
| Revenue by business | | | | | | |
| Treasury Services (c) | \$ 629 | \$ 303 | 108 | \$ 1,352 | \$ 889 | 52 |
| Investor Services | 404 | 370 | 9 | 1,255 | 1,068 | 18 |
| Institutional Trust Services | 306 | 233 | 31 | 837 | 671 | 25 |
| Total net revenue | \$ 1,339 | \$ 906 | 48 | \$ 3,444 | \$ 2,628 | 31 |
| Memo | | | | | | |
| Treasury Services firmwide revenue (c) | \$ 1,205 | \$ 570 | 111 | \$ 2,427 | \$ 1,653 | 47 |
| Treasury & Securities Services firmwide revenue (c) | 1,915 | 1,173 | 63 | 4,519 | 3,392 | 33 |
| Financial ratios | | | | | | |
| ROE | 20% | 17% | 300bp | 14% | 15% | (100)bp |

| | | | | | | |
|---|------------------|-----------|------|------------------|-----------|-----|
| Overhead ratio | 86 | 83 | 300 | 86 | 85 | 100 |
| Business metrics | | | | | | |
| Assets under custody (in billions) | \$ 8,261 | \$ 6,926 | 19% | | | |
| Selected balance sheet (average) | | | | | | |
| Total assets | \$ 24,831 | \$ 17,564 | 41 | \$ 21,715 | \$ 17,828 | 22% |
| Loans | 8,457 | 6,412 | 32 | 7,131 | 5,929 | 20 |
| Deposits | | | | | | |
| U.S. deposits | 90,466 | 58,061 | 56 | 76,742 | 52,049 | 47 |
| Non-U.S. deposits | 48,234 | 34,714 | 39 | 43,778 | 34,162 | 28 |
| Total deposits | 138,700 | 92,775 | 50 | 120,520 | 86,211 | 40 |
| Equity | 1,900 | 2,627 | (28) | 2,761 | 2,737 | 1 |
| Headcount | 22,246 | 14,784 | 50 | | | |

- (a) 2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.
- (b) Management has charged TSS a credit reimbursement, which is the pre-tax amount of earnings, less cost of capital, related to certain exposures managed within the IB credit portfolio on behalf of clients shared with TSS.
- (c) TSS and Treasury Services firmwide revenues include TS revenues recorded in certain other lines of business. Revenue associated with Treasury Services' customers who are also customers of the Commercial Banking, Consumer & Small Business Banking and Asset & Wealth Management lines of business are reported in these other lines of business and are excluded from Treasury Services as follows:

| (in millions) | 3Q 2004 | 3Q 2003 | Change | 2004 | 2003 | Change |
|---|--------------------|---------|--------|---------------|--------|--------|
| Treasury Services Revenue Reported in Commercial Banking | \$ 499 | \$ 235 | 112% | \$ 939 | \$ 676 | 39% |
| Treasury Services Revenue Reported in Other Lines of Business | 77 | 32 | 141 | 136 | 88 | 55 |

Note: Foreign exchange revenues are apportioned between TSS and the IB, and only TSS's share is included in TSS Firmwide Revenue.

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Quarterly Results

Operating earnings for the quarter were \$96 million, down \$19 million compared with 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 Merger, the prior acquisition of the Corporate Trust business of Bank One (November 2003) and the acquisition of EFS.

TSS net revenue increased by 48% to \$1.3 billion. The increase reflected the benefit of acquisitions; growth in net interest income due to average 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 card 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.

Credit reimbursement to the Investment Bank was \$43 million, compared with a credit of \$10 million; this was principally due to the Merger 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 IB credit portfolio on behalf of clients shared with TSS.

Expenses totaled \$1.2 billion compared with \$749 million in the prior year. The increase reflected acquisitions, the \$85 million software charge, increases in compensation and technology-related expenses and incremental merger-related operating costs.

Year-to-date Results

For the first nine months of 2004, operating earnings of \$295 million were relatively flat compared with the prior year. Results were impacted by \$144 million of pre-tax software charges and incremental merger-related operating costs, partially offset by the Merger, and prior acquisitions of the Corporate Trust business of Bank One and EFS.

Net revenue of \$3.4 billion was 31% higher compared with the prior year. This increase was attributable to acquisitions, higher average deposit balances, increased custody fees driven by market appreciation and new business and volume growth from existing clients.

TSS firmwide revenue of \$4.5 billion was up 33% over the same period last year.

For the first nine months of 2004, credit reimbursement to the Investment Bank was \$47 million, compared with a credit of \$31 million for the first nine months of 2003, resulting from the Bank One acquisition and a change in methodology.

On a year-to-date basis, expenses of \$3.0 billion were 33% higher compared with the prior year driven by acquisitions, software charges coupled with increases in compensation and technology-related expenses and incremental merger-related operating costs.

Table of ContentsASSET & WEALTH MANAGEMENT

Asset & Wealth Management (AWM), known prior to the Merger as Investment Management & Private Banking, provides investment and wealth management services to institutional, high-net-worth and retail investors and their advisors. For wealthy individuals and families, JPMorgan Chase offers personalized financial solutions that integrate investment management, capital markets, trust and banking products. JPMorgan Chase provides retirement plan services, mutual funds and brokerage for retail customers.

For a discussion of the business profile of AWM, see pages 34-35 of JPMorgan Chase's 2003 Annual Report. The following table reflects selected financial data of AWM:

| <i>(in millions, except ratio and headcount data)</i> | H-JPMC Only | | | Nine months ended September 30, (a) | | |
|---|---------------|---------|---------|-------------------------------------|--------|--------|
| | 3Q 2004 | 3Q 2003 | Change | 2004 | 2003 | Change |
| Revenue | | | | | | |
| Lending & deposit related fees | \$ 10 | \$ 5 | 100% | \$ 18 | \$ 14 | 29% |
| Asset management, administration and commissions | 859 | 585 | 47 | 2,188 | 1,629 | 34 |
| Other income | 55 | 49 | 12 | 155 | 118 | 31 |
| Subtotal | 924 | 639 | 45 | 2,361 | 1,761 | 34 |
| Net interest income | 269 | 121 | 122 | 508 | 364 | 40 |
| Total net revenue | 1,193 | 760 | 57 | 2,869 | 2,125 | 35 |
| Provision for credit losses | 1 | (7) | NM | 7 | (1) | NM |
| Noninterest expense | | | | | | |
| Compensation expense | 452 | 320 | 41 | 1,120 | 904 | 24 |
| Noncompensation expense | 409 | 313 | 31 | 1,066 | 928 | 15 |
| Amortization of intangibles | 23 | 2 | NM | 28 | 6 | 367 |
| Total noninterest expense | 884 | 635 | 39 | 2,214 | 1,838 | 20 |
| Operating earnings before income tax expense | 308 | 132 | 133 | 648 | 288 | 125 |
| Income tax expense | 111 | 47 | 136 | 230 | 107 | 115 |
| Operating earnings | \$ 197 | \$ 85 | 132 | \$ 418 | \$ 181 | 131 |
| Financial ratios | | | | | | |
| ROE | 33% | 6% | 2,700bp | 13% | 4% | 900bp |
| Overhead ratio | 74 | 84 | (1,000) | 77 | 86 | (900) |
| Revenue by client segment | | | | | | |
| Institutional | \$ 287 | \$ 181 | 59% | \$ 698 | \$ 523 | 33% |
| Private bank | 383 | 364 | 5 | 1,127 | 1,053 | 7 |
| Private client services | 251 | 20 | NM | 290 | 59 | 392 |
| Retail | 272 | 195 | 39 | 754 | 490 | 54 |

| | | | | | | |
|--|------------------|-----------|------|------------------|-----------|------|
| Total Net Revenue | \$ 1,193 | \$ 760 | 57 | \$ 2,869 | \$ 2,125 | 35 |
| Selected balance sheet (average) | | | | | | |
| Total assets | \$ 39,882 | \$ 33,290 | 20 | \$ 36,765 | \$ 33,657 | 9 |
| Loans | 25,408 | 16,237 | 56 | 20,061 | 16,632 | 21 |
| Deposits | 38,520 | 20,514 | 88 | 28,351 | 19,891 | 43 |
| Equity | 2,400 | 5,539 | (57) | 4,406 | 5,521 | (20) |
| Headcount | 12,368 | 8,476 | 46 | | | |
| Credit data and quality statistics | | | | | | |
| Net charge-offs | \$ 6 | \$ (2) | NM | \$ 67 | \$ 8 | NM |
| Nonperforming loans | 125 | 122 | 2 | 125 | 122 | 2 |
| Allowance for loan losses | 241 | 92 | 162 | 241 | 92 | 162 |
| Allowance for lending related commitments | 5 | 4 | 25 | 5 | 4 | 25 |
| Net charge-off rate | 0.09% | (0.05)% | 14bp | 0.45% | 0.06% | 39bp |
| Allowance for loan losses to average loans | 0.95 | 0.57 | 38 | 1.20 | 0.55 | 65 |
| Allowance for loan losses to nonperforming loans | 193 | 75 | NM | 193 | 75 | NM |
| Nonperforming loans to average loans | 0.49 | 0.75 | (26) | 0.62 | 0.73 | (11) |

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

Table of Contents**Quarterly Results**

Operating earnings were \$197 million, up 132% from the prior year. The primary reason for this growth was the Merger. 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 Merger. 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 activity.

The Provision for credit losses increased due to higher net charge-offs in excess of reserves in the current quarter. 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 Merger and increased incentives and salary and benefit expenses.

Year-to-Date Results

Operating earnings were \$418 million, up 131% from the prior year-to-date. The primary reason for this growth was the Merger. In addition, performance was driven by global equity market appreciation, growth in assets under supervision and net customer flows.

Total revenue was \$2.9 billion, up 35% or \$744 million. The primary driver of the increase was the Merger. In addition, asset management fees increased due to global equity market appreciation, improved product mix, net asset inflows and the acquisition of JPMorgan Retirement Plan Services (RPS) in the second quarter of 2003. Net interest income increased due to higher deposit product balances and spread. Other income increased due to higher brokerage activity.

The Provision for credit losses increased due to higher charge-offs in excess of reserves. Nonperforming loans to average loans decreased to 0.62% from 0.73% and the Allowance for loan losses to average loans improved to 1.20% from 0.55%, primarily due to the Merger.

Expenses were \$2.2 billion, up 20%, due to the Merger, as well as increased incentives and salary and benefit expense, the acquisition of RPS in the second quarter of 2003 and the impact of increased technology and marketing initiatives. These increases were offset by software and real estate write-offs in 2003.

| Assets under supervision (a) | 3Q 2004 | Heritage JPMC only | | Third quarter change | |
|---|---------|-----------------------|------------|----------------------|------------|
| | | 4Q 2003 | 3Q 2003 | 4Q 2003 | 3Q 2003 |
| <i>(in billions, except ranking data)</i> | | | | | |
| Asset class | | | | | |
| Liquidity | \$ 210 | \$ 156 | \$ 145 | 35% | 45% |
| Fixed income | 174 | 118 | 121 | 47 | 44 |
| Equities, balanced and other | 351 | 287 | 264 | 22 | 33 |
| Assets under management | 735 | 561 | 530 | 31 | 39 |
| Custody / brokerage / administration / deposits | 434 | 203 | 198 | 114 | 119 |

| | | | | | |
|---|-----------------|--------|--------|-----|----|
| Total assets under supervision | \$ 1,169 | \$ 764 | \$ 728 | 53 | 61 |
| Client segment | | | | | |
| Institutional | | | | | |
| Assets under management | \$ 426 | \$ 322 | \$ 309 | 32 | 38 |
| Custody / brokerage / administration / deposits | 170 | | | NM | NM |
| Assets under supervision | 596 | 322 | 309 | 85 | 93 |
| Private bank | | | | | |
| Assets under management | 136 | 138 | 132 | (1) | 3 |
| Custody / brokerage / administration / deposits | 143 | 128 | 127 | 12 | 13 |
| Assets under supervision | 279 | 266 | 259 | 5 | 8 |
| Private client services | | | | | |
| Assets under management | 51 | 8 | 7 | NM | NM |
| Custody / brokerage / administration / deposits | 40 | 4 | 5 | NM | NM |
| Assets under supervision | 91 | 12 | 12 | NM | NM |
| Retail | | | | | |
| Assets under management | 122 | 93 | 82 | 31 | 49 |
| Custody / brokerage / administration / deposits | 81 | 71 | 66 | 14 | 23 |
| Assets under supervision | 203 | 164 | 148 | 24 | 37 |
| Total assets under supervision | \$ 1,169 | \$ 764 | \$ 728 | 53 | 61 |

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| Assets under supervision (a) <i>(in billions, except ranking data)</i> | 3Q 2004 | Heritage JPMC only | | Third quarter change | |
|---|-----------------|--------------------|---------------|-------------------------|------------|
| | | 4Q 2003 | 3Q 2003 | 4Q 2003 | 3Q 2003 |
| Geographic region | | | | | |
| Americas | | | | | |
| Assets under management | \$ 531 | \$ 365 | \$ 355 | 45% | 50% |
| Custody / brokerage / administration / deposits | 404 | 168 | 164 | 140 | 146 |
| Assets under supervision | 935 | 533 | 519 | 75 | 80 |
| International | | | | | |
| Assets under management | 204 | 196 | 176 | 4 | 16 |
| Custody / brokerage / administration / deposits | 30 | 35 | 33 | (14) | (9) |
| Assets under supervision | 234 | 231 | 209 | 1 | 12 |
| Total assets under supervision | \$ 1,169 | \$ 764 | \$ 728 | 53 | 61 |
| Memo: | | | | | |
| Mutual funds assets | \$ 308 | \$ 213 | \$ 203 | 45 | 52 |
| Star rankings: (b) | | | | | |
| % of customer assets in funds ranked 4 or better | 56% | 48% | 51% | | |
| % of customer assets in funds ranked 3 or better | 80% | 69% | 73% | | |
| Assets under supervision rollforward | | | | | |
| Beginning balance | \$ 796 | \$ 728 | \$ 702 | 9% | 13% |
| Net asset flows | (7) | (2) | 4 | (250) | NM |
| Market / other impact (c) | 380 | 38 | 22 | NM | NM |
| Ending balance | \$ 1,169 | \$ 764 | \$ 728 | 53 | 61 |
| Nine months ended September 30,(d) | | | | | |
| | 2004 | 2003 | Change | | |
| Beginning balance | \$ 764 | \$ 642 | 19% | | |
| Net asset flows | 7 | (14) | NM | | |
| Market / other impact (c) | 398 | 100 | 298 | | |
| Ending balance | \$ 1,169 | \$ 728 | 61 | | |

(a) Excludes Assets under management of American Century.

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

(c)

Other reflects the Merger with Bank One (\$376 billion) in the third quarter of 2004 and the acquisition of RPS (\$41 billion) in the second quarter of 2003.

- (d) 2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.*

Assets under supervision were \$1.17 trillion, up 61% and Assets under management were \$735 billion, up 39% from the third quarter of 2003 primarily due to the Merger, as well as market appreciation and net asset inflows.

Table of Contents**CORPORATE**

The Corporate Sector is composed of Global Treasury (reported within the IB prior to the Merger) and Private Equity (which includes JPMorgan Partners, reported as a stand-alone business segment prior to the Merger, and Bank One s ONE Equity Partners) businesses as well as corporate support. With the exception of the business units in Corporate, Global Treasury and Private Equity, expenses incurred by support areas in Corporate are allocated to the business lines based on usage and other factors. However, certain expenses are retained in the Corporate Sector and not allocated to the lines of business due to market pricing or other management accounting policies.

| <i>(in millions, except ratios and headcount)</i> | H-JPMC Only | | | Nine months ended September | | |
|---|--------------------|----------------|---------------|------------------------------------|---------------|---------------|
| | 3Q 2004 | 3Q 2003 | Change | 2004 | 2003 | Change |
| Revenue | | | | | | |
| Securities / private equity gains (losses) | \$ 347 | \$ 349 | (1)% | \$ 1,202 | \$ 863 | 39% |
| Other income | 67 | 81 | (17) | 138 | 160 | (14) |
| Subtotal | 414 | 430 | (4) | 1,340 | 1,023 | 31 |
| Net interest income | (500) | (72) | NM | (555) | (123) | (351) |
| Total net revenue | (86) | 358 | NM | 785 | 900 | (13) |
| Provision for credit losses | (1) | (1) | | (110) | 172 | NM |
| Noninterest expense | | | | | | |
| Compensation expense | 786 | 433 | 82 | 1,764 | 1,498 | 18 |
| Noncompensation expense | 1,146 | 771 | 49 | 2,873 | 2,405 | 19 |
| Net expenses allocated to other businesses | (1,426) | (1,132) | (26) | (3,796) | (3,461) | (10) |
| Total noninterest expense | 506 | 72 | NM | 841 | 442 | 90 |
| Operating earnings before income tax expense | (591) | 287 | NM | 54 | 286 | (81) |
| Income tax expense (benefit) | (372) | (5) | NM | (303) | (123) | (146) |
| Operating earnings | \$ (219) | \$ 292 | NM | \$ 357 | \$ 409 | (13) |
| Selected average balance sheet | | | | | | |
| Short-term investments (b) | \$ 26,432 | \$ 10,108 | 161 | \$ 13,025 | \$ 3,894 | 234 |
| Total investment portfolio (c) | 71,050 | 58,774 | 21 | 61,418 | 66,955 | (8) |
| Goodwill (d) | 42,958 | 338 | NM | 14,652 | 272 | NM |
| Total assets | 204,884 | 105,694 | 94 | 150,294 | 106,458 | 41 |
| Headcount | 24,482 | 13,571 | 80 | | | |
| Treasury | | | | | | |
| Securities gains (losses) (e) | \$ 109 | \$ 229 | (52) | \$ 270 | \$ 993 | (73) |
| Investment portfolio (average) | 65,508 | 52,548 | 25 | | | |
| Private equity | | | | | | |
| Private equity gains (losses) | | | | | | |
| Direct investments | | | | | | |
| Realized gains | \$ 277 | \$ 134 | 107 | \$ 981 | \$ 333 | 195 |
| Write-ups / write-downs | (31) | 1 | NM | (81) | (352) | 77 |

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| | | | | | | |
|---|--------------|-------------|------|---------------|-----------------|----|
| Mark-to-market gains (losses) | (27) | 26 | NM | (3) | 167 | NM |
| Total direct investments | 219 | 161 | 36 | 897 | 148 | NM |
| Third-party fund investments | 16 | (41) | NM | 26 | (280) | NM |
| Total private equity gains (losses) | 235 | 120 | 96 | 923 | (132) | NM |
| Other income | 14 | 12 | 17 | 37 | 36 | 3 |
| Net interest income | (89) | (61) | (46) | (201) | (200) | |
| Total net revenue | 160 | 71 | 125 | 759 | (296) | NM |
| Total noninterest expense | 73 | 63 | 16 | 209 | 197 | 6 |
| Operating earnings (loss) before income tax expense | 87 | 8 | NM | 550 | (493) | NM |
| Income tax expense (benefit) | 27 | 2 | NM | 187 | (180) | NM |
| Operating earnings (loss) | \$ 60 | \$ 6 | NM | \$ 363 | \$ (313) | NM |

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| Private equity portfolio information | At September 30, | | | At December 31, | |
|---|-------------------------|-----------------|---------------|------------------------|---------------|
| | 2004 | 2003 (f) | Change | 2003 | Change |
| Direct investments | | | | (f) | |
| Public securities | | | | | |
| Carrying value | \$ 958 | \$ 705 | 36% | \$ 643 | 49% |
| Cost | 675 | 560 | 21 | 451 | 50 |
| Quoted public value | 1,415 | 1,083 | 31 | 994 | 42 |
| Private direct securities | | | | | |
| Carrying value | 6,011 | 5,686 | 6 | 5,508 | 9 |
| Cost | 7,551 | 7,188 | 5 | 6,960 | 8 |
| Third-party fund investments | | | | | |
| Carrying value | 1,138 | 1,406 | (19) | 1,099 | 4 |
| Cost | 1,761 | 2,020 | (13) | 1,736 | 1 |
| Total private equity portfolio carrying value | \$ 8,107 | \$ 7,797 | 4 | \$ 7,250 | 12 |
| Total private equity portfolio cost | \$ 9,987 | \$ 9,768 | 2 | \$ 9,147 | 9 |

- (a) 2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.
- (b) Represents federal funds sold, securities borrowed, trading assets debt and equity instruments and trading assets derivative receivables.
- (c) Represents investment securities and private equity investments.
- (d) Goodwill amounts prior to September 30, 2004 represent the historical goodwill allocated to the Corporate line of business.
- (e) Excludes gains/losses on securities used to manage risk associated with mortgage servicing rights.
- (f) Heritage JPMorgan Chase only.

Quarterly 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 with negative \$72 million in the prior year. The decline was driven primarily by actions and policies adopted in conjunction with the Merger.

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

Year-to-date Results

Operating earnings were \$357 million down from earnings of \$409 million in the prior year.

Noninterest income was \$1.3 billion, up \$317 million from the prior year. The primary component of noninterest income is Securities / private equity gains (losses), which totaled \$1.2 billion, up \$339 million from the prior year. The increase was a result of net gains in the Private Equity portfolio of \$923 million year-to-date 2004 compared with \$132 million in net losses for year-to-date 2003. Offsetting these gains were reductions in investment securities gains

in Global Treasury.

Net interest income was a negative \$555 million compared with a negative \$123 million in the prior year. The decline was driven primarily by actions and policies adopted in conjunction with the Merger.

Corporate unallocated expenses of \$841 million were up \$399 million from the prior year, due to the Merger and policies adopted in conjunction with the Merger. These expenses include the expenses of the private equity and treasury organizations.

Private equity portfolio

The carrying value of the private equity portfolio at September 30, 2004, increased \$857 million from December 31, 2003, and \$310 million from September 30, 2003, as a result of the Merger and new investments, partially offset by sales. Unfunded commitments to private third-party equity funds were \$968 million at September 30, 2004, \$1.3 billion at December 31, 2003, and \$1.7 billion at September 30, 2003.

In 2004, new direct private equity investments of \$347 million and \$705 million were completed during the third quarter and year-to-date, respectively. These new investments consist primarily of buyouts and growth equity in the Industrial and Consumer Retail & Services sectors.

Outlook: The private equity portfolio and financial performance is sensitive to the level of the public equity markets and mergers and acquisitions, IPO and debt financing activity. The potential for realization of gains can vary from quarter to quarter.

During the third quarter of 2004, approximately \$9 billion of investment securities were sold. This action, along with other sales of about \$19 billion undertaken by heritage Bank One in the second quarter of 2004 prior to the Merger, will continue to have an impact on Net interest income going forward.

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On September 15, 2004, the Firm and IBM announced the Firm's plans to reintegrate the portions of its technology infrastructure, including data centers, help desks, distributed computing, data networks and voice networks, previously outsourced to IBM. Beginning in January 2005, approximately 4,000 IBM employees and contractors will be transferred to the Firm.

RISK MANAGEMENT

Risk is an inherent part of the Firm's business activities. The Firm's ability to properly and effectively identify, measure, monitor, and report risk in its business activities is critical to its soundness and profitability. The diversity of the Firm's lines of business helps reduce the impact of volatility in any particular area on its operating results as a whole. Besides general business, reputation and fiduciary risks, the major risks to which the Firm is exposed are capital, liquidity, credit, market, operational and private equity risk. The Firm may refine its methodology for assigning capital to the lines of business as the merger integration process continues. For a discussion of these risks and definitions of terms associated with managing these risks, see pages 45-74 and the Glossary of terms in JPMorgan Chase's 2003 Annual Report.

CAPITAL AND LIQUIDITY MANAGEMENT

Capital Management

The Firm's capital management framework is intended to ensure that there is sufficient capital related to the underlying risks of the Firm's business activities, measured by economic risk capital, and to maintain "well-capitalized" status under regulatory requirements. In addition, the Firm holds sufficient capital above these requirements in order to achieve management's external debt rating objectives, consistent with similarly rated peers. This framework is integrated into the process of assigning equity to the lines of business.

Regulatory Capital

The Firm's primary federal banking regulator, the Federal Reserve Board (FRB), establishes capital requirements. These include well-capitalized standards and leverage ratios for the consolidated financial holding company and its state chartered banks, including JPMorgan Chase Bank. The Office of the Comptroller of the Currency (OCC) establishes similar capital requirements and standards for the Firm's national banks or banking subsidiaries.

On May 6, 2004, the FRB issued a proposed rule that would continue the inclusion of trust preferred securities in Tier 1 capital, subject to stricter quantitative limits. The proposed rule also would make certain provisions required to be included in the terms of trust preferred securities issued after May 31, 2004, more restrictive. The timing for release of a final rule is not known.

On July 20, 2004, the FRB issued a final rule that excludes assets of asset-backed commercial paper programs that are consolidated as a result of FIN 46R from risk-weighted assets for purposes of computing Tier 1 and Total risk-based capital ratios. The final rule also requires that capital be held against short-term asset-backed commercial paper program liquidity facilities that meet certain asset quality tests. The final rule became effective September 30, 2004. Application of the rule did not materially affect the capital ratios of the Firm.

The following table presents the risk-based capital ratios for JPMorgan Chase and its significant banking subsidiaries. At September 30, 2004, the Firm and its primary banking subsidiaries listed in the table below were "well-capitalized" as defined by banking regulators.

| <i>(in millions, except ratios)</i> | Tier 1 capital | TotaRisk-weighted capital | assets (b) | Adjusted average assets | Tier 1 capital ratio | Total capital ratio | Tier 1 leverage ratio |
|--|---------------------------|--------------------------------------|-------------------|--|-------------------------------------|------------------------------------|--------------------------------------|
| September 30, 2004 | | | | | | | |
| JPMorgan Chase & Co. (a) | \$ 69,309 | \$ 96,666 | \$ 803,464 | \$ 1,065,244 | 8.6% | 12.0% | 6.5% |
| JPMorgan Chase Bank Chase Manhattan Bank USA, N.A. | 35,843 | 50,662 | 460,179 | 648,972 | 7.8 | 11.0 | 5.5 |
| Bank One, N.A. (Chicago) | 5,663 | 7,788 | 61,771 | 50,773 | 9.2 | 12.6 | 11.2 |
| Well capitalized ratios (c) | 14,821 | 20,458 | 176,069 | 247,455 | 8.4 | 11.6 | 6.0 |
| Minimum capital ratios (c) | | | | | 6.0 | 10.0 | 5.0(d) |
| | | | | | 4.0 | 8.0 | 3.0 |

| <i>(in millions, except ratios)</i> | Tier 1 capital | TotaRisk-weighted capital | assets (b) | Adjusted average assets | Tier 1 capital ratio | Total capital ratio | Tier 1 leverage ratio |
|--|---------------------------|--------------------------------------|-------------------|--|-------------------------------------|------------------------------------|--------------------------------------|
| Heritage JPMC Only | | | | | | | |
| December 31, 2003 | | | | | | | |
| JPMorgan Chase & Co. (a) | \$ 43,167 | \$ 59,816 | \$ 507,456 | \$ 765,910 | 8.5% | 11.8% | 5.6% |
| JPMorgan Chase Bank Chase Manhattan Bank USA, N.A. | 34,972 | 45,290 | 434,218 | 628,076 | 8.1 | 10.4 | 5.6 |
| Well capitalized ratios (c) | 4,950 | 6,939 | 48,030 | 34,565 | 10.3 | 14.4 | 14.3 |
| Minimum capital ratios (c) | | | | | 6.0 | 10.0 | 5.0(d) |
| | | | | | 4.0 | 8.0 | 3.0 |

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- (a) *Assets and capital amounts for JPMorgan Chase's banking subsidiaries reflect intercompany transactions, whereas the respective amounts for JPMorgan Chase reflect the elimination of intercompany transactions.*
- (b) *Includes off balance sheet risk-weighted assets in the amounts of \$248.4 billion, \$153.6 billion, \$14.4 billion and \$65.5 billion, respectively, at September 30, 2004, and \$174.2 billion, \$152.1 billion and \$13.3 billion, respectively, at December 31, 2003.*
- (c) *As defined by the regulations issued by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency.*
- (d) *Represents requirements for bank subsidiaries pursuant to regulations issued under the Federal Deposit Insurance Corporation Improvement Act. There is no Tier 1 leverage component in the definition of a well-capitalized bank holding company.*

The following table shows the components of the Firm's Tier 1 and total capital, as of the dates indicated:

| <i>(in millions)</i> | September 30, 2004 | H-JPMC Only December 31, 2003 |
|---|-----------------------------------|--|
| Tier 1 capital | | |
| Common stockholders' equity | \$ 105,078 | \$ 45,168 |
| Nonredeemable preferred stock | 1,009 | 1,009 |
| Minority interest and trust preferred securities | 11,278 | 6,882 |
| Less: Goodwill | 42,947 | 8,511 |
| Investments in certain subsidiaries | 380 | 266 |
| Nonqualifying intangible assets and other | 4,729 | 1,115 |
| Tier 1 capital | 69,309 | 43,167 |
| Tier 2 capital | | |
| Long-term debt and other instruments qualifying as Tier 2 | 19,632 | 12,128 |
| Qualifying allowance for credit losses | 8,000 | 4,777 |
| Less: Investment in certain subsidiaries | 275 | 256 |
| Tier 2 capital | 27,357 | 16,649 |
| Total qualifying capital | \$ 96,666 | \$ 59,816 |

Tier 1 capital was \$69.3 billion at September 30, 2004, compared with \$43.2 billion at December 31, 2003, an increase of \$26.1 billion. The increase was due to an increase in common stockholders' equity of \$59.9 billion, primarily driven by stock issued in connection with the Merger of \$57.3 billion, year-to-date net income of \$2.8 billion and net common stock issued under employee plans of \$2.6 billion; these were partially offset by dividends paid of \$2.7 billion and common share repurchases of \$138 million. The Merger added Tier 1 components such as \$3.3 billion of additional qualifying trust preferred securities and \$467 million of minority interests in consolidated subsidiaries; Tier 1 deductions resulting from the Merger included \$34.3 billion of merger-related

goodwill, and \$3.5 billion of nonqualifying intangibles.

Economic Risk Capital

JPMorgan Chase assesses its capital adequacy related to the underlying risks of the Firm's business activities utilizing internal risk-assessment methodologies. The Firm assigns economic capital based primarily on five risk factors: credit risk, market risk, operational risk and business risk for each business; and private equity risk, principally for the Firm's private equity businesses. The methodologies to quantify these risks are discussed in the risk management sections on pages 42-56 of this Form 10-Q.

The following table presents quarterly average economic risk capital for JPMorgan Chase.

| <i>(in billions)</i> | Quarterly Averages | |
|-----------------------------------|--------------------|-------------|
| | 3Q 2004 | 3Q 2003 (a) |
| Economic risk capital: | | |
| Credit risk | \$ 24.1 | \$ 12.7 |
| Market risk | 9.3 | 5.0 |
| Operational risk | 5.7 | 3.4 |
| Business risk | 2.1 | 1.7 |
| Private equity risk | 4.5 | 5.4 |
| Economic risk capital | 45.7 | 28.2 |
| Goodwill | 43.0 | 8.0 |
| Other (b) | 15.7 | 6.9 |
| Total Common stockholders' equity | \$ 104.4 | \$ 43.1 |

(a) *Heritage JPMorgan Chase only.*

(b) *Additional capital required to meet internal regulatory/debt rating objectives.*

Table of Contents**Line of Business Equity**

The Firm's framework for allocating capital is based on the following objectives:

Integrate firmwide capital management activities with capital management activities within each of the lines of business.

Measure performance in each business segment consistently across all lines of business.

Provide comparability with peer firms for each of the lines of business.

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

For performance management purposes, the Firm does not allocate goodwill to the lines of business because management believes that the accounting-driven allocation of goodwill could distort its assessment of relative returns. In Management's view, its approach fosters better comparison of line of business returns with other internal business segments, as well as with peers. The Firm assigns an amount of equity capital equal to the then current book value of its goodwill to the Corporate segment. The return on invested capital related to the Firm's goodwill assets is managed within this segment. In accordance with SFAS 142, the Firm allocates goodwill to the lines of business based on the underlying fair values of the businesses and then performs the required impairment testing. For a further discussion of goodwill and impairment testing, see Critical accounting estimates and Note 14 on pages 58 and 79-80, respectively, of this Form 10-Q.

This integrated approach to assigning equity to the lines of business is a new methodology resulting from the Merger. Therefore, the comparison of current quarter line of business equity is not comparable to equity assigned to the lines of business in prior quarters. It is expected that the Firm will continuously assess the assumptions, methodologies and reporting reclassifications used for segment reporting and further refinements may be implemented in future periods.

The following represents average equity for each of the business segments of JPMorgan Chase for the third quarter of 2004.

| <i>(in billions)</i> | 3Q 2004 |
|--|-----------------|
| Line of business | |
| Investment Bank | \$ 20.0 |
| Retail Financial Services | 13.1 |
| Card Services | 11.8 |
| Commercial Bank | 3.4 |
| Treasury & Securities Services | 1.9 |
| Asset & Wealth Management | 2.4 |
| Corporate (a) | 51.8 |
| Total common stockholders' equity | \$ 104.4 |

(a) Includes \$43.0 billion of equity to offset goodwill, \$7.4 billion of equity related to Global Treasury, Private Equity and Corporate Pension Plan and \$1.4 billion of capital retained in Corporate.

Dividends

The Firm's common stock dividend policy reflects its earnings outlook, desired payout ratios, the need to maintain an adequate capital level and alternative investment opportunities. In the third quarter of 2004, JPMorgan Chase declared a quarterly cash dividend on its common stock of \$0.34 per share, payable October 31, 2004, to stockholders of record at the close of business October 6, 2004.

Stock repurchases

The Firm did not repurchase any shares of its common stock during the first nine months of 2004 or all of 2003, except as discussed below. On July 20, 2004, the Board of Directors approved an initial stock repurchase program in the aggregate amount of \$6.0 billion. This amount includes shares to be repurchased to offset issuances under the Firm's employee equity-based plans. The actual amount of shares repurchased will be subject to various factors, including market conditions; legal considerations affecting the amount and timing of repurchase activity; the Firm's capital position (taking into account purchase accounting adjustments); internal capital generation; and alternative potential investment opportunities. During the third quarter of 2004, the Firm repurchased 3.5 million shares for \$138 million under the stock repurchase program. For additional information regarding repurchases of the Firm's equity securities, see Part II, Item 2 on page 95 of this Form 10-Q.

Table of Contents**Liquidity Management**

The following discussion of JPMorgan Chase's liquidity management focuses primarily on developments since December 31, 2003, and should be read in conjunction with pages 47-48 of JPMorgan Chase's 2003 Annual Report. In managing liquidity, management considers a variety of liquidity risk measures as well as market conditions, prevailing interest rates, liquidity needs and the desired maturity profile of its liabilities.

Consistent with its liquidity management policy, the Firm has raised funds at the parent holding company sufficient to cover maturing obligations over the next 12 months. Long-term funding needs for the parent holding company over the next several quarters are expected to be consistent with prior periods. The Firm manages its liquidity through a combination of short- and long-term sources of funds to support its balance sheet and its businesses. Under the Firm's liquidity risk management framework, the Firm maintains sufficient levels of long-term liquidity through a combination of long-term debt, preferred stock, common equity and core deposits to support the less liquid assets on its balance sheet. The Firm's primary source of short-term funds, excluding unsecured borrowings, includes more than \$58 billion of securities available for repurchase agreements and approximately \$39 billion of credit card, automobile and mortgage loans available for securitization.

In the event of a disruption in the financial markets, the Firm has a number of liquidity sources it could draw upon to meet liquidity needs. These sources include selling investment portfolio securities, entering into repurchase agreements, securitizing loan assets, and borrowing through the Federal Home Loan Bank system. Depending upon the nature of the disruption, funding may also be available from the Federal Reserve discount window.

Credit ratings

The credit ratings of JPMorgan Chase's parent holding company and each of its significant banking subsidiaries, as of September 30, 2004, were as follows:

| | Short-Term Debt | | | Senior Long-Term Debt | | |
|--------------------------------|-----------------|-------|-------|-----------------------|-------|-------|
| | Moody's | S & P | Fitch | Moody's | S & P | Fitch |
| JPMorgan Chase & Co. | P-1 | A-1 | F1 | Aa3 | A+ | A+ |
| JPMorgan Chase Bank | P-1 | A-1+ | F1+ | Aa2 | AA- | A+ |
| Chase Manhattan Bank USA, N.A. | P-1 | A-1+ | F1+ | Aa2 | AA- | A+ |
| Bank One, N.A. (Chicago) | P-1 | A-1+ | F1+ | Aa2 | AA- | A+ |
| Bank One, N.A. (Columbus) | P-1 | A-1+ | F1+ | Aa2 | AA- | A+ |

The Firm's principal insurance subsidiaries had the following financial strength ratings:

| | Moody's | S & P | A.M. Best |
|--|---------|-------|-----------|
| Federal Kemper Life Assurance Company | A2 | A+ | A |
| Zurich Life Insurance Company of America | A2 | A+ | A |

At the end of the second quarter of 2004, in anticipation of the July 1, 2004, close of the Merger with Bank One, Moody's upgraded the ratings of the Firm by one notch, moving the parent holding company's senior long-term debt rating to Aa3 and JPMorgan Chase Bank's senior long-term debt rating to Aa2. Moody's outlook for the Firm is stable. Fitch affirmed its ratings and changed its outlook to positive, while S&P affirmed all its ratings and kept its outlook

stable.

The cost and availability of unsecured financing are influenced by credit ratings. A reduction in these ratings could adversely affect the Firm's access to liquidity sources, increase the cost of funds, trigger additional collateral requirements and decrease the number of investors and counterparties willing to lend. If the Firm's ratings were downgraded by one notch, the Firm estimates the incremental cost of funds to be in the range of 5 to 15 basis points, reflecting a range of terms from three to five years, and the potential loss of funding to be negligible. Additionally, the Firm estimates the additional funding requirements for variable interest entities (VIEs) and other third-party commitments to be relatively modest. In the current environment, the Firm believes a downgrade is unlikely. For additional information on the impact of a credit ratings downgrade on funding requirements for VIEs, and on derivatives and collateral agreements, see Off balance Sheet Arrangements, below, and Ratings profile of derivative receivables mark-to-market (MTM) on page 46, respectively, of this Form 10-Q.

Issuances

During the nine months ended September 30, 2004, JPMorgan Chase issued approximately \$19.8 billion of long-term debt; during the same period, \$11.6 billion of long-term debt matured or was redeemed. In addition, the Firm securitized approximately \$5.6 billion of residential mortgage loans, \$6.3 billion of credit card loans and \$1.6 billion of automobile loans, resulting in pre-tax gains (losses) on securitizations of \$54 million, \$36 million and \$(3) million, respectively. For a further discussion of loan securitizations, see Note 12 on pages 73-76 of this Form 10-Q and Note 13 on pages 100-103 of JPMorgan Chase's 2003 Annual Report.

Table of Contents**Off balance Sheet Arrangements**

VIEs, including special-purpose entities, are an important part of the financial markets, providing market liquidity by facilitating investors' access to specific portfolios of assets and risks. JPMorgan Chase is involved with VIEs, in three broad categories of transactions: loan securitizations (through qualifying special-purpose entities), multi-seller conduits and client intermediation. Capital is held, as appropriate, against all VIE-related transactions and related exposures, such as derivative transactions and lending-related commitments. For a further discussion of VIEs and the Firm's accounting for them, see Notes 12 and 13 of this Form 10-Q on pages 73-78, and Note 1 on pages 86-87, Note 13 on pages 100-103 and Note 14 on pages 103-106 of JPMorgan Chase's 2003 Annual Report.

For certain liquidity commitments to VIEs, the Firm could be required to provide funding if the credit rating of JPMorgan Chase Bank or Bank One, N.A. (Chicago) were downgraded below specific levels, primarily P-1, A-1 and F1 for Moody's, Standard & Poor's and Fitch, respectively. The amount of these liquidity commitments was \$77.1 billion at September 30, 2004. Alternatively, if JPMorgan Chase Bank or Bank One, N.A. (Chicago) were downgraded, the Firm could be replaced by another liquidity provider in lieu of funding under the liquidity commitment, or, in certain circumstances, could facilitate the sale or refinancing of the assets in the VIE in order to provide liquidity.

Of its \$77.1 billion in liquidity commitments to VIEs, \$46.3 billion is included in the Firm's total Other unfunded commitments to extend credit, included in the table below. As a result of the consolidation of multi-seller conduits in accordance with FIN 46R, \$30.8 billion of these commitments are excluded from the table, as the underlying assets of the VIEs have been included on the Firm's Consolidated balance sheet.

The revenue reported in the tables below primarily represents servicing and custodial fee income. The Firm also has exposure to certain VIE vehicles arising from derivative transactions; these transactions are recorded at fair value on the Firm's Consolidated balance sheet with changes in fair value (i.e., MTM gains and losses) recorded in Trading revenue. Such MTM gains and losses are not included in the revenue amounts reported in the table below.

The following tables summarize certain revenue information related to VIEs with which the Firm has significant involvement, and qualifying SPEs:

| <i>(in millions)</i> | Quarter ended September 30, 2004 | | | Total |
|----------------------|---|------------|------|------------|
| | VIEs (a) | Qualifying | SPEs | |
| Revenue | \$ 53 | \$ 424 | \$ | 477 |

| <i>(in millions)</i> | Nine months ended September 30, 2004 (b) | | | Total |
|----------------------|---|------------|------|--------------|
| | VIEs (a) | Qualifying | SPEs | |
| Revenue | \$ 96 | \$ 979 | \$ | 1,075 |

(a) Includes all VIE-related revenue (i.e., revenue associated with consolidated and nonconsolidated VIEs).

(b) 2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results.

The following table summarizes JPMorgan Chase's off balance sheet lending-related financial instruments by remaining maturity at September 30, 2004:

| <i>(in millions)</i> | Under 1 year | 1 - 3 Years | 4 - 5 Years | After 5 Years | Total |
|--|-----------------|----------------|----------------|------------------|------------|
| Off-balance sheet lending related financial instruments | | | | | |
| Consumer-related | \$ 546,835 | \$ 2,755 | \$ 2,841 | \$ 40,914 | \$ 593,345 |
| Wholesale-related: | | | | | |
| Other unfunded commitments to extend credit (a)(b) | 125,601 | 61,202 | 26,383 | 3,987 | 217,173 |
| Standby letters of credit and guarantees (a) | 34,363 | 36,016 | 19,305 | 2,672 | 92,356 |
| Other letters of credit (a) | 3,514 | 2,813 | 55 | 35 | 6,417 |
| Total wholesale-related | 163,478 | 100,031 | 45,743 | 6,694 | 315,946 |
| Total lending-related commitments | \$ 710,313 | \$ 102,786 | \$ 48,584 | \$ 47,608 | \$ 909,291 |

(a) Represents contractual amount net of risk participations totaling \$29 billion at September 30, 2004.

(b) Includes unused advised lines of credit totaling \$20 billion at September 30, 2004, which are not legally binding. In regulatory filings with the Federal Reserve Board, unused advised lines are not reportable.

Table of Contents**CREDIT RISK MANAGEMENT**

The following discussion of JPMorgan Chase's credit portfolio as of September 30, 2004, focuses primarily on developments since December 31, 2003, and should be read in conjunction with pages 51-65, pages 74-77 and Notes 11, 12, 29 and 30 of JPMorgan Chase's 2003 Annual Report.

The Firm assesses its consumer credit exposure on a managed basis, including credit card securitizations. For a reconciliation of the Provision for credit losses on a reported basis to operating, or managed, basis, see pages 9-11 of this Form 10-Q.

CREDIT PORTFOLIO

The following table presents a summary of the Firm's credit portfolio for the dates indicated:

Wholesale and consumer credit portfolio

| <i>(in millions)</i> | Sept. 30, 2004 | Credit exposure H-JPMC Only Dec. 31, 2003 |
|--|-------------------|---|
| Wholesale (a)(b) | | |
| Loans U.S. | \$ 99,451 | \$ 44,325 |
| Loans non-U.S. | 32,893 | 31,094 |
| Total wholesale loans reported | 132,344 | 75,419 |
| Consumer (b)(c) | | |
| Consumer real estate | | |
| Home finance home equity & other | \$ 67,368 | \$ 24,179 |
| Home finance mortgage | 56,035 | 50,381 |
| Auto & education finance | 62,587 | 43,157 |
| Small business & other consumer | 15,126 | 4,204 |
| Credit card receivables reported | 60,241 | 17,426 |
| Total consumer loans reported | 261,357 | 139,347 |
| Total loans reported | \$ 393,701 | \$ 214,766 |
| Credit card securitizations (d) | 71,256 | 34,856 |
| Total loans managed | 464,957 | 249,622 |
| Derivative receivables (e)(f) | 57,795 | 83,751 |
| Interests in purchased receivables (g) | 30,479 | 4,752 |

| | | | |
|--|--------------------|-----------|----------|
| Other receivables | | | 108 |
| Total credit-related assets | 553,231 | | 338,233 |
| Wholesale lending-related commitments (h)(i) | 315,946 | | 211,483 |
| Consumer lending-related commitments | 593,345 | | 181,198 |
| Total | 1,462,522 | | 730,914 |
| Memo: total by category | | | |
| Total wholesale exposure (j) | \$ 536,564 | \$ | 375,513 |
| Total consumer exposure (k) | 925,958 | | 355,401 |
| Total | 1,462,522 | | 730,914 |
| Credit derivative hedges notional | \$ (38,326) | \$ | (37,282) |
| Collateral held against derivative receivables | \$ (8,059) | \$ | (36,214) |

- (a) *Includes Investment Bank, Commercial Banking, Treasury & Securities Services and Asset & Wealth Management.*
- (b) *Amounts are presented gross of the Allowance for credit losses.*
- (c) *Includes Retail Financial Services and Card Services.*
- (d) *Represents securitized credit cards. For a further discussion of credit card securitizations, see Card Services on pages 25-27 of this Form 10-Q.*
- (e) *These amounts include the effect of legally enforceable master netting agreements. Effective January 1, 2004, the Firm elected to net cash paid and received under legally enforceable master netting agreements.*
- (f) *Based on economic credit exposure, the measure of expected MTM value of derivative receivables at future time periods, including the benefit of collateral, derivative receivables were \$35 billion and \$34 billion at September 30, 2004 and December 31, 2003, respectively. See page 53 of JPMorgan Chase's 2003 Annual Report for a further discussion.*
- (g) *These represent undivided interests in pools of receivables and similar types of assets.*

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- (h) *Based on Economic credit exposure, which represents the portion of the unused commitments or other contingent exposure that is likely, based on average portfolio historical experience, to become outstanding in the event of a default by the obligor, lending-related commitments were \$164 billion and \$104 billion at September 30, 2004 and December 31, 2003, respectively. See page 53 of JPMorgan Chase's 2003 Annual Report for a further discussion.*
- (i) *Includes unused advised lines of credit totaling \$20 billion at September 30, 2004, and \$19 billion at December 31, 2003, which are not legally binding. In regulatory filings with the Federal Reserve Board, unused advised lines are not reportable.*
- (j) *Represents Total wholesale loans, Derivative receivables, Interests in purchased receivables, other receivables and wholesale lending-related commitments.*
- (k) *Represents Total consumer loans, credit card securitizations and consumer lending-related commitments.*

The increase in JPMorgan Chase's total credit exposure (including \$71 billion of securitized credit cards) reflected the Merger with Bank One. Total wholesale exposure increased by \$161 billion, while total consumer exposure increased by \$571 billion.

WHOLESALE CREDIT PORTFOLIO

The increase in total wholesale exposure was almost entirely due to the merger with Bank One. Derivative receivables declined by \$26 billion, primarily because, effective January 1, 2004, the Firm elected to net cash paid and received as collateral under credit support annexes to legally enforceable master netting agreements. Loans and lending-related commitments increased by \$57 billion and \$104 billion, respectively, both as a result of the Merger. Interests in purchased receivables increased primarily due to the Merger.

Below are summaries of the maturity and ratings profiles of the wholesale portfolio as of September 30, 2004, and December 31, 2003. The ratings scale is based on the Firm's internal risk ratings and is presented on an S&P-equivalent basis.

| | At September 30, 2004 | | | | | | | | | | |
|-------------------------------------|-----------------------|-------------|-----------|-------|------------------------------|--------------------------------|--------------------------------|---------------------------------|---------------------------------|--------|-------------------|
| | Maturity profile (a) | | | | Ratings profile | | | | | | Total % of IG (b) |
| | < 1 year | 1 - 5 years | > 5 years | Total | Investment-grade (AAA to AA) | Non-investment-grade (A+ to A) | Investment-grade (BBB+ to BBB) | Non-investment-grade (BB+ to B) | Investment-grade (CCC+ & below) | Total | |
| <i>(in billions, except ratios)</i> | | | | | | | | | | | |
| Loans | 46% | 41% | 13% | 100% | \$ 27 | \$ 19 | \$ 37 | \$ 43 | \$ 7 | \$ 133 | 62% |
| Derivative receivables (b) | 10 | 45 | 45 | 100 | 29 | 11 | 9 | 9 | | 58 | 84 |
| Interests in purchased receivables | 44 | 50 | 6 | 100 | 30 | | | | | 30 | 100 |
| Lending-related commitments (b)(c) | 52 | 46 | 2 | 100 | 123 | 73 | 71 | 46 | 3 | 316 | 84 |
| Total exposure (d) | 46% | 45% | 9% | 100% | \$ 209 | \$ 103 | \$ 117 | \$ 98 | \$ 10 | \$ 537 | 80% |

| | | | | | | | | | | | |
|--|-----|-----|----|------|---------|---------|---------|--------|----|---------|-----|
| Credit derivative hedges notional (e) | 16% | 79% | 5% | 100% | \$ (11) | \$ (12) | \$ (13) | \$ (2) | \$ | \$ (38) | 95% |
|--|-----|-----|----|------|---------|---------|---------|--------|----|---------|-----|

At December 31, 2003 (f)

| (in billions, except ratios) | Ratings profile | | | | | | | | | | Total % of IG (b) |
|--|----------------------|----------------|--------------|-------|------------------|---------------|-------------------|----------------|--------------------|---------|----------------------------|
| | Maturity profile (a) | | | | Investment-grade | | | | | Total | |
| | < 1 year | 1 - 5 years | > 5 years | Total | AAA to AA | A+ to A | BBB+ to BBB | BB+ to B | CCC+ & below | | |
| Loans | 50% | 35% | 15% | 100% | \$ 14 | \$ 13 | \$ 20 | \$ 22 | \$ 6 | \$ 75 | 63% |
| Derivative receivables (b) | 20 | 41 | 39 | 100 | 47 | 15 | 12 | 9 | 1 | 84 | 88 |
| Interests in purchased receivables | 27 | 71 | 2 | 100 | 5 | | | | | 5 | 100 |
| Lending-related commitments (b)(c) | 52 | 45 | 3 | 100 | 79 | 57 | 48 | 26 | 2 | 212 | 87 |
| Total exposure (d) | 44% | 43% | 13% | 100% | \$ 145 | \$ 85 | \$ 80 | \$ 57 | \$ 9 | \$ 376 | 82% |
| Credit derivative hedges notional (e) | 16% | 74% | 10% | 100% | \$ (10) | \$ (12) | \$ (12) | \$ (2) | \$ (1) | \$ (37) | 92% |

(a) The maturity profile of loans and lending-related commitments is based upon the remaining contractual maturity. The maturity profile of derivative receivables is based upon the maturity profile of Average exposure. See page 53 of JPMorgan Chase's 2003 Annual Report for a further discussion.

(b) Based on economic credit exposure, the total percentage of IG for derivative receivables was 89% and 91% as of September 30, 2004 and December 31, 2003, respectively, and for lending-related commitments was 85% and 88% as of September 30, 2004 and December 31, 2003, respectively.

(c) Based on economic credit exposure, the maturity profile for the <1 year, 1-5 years and >5 years categories would have been 34%, 62% and 4%, respectively, as of September 30, 2004, and 38%, 58% and 4%, respectively, as of December 31, 2003. See page 53 of JPMorgan Chase's 2003 Annual Report for a further discussion of economic credit exposure.

(d) Based on economic credit exposure, the maturity profile for <1 year, 1-5 years and >5 years categories would have been 37%, 52% and 11%, respectively, as of September 30, 2004, and 36%, 46% and 18%, respectively, as of December 31, 2003. See page 53 of JPMorgan Chase's 2003 Annual Report for a further discussion.

(e) Ratings are based on the underlying referenced assets.

(f) Heritage JPMorgan Chase only.

As of September 30, 2004, the wholesale exposure ratings profile remained relatively stable compared with December 31, 2003.

Table of Contents**Wholesale Credit Exposure selected industry concentration**

The Firm continues to focus on the management and diversification of its industry concentrations, with particular attention paid to industries with actual or potential credit concerns. The Firm is currently engaged in reviewing industry definitions and assignments in each of the heritage firm's portfolios. Going forward, the Firm will report industry concentrations based on primary industry risk; as such, the \$9.7 billion of reported credit exposure to Telecom services at September 30, 2004, no longer includes exposure to companies related to the telecom services industry, such as suppliers to telecom services companies, and has therefore decreased from the \$10.9 billion reported at year-end 2003. Since December 31, 2003, the Firm's industry structure was modified, resulting in two new industry groups within the top 10 industry concentrations at September 30, 2004: Banks and finance companies (consists of the industries called Commercial banks and Finance companies and lessors at year-end 2003) and Retail and consumer services (previously separate industries at December 31, 2003). The merger with Bank One resulted in increases in nearly every top 10 industry concentration. Banks and finance companies and Asset managers had declines in exposure, both primarily as a result of the Firm's election to net cash received under legally enforceable master netting agreements, which affected derivative receivables. A significant portion of the Firm's derivatives portfolio is transacted with customers in these industries.

| As of September 30, 2004 (in millions, except ratios) | Credit Exposure (a) | Investment Grade (b) | Criticized Performing (c) | Criticized Nonperforming (d) | Derivative Hedges (e) | Collateral Held Against Derivative Receivables (f) | |
|--|---------------------------|----------------------------|---------------------------------|------------------------------------|-----------------------------|---|-------------------|
| Top 10 Industries (d) | | | | | | | |
| Banks and finance companies | \$ 55,714 | 90% | \$ 5,243 | \$ 145 | \$ 66 | \$ (11,832) | \$ (2,787) |
| Real estate | 26,921 | 62 | 9,494 | 757 | 92 | (893) | (49) |
| Retail and consumer services | 24,407 | 73 | 6,108 | 332 | 122 | (1,816) | |
| Healthcare | 22,755 | 84 | 3,376 | 261 | 68 | (769) | (13) |
| Utilities | 22,427 | 82 | 2,966 | 517 | 476 | (2,203) | (10) |
| Consumer products | 21,228 | 69 | 6,055 | 396 | 82 | (1,307) | (58) |
| State and municipal governments | 20,113 | 97 | 669 | 15 | 1 | (419) | (19) |
| Securities firms and exchanges | 17,835 | 88 | 2,144 | 1 | 13 | (1,397) | (1,340) |
| Asset managers | 17,672 | 82 | 3,129 | 74 | 3 | (59) | (593) |
| Oil and gas | 16,416 | 78 | 3,421 | 161 | 2 | (1,469) | (78) |
| Other selected industries | | | | | | | |
| Automotive | 12,340 | 67 | 3,736 | 268 | 99 | (3,184) | |
| Telecom services | 9,732 | 81 | 1,536 | 262 | 76 | (2,515) | (388) |
| All other | 269,004 | 79 | 49,188 | 4,736 | 921 | (10,463) | (2,724) |
| Total | \$ 536,564 | 80% | \$ 97,065 | \$ 7,925 | \$ 2,021 | \$ (38,326) | \$ (8,059) |

Heritage JPMC Only (b)

Noninvestment grade

Credit

Collateral
Held

| As of December 31, 2003 (in millions, except ratios) | Credit Exposure (a) | Investment Grade (b) | Noncriticized Performing (c) | Criticized Performing (d) | Criticized Nonperforming (e) | Derivative Hedges (f) | Against Derivative Receivables (g) |
|---|------------------------|-------------------------|---------------------------------|------------------------------|---------------------------------|--------------------------|---------------------------------------|
| Top 10 Industries (d) | | | | | | | |
| Banks and finance companies | \$ 62,652 | 96% | \$ 2,633 | \$ 107 | \$ 23 | \$ (12,538) | \$ (24,822) |
| Real estate | 14,544 | 70 | 4,058 | 232 | 49 | (718) | (182) |
| Retail and consumer services | 14,451 | 73 | 3,613 | 224 | 83 | (1,637) | (17) |
| Healthcare | 11,332 | 86 | 1,403 | 139 | 44 | (467) | (35) |
| Utilities | 15,296 | 82 | 1,714 | 415 | 583 | (1,960) | (176) |
| Consumer products | 13,774 | 71 | 3,628 | 313 | 103 | (1,104) | (122) |
| State and municipal governments | 14,354 | 100 | 36 | 14 | 1 | (405) | (12) |
| Securities firms and exchanges | 15,599 | 83 | 2,582 | 9 | 13 | (1,369) | (4,168) |
| Asset managers | 21,794 | 82 | 3,899 | 76 | 13 | (245) | (1,133) |
| Oil and gas | 9,178 | 81 | 1,479 | 46 | 205 | (1,413) | (115) |
| Other selected industries | | | | | | | |
| Automotive | 7,268 | 76 | 1,536 | 150 | 82 | (2,313) | |
| Telecom services | 10,924 | 75 | 2,204 | 340 | 227 | (2,941) | (402) |
| All other | 164,347 | 80 | 28,070 | 4,423 | 939 | (10,172) | (5,030) |
| Total | \$ 375,513 | 83% | \$ 56,855 | \$ 6,488 | \$ 2,365 | \$ (37,282) | \$ (36,214) |

(a) Credit exposure is net of risk participations, and excludes the benefit of credit derivative hedges and collateral held against derivative receivables or loans.

(b) Excludes purchased nonaccrual loans held for sale of \$355 million and \$22 million at September 30, 2004 and December 31, 2003, respectively.

(c) Represents notional amounts only; these hedges do not qualify for hedging accounting under SFAS 133.

(d) Based on September 30, 2004 determination of Top 10 industries.

Table of Contents**Wholesale Criticized Exposure**

Exposures deemed criticized generally represent a ratings profile similar to a rating of CCC+/Caa1 and lower, as defined by Standard & Poor's/Moody's. As a result of the Merger with Bank One, the criticized component of the portfolio increased since December 31, 2003, to \$9.9 billion from \$8.9 billion. The portion of the criticized portfolio that existed prior to the Merger, however, continued to experience improvement due to debt repayments and facility upgrades as a result of client recapitalizations, additional security and collateral taken in refinancings, client upgrades from improved financial performance, gross charge-offs and a lack of migration of new exposures into the portfolio.

Country Exposure

The selection of countries presented is based on the materiality of the Firm's exposure and its view of actual or potentially adverse credit conditions. Exposure amounts are adjusted for credit enhancements (e.g., guarantees and letters of credit) provided by third parties located outside the country if the enhancements fully cover the country risk, as well as the commercial risk. In addition, the benefit of collateral, credit derivatives used to manage wholesale exposure, and short debt or equity trading positions is taken into account. Total exposure includes exposure to both government and private-sector entities in a country.

The exposure to Mexico increased from \$1.5 billion at December 31, 2003, to \$2.3 billion at September 30, 2004, mainly due to the consolidation of Bank One's lending portfolio with heritage JPMorgan Chase exposures, as well as increases in trading positions, both cross-border and local. The exposure to South Korea also increased from \$2.2 billion at December 31, 2003, to \$2.7 billion at September 30, 2004, due to the addition of Bank One's lending portfolio, partially offset by decreases in local issuer positions.

The Firm's exposure to other countries disclosed in JPMorgan Chase's 2003 Annual Report either has declined modestly or has had immaterial changes since year-end 2003. Likewise, during the quarter, the credit conditions in these countries remained relatively stable.

Derivative Contracts

For a further discussion of the derivative contracts utilized by JPMorgan Chase in connection with its trading and end-user activities, see Note 18 on page 82 of this Form 10-Q, and pages 58-61 and Note 28 on pages 116-117 of JPMorgan Chase's 2003 Annual Report.

The following table summarizes the aggregate notional amounts and the reported derivative receivables (i.e., the MTM or fair value of the derivative contracts after taking into account the effects of legally enforceable master netting agreements) at each of the dates indicated:

Notional amounts and derivative receivables marked to market (MTM)

| | Notional amounts (a) | | Derivative receivables MTM | |
|----------------------|--------------------------|-----------------------------|----------------------------|-----------------------------|
| | September 30, 2004 | December 31, 2003 (b) | September 30, 2004 | December 31, 2003 (b) |
| <i>(in billions)</i> | | | | |
| Interest rate | \$ 35,667 | \$ 31,252 | \$ 42 | \$ 60 |
| Foreign exchange | 1,577 | 1,582 | 3 | 10 |

| | | | | |
|--|------------------|-----------|-----------------|-------|
| Equity | 413 | 328 | 7 | 9 |
| Credit derivatives | 898 | 578 | 2 | 3 |
| Commodity | 96 | 24 | 4 | 2 |
| Total notional and credit exposure | \$ 38,651 | \$ 33,764 | \$ 58(c) | \$ 84 |
| Collateral held against derivative receivables | NA | NA | (8)(c) | (36) |
| Exposure net of collateral | \$ 38,651 | \$ 33,764 | \$ 50 | \$ 48 |

- (a) *The notional amounts represent the gross sum of long and short third-party notional derivative contracts, excluding written options and foreign exchange spot contracts.*
- (b) *Heritage JPMorgan Chase only.*
- (c) *The Firm held \$33 billion of collateral against derivative receivables as of September 30, 2004, consisting of \$25 billion in net cash received under credit support annexes to legally enforceable master netting agreements, and \$8 billion of other highly liquid collateral. The benefit of the \$25 billion is reflected within the \$58 billion of derivative receivables MTM. Excluded from the \$33 billion of collateral is \$10 billion of collateral delivered by clients at the initiation of transactions; this collateral secures exposure that could arise in the existing portfolio of derivatives should the MTM of the client's transactions move in the Firm's favor. Also excluded are credit enhancements in the form of letter-of-credit and surety receivables.*

The \$39 trillion of notional principal of the Firm's derivative contracts outstanding at September 30, 2004, significantly exceeds, in the Firm's view, the possible credit losses that could arise from such transactions. For most derivative transactions, the notional principal amount does not change hands; it is simply used as a reference to calculate payments. In terms of current credit risk exposure, the appropriate measure of risk is, in the Firm's view, the MTM value of the contract. The MTM exposure represents the cost to replace the contracts at current market rates should the counterparty default. When JPMorgan Chase has more than one transaction outstanding with a counterparty, and a legally enforceable master netting agreement exists with the counterparty, the MTM exposure, less collateral held, represents, in the Firm's view, the appropriate measure of current credit risk with that counterparty as of the reporting date. At September 30, 2004, the MTM value of derivative receivables (after taking into account

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the effects of legally enforceable master netting agreements and the impact of net cash received under credit support annexes to such legally enforceable master netting agreements) was \$58 billion. Further, after taking into account \$8 billion of other highly liquid collateral held by the Firm, the net current MTM credit exposure was \$50 billion. As of September 30, 2004, based on the MTM value of its derivative receivables and after taking into account the effects of legally enforceable master netting agreements and collateral held, the Firm did not have a concentration to any single derivative receivable counterparty greater than 5%.

The following table summarizes the ratings profile of the Firm's Consolidated balance sheet Derivative receivables MTM, net of cash and other highly liquid collateral, for the dates indicated:

Ratings profile of Derivative receivables MTM

| | September 30, 2004 | | H-JPMC Only December 31, 2003 | |
|--------------------------|--|--|-------------------------------------|--|
| | Exposure net of collateral (a) | % of exposure net of collateral | Exposure net of collateral | % of exposure net of collateral |
| <i>(in millions)</i> | | | | |
| Rating equivalent | | | | |
| AAA to AA- | \$ 25,319 | 51% | \$ 24,697 | 52% |
| A+ to A- | 8,354 | 17% | 7,677 | 16% |
| BBB+ to BBB- | 8,148 | 16% | 7,564 | 16% |
| BB+ to B- | 7,564 | 15% | 6,777 | 14% |
| CCC+ and below | 351 | 1% | 822 | 2% |
| Total | \$ 49,736 | 100% | \$ 47,537 | 100% |

(a) The Firm held \$33 billion of collateral against derivative receivables as of September 30, 2004, consisting of \$25 billion in net cash received under legally enforceable master netting agreements, and \$8 billion of other highly liquid collateral. The benefit of the \$25 billion is reflected within the \$58 billion of derivative receivables MTM. Excluded from the \$33 billion of collateral is \$10 billion of collateral delivered by clients at the initiation of transactions; this collateral secures exposure that could arise in the existing portfolio of derivatives should the MTM of the client's transactions move in the Firm's favor. Also excluded are credit enhancements in the form of letter-of-credit and surety receivables.

The Firm actively pursues the use of collateral agreements to mitigate counterparty credit risk in derivatives. The percentage of the Firm's derivatives transactions subject to collateral agreements increased slightly, to 79% as of September 30, 2004, from 78% at December 31, 2003. The Firm held \$33 billion of collateral as of September 30, 2004 (including \$25 billion of net cash received under credit support annexes to legally enforceable master netting agreements), compared with \$36 billion as of December 31, 2003. The Firm posted \$26 billion of collateral as of September 30, 2004, compared with \$27 billion at the end of 2003.

Certain derivative and collateral agreements include provisions that require both the Firm and the counterparty, upon specified downgrades in their respective credit ratings, to post collateral for the benefit of the other party. The impact on required collateral of a single-notch ratings downgrade to JPMorgan Chase Bank, from its current rating of AA- to

A+, would have been an additional \$1.3 billion of collateral posted by the Firm as of September 30, 2004. The impact of a six-notch ratings downgrade to JPMorgan Chase Bank (from AA- to BBB) would have been \$3.4 billion of additional collateral posted by the Firm as of September 30, 2004. Certain derivative contracts also provide for termination of the contract, generally upon JPMorgan Chase Bank being downgraded, at the then-existing MTM value of the derivative contracts.

Use of credit derivatives

The following table presents the Firm's notional amounts of credit derivatives protection bought and sold as of September 30, 2004, and December 31, 2003:

Credit derivatives positions

| <i>(in millions)</i> | Portfolio management | | Dealer/Client | | Total |
|---------------------------|-----------------------------|--------------------|----------------------|--------------------|-------------------|
| | Notional amounts | | Notional amounts | | |
| | Protection bought (a) | Protection sold | Protection bought | Protection sold | |
| September 30, 2004 | \$ 38,382 | \$ 56 | \$ 413,286 | \$ 445,968 | \$ 897,692 |
| December 31, 2003 (b) | 37,349 | 67 | 264,389 | 275,888 | 577,693 |

(a) Includes \$2 billion at both September 30, 2004, and December 31, 2003, of portfolio credit derivatives.

(b) Heritage JPMorgan Chase only.

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JPMorgan Chase has limited counterparty exposure as a result of credit derivatives transactions. Of the \$58 billion of total Derivative receivables at September 30, 2004, approximately \$2 billion, or 3%, was associated with credit derivatives, before the benefit of highly liquid collateral. The use of credit derivatives to manage exposures does not reduce the reported level of assets on the balance sheet or the level of reported off-balance sheet commitments.

Portfolio management activity

In managing its wholesale credit exposure, the Firm purchases single-name and portfolio credit derivatives. As of September 30, 2004, the notional outstanding amount of protection purchased via single-name and portfolio credit derivatives was \$36 billion and \$2 billion, respectively. The Firm also diversifies its exposures by providing (i.e., selling) small amounts of credit protection, which increases exposure to industries or clients where the Firm has little or no client-related exposure. This activity is not material to the Firm's overall credit exposure.

Use of single-name and portfolio credit derivatives

| <i>(in millions)</i> | Notional amount of protection bought September 30, 2004 | December 31, 2003 (a) |
|--|--|----------------------------------|
| Credit derivatives used to manage risk related to: | | |
| Loans and lending-related commitments | \$ 25,859 | \$ 22,471 |
| Derivative receivables | 12,523 | 14,878 |
| Total | \$ 38,382 | \$ 37,349 |

(a) *Heritage JPMorgan Chase only.*

The credit derivatives used by JPMorgan Chase for its portfolio management activities do not qualify for hedge accounting under SFAS 133, and therefore, effectiveness testing under SFAS 133 is not performed. These derivatives are reported at fair value, with gains and losses recognized as Trading revenue. The MTM value incorporates both the cost of credit derivative premiums and changes in value due to movement in spreads and credit events, whereas the loans and lending-related commitments being risk managed are accounted for on an accrual basis. Loan interest and fees are generally recognized in net interest income, and impairment is recognized in the Provision for credit losses. This asymmetry in accounting treatment, between loans and lending-related commitments and the credit derivatives utilized in portfolio management activities, causes earnings volatility that is not representative of the true changes in value of the Firm's overall credit exposure. The MTM treatment of both the Firm's credit derivatives used for managing credit exposure (short credit positions) and the Credit Valuation Adjustment (CVA), which reflects the credit quality of derivatives counterparty exposure (long credit positions), provides some natural offset.

Portfolio management activity in the third quarter of 2004 resulted in a loss of \$31 million in Trading revenue. This activity included \$169 million of losses related to credit derivatives used to manage the Firm's credit exposure. Of this amount, approximately \$123 million was associated with credit derivatives used to manage the risk of accrual lending activities, and the remaining amount was associated with credit derivatives used to manage the overall derivatives portfolio. Partially offsetting this loss were gains of \$138 million related to the change in the MTM value of the CVA. These results were due to tightening of credit spreads.

Trading revenue from portfolio management in the third quarter of 2003 resulted in losses of \$12 million. The losses consisted of \$163 million related to credit derivatives used to manage the Firm's credit exposure; of this amount, \$75 million was associated with credit derivatives used to manage the risk of accrual lending activities, and \$88 million was associated with credit derivatives used to manage the risk of the overall derivatives portfolio. The losses were due to an overall global tightening of credit spreads. These losses were offset by \$151 million in gains resulting from a decrease in the MTM value of the CVA, also the result of spread tightening.

In the first nine months of 2004, Trading revenue from portfolio management activities resulted in \$11 million of gains. These gains included \$195 million related to the change in MTM value of the CVA, partially offset by \$184 million of net losses related to credit derivatives used to manage the Firm's credit exposure, primarily against the accrual portfolio.

The first nine months of 2003 included \$158 million of losses in Trading revenue from portfolio management activities. The losses consisted of \$628 million related to credit derivatives used to manage the Firm's credit exposure; of this amount, \$383 million was associated with credit derivatives used to manage the risk of accrual lending activities, and \$245 million was associated with credit derivatives used to manage the overall derivatives portfolio. The losses were due to overall global tightening of credit spreads. These losses were offset by \$470 million of gains resulting from a decrease in the MTM value of the CVA, also the result of spread tightening.

Dealer client activity

As of September 30, 2004, the total notional amounts of protection purchased and sold by the dealer business were \$414 billion and \$446 billion, respectively. The mismatch between these notional amounts is attributable to the Firm selling protection on large, diversified, predominantly investment-grade portfolios (including the most senior tranches) and then hedging these positions by buying protection on the more subordinated tranches of the same portfolios. In addition, the Firm may use securities to hedge

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certain derivative positions. Consequently, while there is a mismatch in notional amounts of credit derivatives, in the Firm's view, the risk positions are largely matched.

Wholesale loan and commitment sales

Wholesale credit exposure is managed through secondary loan and commitment sales that are not associated with loan syndication activity or securitization activity as described in Note 12 of this Form 10-Q. The following table presents this activity:

| <i>(in millions)</i> | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|----------------------------------|--------------------------|----------------------------------|
| | 2004 | September 30, 2003 (a) | 2004 | September 30, (b) 2003 |
| Credits sold and loans transferred to loans held for sale: | | | | |
| Nonperforming loans | \$ 69 | \$ 243 | \$ 326 | \$ 451 |
| Other loans with credit related losses | 51 | 213 | 260 | 376 |
| Other loans | 1,754 | 863 | 4,499 | 3,198 |
| Total | \$ 1,874 | \$ 1,319 | \$ 5,085 | \$ 4,025 |
| Impact of sales, transfers to loans held for sale and valuation adjustments on held for sale: | | | | |
| Charge-offs (recoveries) on loans sold: | | | | |
| Nonperforming loans | \$ 2 | \$ 5 | \$ (20) | \$ 47 |
| Other loans with credit related losses | 6 | (11) | 7 | (25) |
| Total charge-offs (recoveries) | 8 | (6) | (13) | 22 |
| Net (gains) losses on loans sold | 6 | 13 | 17 | 36 |
| Total | \$ 14 | \$ 7 | \$ 4 | \$ 58 |

(a) *Heritage JPMorgan Chase only.*

(b) *2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.*

Lending-related commitments

The contractual amount of wholesale lending-related commitments was \$316 billion at September 30, 2004, compared with \$211 billion at December 31, 2003. The increase was primarily due to the Merger. In the Firm's view, the total contractual amount of these instruments is not representative of the Firm's actual credit risk exposure or funding requirements. In determining the amount of credit risk exposure the Firm has to wholesale lending-related commitments, which is used as the basis for allocating credit risk capital to these instruments, the Firm has established a loan equivalent amount for each commitment; this represents the portion of the unused commitment or other contingent exposure that is likely, based on average portfolio historical experience, to become outstanding in the event of a default by an obligor.

Table of Contents**CONSUMER CREDIT PORTFOLIO**

JPMorgan Chase's consumer portfolio consists primarily of 1-4 family residential mortgages, credit cards and automobile financings and loans to small businesses. The domestic consumer portfolio reflects the benefit of diversification from both a product and geographical perspective. The primary focus is on servicing the prime consumer credit market.

| <i>(in millions)</i> | September 30, 2004 | H-JPMC Only December 31, 2003 |
|---|-------------------------------|--|
| Consumer loans: | | |
| Consumer real estate | | |
| Home finance – home equity & other | \$ 67,368 | \$ 24,179 |
| Home finance – mortgage | 56,035 | 50,381 |
| Auto & education finance | 62,587 | 43,157 |
| Small business & other consumer | 15,126 | 4,204 |
| Credit card receivables – reported | 60,241 | 17,426 |
| Total consumer loans – reported | 261,357 | 139,347 |
| Credit card securitizations (a) | 71,256 | 34,856 |
| Total consumer loans – managed | 332,613 | 174,203 |
| Consumer lending-related commitments | | |
| Consumer real estate | 54,859 | 31,626 |
| Auto & education finance | 4,707 | 2,637 |
| Small business & other consumer | 9,992 | 5,792 |
| Credit cards | 523,787 | 141,143 |
| Total lending-related commitments | 593,345 | 181,198 |
| Total consumer credit portfolio | \$ 925,958 | \$ 355,401 |

(a) Represents the portion of JPMorgan Chase's credit card receivables that have been securitized.

Total managed consumer loans as of September 30, 2004 were \$333 billion, up from \$174 billion at year-end 2003, reflecting the addition of the Bank One consumer credit portfolios.

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

Consumer Real Estate Lending: Home finance loans on the balance sheet as of September 30, 2004 were \$123 billion. This consisted of \$67 billion of home equity and other loans and \$56 billion of first mortgages. Home equity and other loans included \$4 billion of manufactured housing loans, a product that the Firm chose to stop originating earlier this year. The \$123 billion in Home Finance receivables as of September 30, 2004, reflects an

increase of \$49 billion from year-end 2003 driven by the addition of Bank One's home equity and mortgage portfolios. Home Finance provides real estate lending to the full spectrum of credit borrowers, including \$17 billion in sub-prime credits.

Auto & Education Finance: Auto & Education finance loans increased to \$63 billion as of September 30, 2004, up from \$43 billion at year-end 2003. The acquisition of the Bank One portfolio was responsible for the increase. The auto and education loan portfolio reflects a high concentration of prime quality credits. Recently the Firm has chosen to de-emphasize vehicle leasing, which as of September 30, 2004, comprised \$9 billion of the outstandings. It is anticipated that over time vehicle leases will account for a smaller share of balance sheet receivables and exposure.

Small Business & Other Consumer: Small Business & Other consumer loans increased to \$15 billion as of September 30, 2004 compared with 2003 year-end levels of \$4 billion. The majority of this portfolio segment is comprised of loans to small businesses, and the increase reflects the acquisition of the Bank One small business portfolio. The small business portfolio reflects highly collateralized loans often with personal loan guarantees.

Credit Cards: JPMorgan Chase analyzes its credit card portfolio on a managed basis, which includes credit card receivables on the Consolidated balance sheet and those that have been securitized. Managed credit card receivables were approximately \$131 billion at September 30, 2004, an increase of \$79 billion from year-end 2003, reflecting the acquisition of the Bank One portfolio. Managed credit card receivables include reported credit card receivables, receivables sold to investors through securitizations and retained interests.

Table of Contents**Wholesale and consumer nonperforming exposure and net charge-offs**

The following table presents a summary of credit-related nonperforming and past due information for the dates indicated:

| | Nonperforming | | Nonperforming as a % of total | | Past due 90 days and over and accruing | |
|--|--------------------------|----------------------------|----------------------------------|----------------------------|---|----------------------------|
| | September 30, 2004 | December 31, 2003(a) | September 30, 2004 | December 31, 2003(a) | September 30, 2004 | December 31, 2003(a) |
| <i>(in millions, except ratios)</i> | | | | | | |
| Wholesale loans: | | | | | | |
| Loans U.S. | \$ 1,405 | \$ 1,057 | 1.41% | 2.38% | \$ 12 | \$ 37 |
| Loans Non U.S. | 378 | 947 | 1.15 | 3.05 | | 5 |
| Total wholesale loans reported (b) | 1,783 | 2,004 | 1.35 | 2.66 | 12 | 42 |
| Consumer loans | | | | | | |
| Consumer real estate | 789 | 374 | 0.64 | 0.50 | | |
| Auto & education finance | 211 | 123 | 0.34 | 0.29 | | |
| Small business & other consumer | 308 | 72 | 2.04 | 1.71 | | |
| Credit card receivables reported | 9 | 11 | 0.01 | 0.06 | 834 | 273 |
| Total consumer loans reported | 1,317 | 580 | 0.50 | 0.42 | 834 | 273 |
| Total loans reported | 3,100 | 2,584 | 0.79 | 1.20 | 846 | 315 |
| Derivative receivables | 238 | 253 | 0.41 | 0.30 | | |
| Other receivables | | 108 | NM | 100 | | |
| Assets acquired in loan satisfaction (c) | 299 | 216 | NM | NM | NA | NA |
| Total credit-related assets | 3,637 | 3,161 | 0.75 | 1.04 | 846 | 315 |
| Credit card securitizations (d) | | | NM | NM | 1,467 | 879 |
| Total (e) | \$ 3,637 | \$ 3,161 | 0.66 | 0.93 | \$ 2,313 | \$ 1,194 |
| Purchased held for sale wholesale loans (f) | | | | | | |
| | \$ 355 | \$ 22 | NM | NM | \$ | \$ |
| Credit derivatives hedges notional (g) | | | | | | |
| | \$ (16) | \$ (123) | NM | NM | NA | NA |

(a) *Heritage JPMorgan Chase only.*

(b) *Excludes purchased held-for-sale (HFS) wholesale loans.*

(c) *At September 30, 2004, and December 31, 2003, includes \$50 million and \$10 million, respectively, of wholesale assets acquired in loan satisfactions, and \$249 million and \$206 million, respectively, of consumer assets acquired in loan satisfactions.*

(d) *Represents securitized credit cards. For a further discussion of credit card securitizations, see page 41 of JPMorgan Chase's 2003 Annual Report.*

(e) *At September 30, 2004, and December 31, 2003, excludes \$1.5 billion and \$2.3 billion, respectively, of residential mortgage receivables in foreclosure status that are insured by government agencies. These amounts are excluded as reimbursement is proceeding normally.*

(f) *Represents distressed wholesale loans purchased as part of IB's proprietary investing activities.*

(g)

Represents the notional amount of single-name and portfolio credit derivatives used to manage the credit risk of wholesale credit exposure; these derivatives do not qualify for hedge accounting under SFAS 133.

The following table presents a summary of credit-related net charge-off information for the dates indicated:

| | Charge-offs | | Average annual net charge-off rate | | Charge-offs (a) | | Average annual net charge-off rate (a) | |
|-------------------------------------|-----------------------------------|----------|------------------------------------|-----|----------------------------------|--------|--|------|
| | Three months ended Sept. 30, 2003 | | 2004 | | Nine months ended Sept. 30, 2004 | | 2004 | |
| <i>(in millions, except ratios)</i> | 2004 | 2003 (b) | 2004 | (b) | 2004 | 2003 | 2004 | 2003 |
| Gross charge-offs | | | | | | | | |
| Wholesale loans | \$ 80 | \$ 305 | | | \$ 420 | \$ 971 | | |
| Consumer (excluding card) | 269 | 115 | | | 485 | 347 | | |
| Credit card receivables reported | 760 | 298 | | | 1,335 | 928 | | |
| Total loans reported | 1,109 | 718 | | | 2,240 | 2,246 | | |
| Credit card securitizations (c) | 1,039 | 532 | | | 2,106 | 1,572 | | |
| Total loans managed | 2,148 | 1,250 | | | 4,346 | 3,818 | | |
| Recoveries | | | | | | | | |
| Wholesale loans | 104 | 60 | | | 302 | 197 | | |
| Consumer (excluding card) | 50 | 23 | | | 101 | 70 | | |
| Credit card receivables reported | 90 | 21 | | | 136 | 81 | | |
| Total loans reported | 244 | 104 | | | 539 | 348 | | |
| Credit card securitizations (c) | 111 | 61 | | | 219 | 164 | | |
| Total loans managed | 355 | 165 | | | 758 | 512 | | |

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| <i>(in millions, except ratios)</i> | Average annual | | | | Average annual | | | |
|-------------------------------------|------------------------------|----------|------------------------------|-------|-----------------------------|----------|-----------------------------|-------|
| | Charge-offs | | net charge-off rate | | Charge-offs (a) | | net charge-off rate (a) | |
| | Three months ended Sept. 30, | | Three months ended Sept. 30, | | Nine months ended Sept. 30, | | Nine months ended Sept. 30, | |
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | | (b) | | (b) | | | | |
| Net charge-offs | | | | | | | | |
| Wholesale loans (d) | (24) | 245 | (0.08)% | 1.25% | 118 | 774 | 0.17% | 1.29% |
| Consumer (excluding card) (e) | 219 | 92 | 0.47 | 0.37 | 384 | 277 | 0.38 | 0.40 |
| Credit card receivables reported | 670 | 277 | 4.49 | 6.37 | 1,199 | 847 | 5.12 | 6.29 |
| Total loans reported (d)(e) | 865 | 614 | 0.93 | 1.27 | 1,701 | 1,898 | 0.89 | 1.34 |
| Credit card securitizations (c) | 928 | 471 | 5.20 | 5.57 | 1,887 | 1,408 | 5.41 | 5.75 |
| Total loans managed | \$ 1,793 | \$ 1,085 | 1.62 | 1.91 | \$ 3,588 | \$ 3,306 | 1.58 | 1.98 |
| Credit card managed | \$ 1,598 | \$ 748 | 4.88 | 5.84 | \$ 3,086 | \$ 2,255 | 5.29 | 5.94 |

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

(b) Heritage JPMorgan Chase only.

(c) Represents securitized credit cards. For a further discussion of credit card securitizations, see page 41 of JPMorgan Chase's 2003 Annual Report.

(d) Net charge-off rates exclude HFS Wholesale loans in the amount of \$7.3 billion and \$3.3 billion at September 30, 2004 and December 31, 2003, respectively, and year-to-date average loans HFS of \$5.9 billion and \$3.8 billion for 2004 and 2003, respectively.

(e) Net charge-off rates exclude HFS Consumer loans in the amount of \$15.6 billion and \$30.2 billion at September 30, 2004 and December 31, 2003, respectively, and year-to-date average loans HFS of \$15.1 billion and \$26.7 billion for 2004 and 2003, respectively.

Total nonperforming assets (excluding purchased held-for-sale wholesale loans) increased from December 31, 2003, primarily due to the Merger. The wholesale portfolio experienced a decrease as a result of gross charge-offs of \$420 million taken throughout the year. The decrease in the wholesale portfolio was offset by the increase in the consumer portfolio, which was largely a result of the Merger.

Wholesale net charge-offs improved significantly compared with the same period last year as a result of lower gross charge-offs and higher recoveries. The 2004 nine-month net charge-off rate was 0.17%, compared with 1.29% for the same period last year.

Consumer credit quality trends continue to improve overall, reflecting general economic conditions and reduced consumer bankruptcy filings versus prior year. The managed net charge-off ratio for Card Services declined in the third quarter of 2004 to 4.88% from 5.84% in the prior year. Retail Financial Services net charge-off ratio for the third quarter of 2004 was 0.47% compared with 0.37% in the prior year. The increase versus prior periods reflects higher relative net charge-off rates on acquired heritage Bank One portfolios. Management expects consumer net charge-off rates to remain stable allowing for seasonal patterning.

For a further discussion of the components of the Allowance for credit losses, see Note 11 on pages 72-73 of this Form 10-Q.

Summary of changes in the Allowance for credit losses

| <i>(in millions)</i> | 2004 | | | H-JPMC Only 2003 | | |
|---|-------------|-------------|----------|-----------------------------|----------|----------|
| | Wholesale | Consumer | Total | Wholesale | Consumer | Total |
| Loans: | | | | | | |
| Beginning balance at January 1 | \$ 2,204 | \$ 2,319 | \$ 4,523 | \$ 2,936 | \$ 2,414 | \$ 5,350 |
| Addition resulting from the merger, July 1 | 1,788 | 1,335 | 3,123 | | | |
| Net charge-offs | (118) | (1,583) | (1,701) | (774) | (1,124) | (1,898) |
| Provision for loans losses(a) | (418) | 2,095 | 1,677 | 281 | 1,154 | 1,435 |
| Other | | (129) | (129)(d) | 9 | (143) | (134)(d) |
| Ending balance at September 30 | \$ 3,456(b) | \$ 4,037(c) | \$ 7,493 | \$ 2,452 | \$ 2,301 | \$ 4,753 |
| Lending-related commitments: | | | | | | |
| Beginning balance at January 1 | \$ 320 | \$ 4 | \$ 324 | \$ 363 | \$ | \$ 363 |
| Addition resulting from the merger, July 1 | 499 | 9 | 508 | | | |
| Net charge-offs | | | | | | |
| Provision for lending-related commitments(e) | (290) | | (290) | (33) | (1) | (34) |
| Other | | (1) | (1) | (3) | 3 | |
| Ending balance at September 30 | \$ 529 | \$ 12 | \$ 541 | \$ 327 | \$ 2 | \$ 329 |

(a) Includes \$560 million related to accounting policy conformity adjustments for the nine months ended September 30, 2004.

(b) Includes \$498 million, \$1.9 billion and \$1.1 billion of wholesale asset-specific, wholesale expected loss and wholesale stress components, respectively, at September 30, 2004.

(c) Includes \$3.1 billion and \$878 million of consumer expected loss and consumer stress components, respectively, at September 30, 2004.

(d) Primarily represents the transfer of the allowance for accrued fees on reported and securitized credit card loans.

(e) Includes \$(227) million related to accounting policy conformity adjustments for the nine months ended September 30, 2004.

Table of Contents**Provision for credit losses**

For a discussion of the Provision for credit losses, see page 8 of this Form 10-Q.

| <i>(in millions)</i> | Three months ended | | Nine months ended (a) | |
|--|-------------------------------|-------------------------------|-------------------------------|---------------------------|
| | Sept. 30, 2004 | Sept. 30, 2003 (a) | Sept. 30, 2004 | Sept. 30, 2003 |
| Loans | | | | |
| Investment Bank | \$ (148) | \$ (127) | \$ (405) | \$ 101 |
| Commercial Banking | 10 | 21 | 18 | 16 |
| Treasury & Securities Services | | (1) | 4 | |
| Asset & Wealth Management | 1 | (7) | 9 | |
| Corporate | (1) | (1) | (110) | 164 |
| Total wholesale | (138) | (115) | (484) | 281 |
| Retail Financial Services | 239 | 159 | 372 | 450 |
| Card Services | 734 | 234 | 1,229 | 704 |
| Total consumer | 973 | 393 | 1,601 | 1,154 |
| Accounting policy conformity(b) | 560 | | 560 | |
| Total provision for loan losses | 1,395 | 278 | 1,677 | 1,435 |
| Lending-related commitments | | | | |
| Investment Bank | \$ (3) | \$ (54) | \$ (62) | \$ (41) |
| Commercial Banking | 4 | | 2 | |
| Treasury & Securities Services | | | | 1 |
| Asset & Wealth Management | | | (2) | (1) |
| Corporate | | | | 8 |
| Total wholesale | 1 | (54) | (62) | (33) |
| Retail Financial Services | | (1) | (1) | (1) |
| Card Services | | | | |
| Total consumer | | (1) | (1) | (1) |
| Accounting policy conformity | (227) | | (227) | |
| Total provision for lending-related commitments | (226) | (55) | (290) | (34) |
| Total provision for credit losses | | | | |
| Investment Bank | \$ (151) | \$ (181) | \$ (467) | \$ 60 |
| Commercial Banking | 14 | 21 | 20 | 16 |
| Treasury & Securities Services | | (1) | 4 | 1 |
| Asset & Wealth Management | 1 | (7) | 7 | (1) |
| Corporate | (1) | (1) | (110) | 172 |
| Total wholesale | (137) | (169) | (546) | 248 |

| | | | | |
|--|-----------------|--------|-----------------|----------|
| Retail Financial Services | 239 | 158 | 371 | 449 |
| Card Services | 734 | 234 | 1,229 | 704 |
| Total consumer | 973 | 392 | 1,600 | 1,153 |
| Accounting policy conformity | 333 | | 333 | |
| Total provision for credit losses | 1,169 | 223 | 1,387 | 1,401 |
| Securitized credit losses | 928 | 471 | 1,887 | 1,408 |
| Accounting policy conformity | (333) | | (333) | |
| Managed provision for credit losses | \$ 1,764 | \$ 694 | \$ 2,941 | \$ 2,809 |

- (a) 2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 results include heritage JPMorgan Chase only.
- (b) Reflects an increase of \$721 million as a result of the decertification of heritage Bank One seller's interest in credit card securitizations, partially offset by a \$161 million decrease in the allowance to conform methodologies during the third quarter of 2004.

Managed provision for credit losses, which reflects credit card securitizations, increased primarily due to the Merger.

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Overall: The Allowance for credit losses increased by \$3.2 billion from December 31, 2003 to September 30, 2004, primarily driven by the Merger with Bank One. Adjustments required to conform to the combined Firm's allowance methodology and alignment of accounting practices related to the seller's interest in credit card securitizations increased the Provision for credit losses by \$333 million. See Note 11 on pages 72-73 of this Form 10-Q.

Loans: JPMorgan Chase's Allowance for loan losses is intended to cover probable credit losses as of September 30, 2004, for which either the asset is not specifically identified or the size of the loss has not been fully determined. The allowance has three components: Asset-specific loss, Expected loss and Stress. As of September 30, 2004, management deemed the allowance to be appropriate (i.e., sufficient to absorb losses that are inherent in the portfolio including those not yet identifiable). The allowance represented 2.01% of loans at September 30, 2004, compared with 2.33% at year-end 2003.

The wholesale component of the allowance was \$3.5 billion as of September 30, 2004, an increase from year-end 2003, primarily due to the Merger with Bank One. The wholesale allowance also included \$66 million of additional provision required to conform to the combined Firm's allowance methodology.

The consumer component of the allowance was \$4.0 billion as of September 30, 2004, an increase from December 31, 2003, primarily attributable to the Merger and the decertification of the seller's retained interest in credit card securitizations. Adjustments required to conform to the combined Firm's allowance methodology included the release of \$165 million in Allowance for loan losses within Retail Financial Services (\$128 million in Chase Home Finance and \$37 million in Chase Auto Finance). The conformance of the methodology within Card Services reduced the Allowance for loan losses by \$62 million. Additionally, \$128 million in allowance for accrued fees and finance charges were reclassified from the Allowance for loan losses to Loans.

At the time of the Merger, heritage Bank One seller's interest in credit card securitizations was in a certificated or security form and recorded at fair value. Subsequently, a decision was made to decertify these assets, which resulted in a reclassification of the seller's interest from Available-for-sale securities to Loans, at fair value, with no allowance for credit losses. Generally, as the underlying credit card receivables represented by the seller's interest are paid off, the customers continue to use their credit cards and originate new receivables, which are then recorded as Loans at historical cost. As these new loans age, it is necessary to establish an allowance for credit losses consistent with the Firm's credit policies. This will occur over a six month period, which represents the average life of credit card receivables. For the three months ended September 30, 2004, \$721 million of Allowance for loan losses was established through the provision associated with newly originated receivables related to the seller's interest, with an additional allowance for loan losses of approximately \$700 million expected to be established through the provision in the fourth quarter of 2004.

The Stress component, included in the aforementioned wholesale and consumer components of the allowance, was \$2.0 billion at September 30, 2004: \$1.1 billion related to the wholesale portfolio and \$0.9 billion related to the consumer portfolio. The Stress component represents that portion of the overall allowance attributable to model imprecision and external factors and economic events that have occurred but are not yet reflected in factors used to derive the Expected loss component. See Note 11 on pages 72-73 of this Form 10-Q.

Lending-related commitments: To provide for the risk of loss inherent in the Firm's process of extending credit, management also computes Specific loss and Expected loss components for wholesale lending-related commitments. These are computed using a methodology similar to that used for the wholesale loan portfolio, modified for expected maturities and probabilities of drawdown. This allowance, which is reported in Other liabilities, was \$541 million at September 30, 2004, and reflected a \$227 million benefit due to conforming the combined Firm allowance methodology. The allowance was \$324 million and \$329 million at December 31, 2003 and September 30, 2003, respectively. The Allowance for lending-related commitments increased by \$217 million since December 31, 2003,

primarily due to the Merger.

Table of Contents**MARKET RISK MANAGEMENT****Risk management process**

For a discussion of the Firm's market risk management organization, see pages 66-67 of JPMorgan Chase's 2003 Annual Report.

Value-at-Risk

JPMorgan Chase's statistical risk measure, VAR, gauges the potential loss from adverse market moves in an ordinary market environment and provides a consistent cross-business measure of risk profiles and levels of risk diversification. Each business day, the Firm undertakes a comprehensive VAR calculation of its trading activities. However, for certain trading activities, price and/or position data used in the VAR calculation are only updated weekly. For analytical purposes, the Firm also performs a VAR calculation of its nontrading activities, including the private equity business. The Firm calculates VAR using a one-day time horizon and a 99% confidence level. This means the Firm would expect to incur losses greater than that predicted by VAR estimates only once every 100 trading days, or about 2.5 times a year. For the nine months ended September 30, 2004, there were no days on which actual Firmwide market risk related losses exceeded corporate VAR. For a further discussion of the Firm's VAR methodology, see pages 67-68 of JPMorgan Chase's 2003 Annual Report.

The table below shows the IB trading VAR by risk type and credit portfolio VAR. Details of the VAR exposures are discussed in the Trading Risk section below.

| <i>(in millions)</i> | IB Trading VAR by risk type and Credit Portfolio VAR (a) | | | | Heritage JPMC only | | | |
|---------------------------------|---|--------------------|--------------------|--------------------------|---|--------------------|--------------------|------------------------------|
| | Nine Months Ended September 30, 2004 (c) | | | | Nine Months Ended September 30, 2003 (b) | | | |
| | Average VAR | Minimum VAR | Maximum VAR | At Sept. 30, 2004 | Average VAR | Minimum VAR | Maximum VAR | At Sept. 30, 2003 (b) |
| By risk type: | | | | | | | | |
| Fixed income | \$ 76.7 | \$ 45.3 | \$ 117.5 | \$ 73.0 | \$ 59.5 | \$ 42.3 | \$ 104.3 | \$ 49.1 |
| Foreign exchange | 17.1 | 10.2 | 32.8 | 11.9 | 15.7 | 11.0 | 30.2 | 19.9 |
| Equities | 30.9 | 19.7 | 57.8 | 22.0 | 10.7 | 6.7 | 25.0 | 13.0 |
| Commodities and other | 8.6 | 6.9 | 12.2 | 10.2 | 7.6 | 4.9 | 12.6 | 7.9 |
| Less: portfolio diversification | (44.4) | NM(d) | NM(d) | (38.5) | (36.5) | NM(d) | NM(d) | (30.7) |
| Total Trading VAR | 88.9 | 51.6 | 125.2 | 78.6 | 57.0 | 39.8 | 116.3 | 59.2 |
| Credit Portfolio VAR (e) | 14.2 | 10.8 | 16.6 | 13.2 | 18.1 | 14.8 | 22.0 | 19.5 |
| Less: portfolio diversification | (8.5) | NM(d) | NM(d) | (8.2) | (14.3) | NM(d) | NM(d) | (14.7) |

**Total IB Trading
and Credit**

| | | | | | | | | |
|----------------------|----------------|----------------|-----------------|----------------|---------|---------|----------|---------|
| Portfolio VAR | \$ 94.6 | \$ 55.3 | \$ 131.6 | \$ 83.6 | \$ 60.8 | \$ 44.8 | \$ 119.8 | \$ 64.0 |
|----------------------|----------------|----------------|-----------------|----------------|---------|---------|----------|---------|

- (a) *Includes all mark-to-market trading activities in the IB, plus available for sale securities held for the IB's proprietary purposes. Amounts exclude VAR related to the Firm's private equity business. For a discussion of Private equity risk management, see page 74 of JPMorgan Chase's 2003 Annual Report.*
- (b) *Amounts have been revised to reflect the reclassification of certain mortgage banking positions from the trading portfolio to the nontrading portfolio, reclassification of hedge fund investments, reclassification of Global Treasury positions to portfolios outside the IB, and inclusion of available for sale securities held for the IB's proprietary purposes.*
- (c) *2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.*
- (d) *Designated as NM because the minimum and maximum may occur on different days for different risk components, and hence it is not meaningful to compute a portfolio diversification effect. In addition, JPMorgan Chase's average and period-end VARs are less than the sum of the VARs of its market risk components, due to risk offsets resulting from portfolio diversification.*
- (e) *Includes VAR on derivative credit valuation adjustments, credit valuation adjustment hedges and mark-to-market loan hedges which are all reported in Trading revenue. This VAR does not include the accrual loan portfolio, which is not marked to market.*

Trading risk

The largest contributors to the IB trading VAR in the first nine months of 2004 were fixed income risk (which includes credit spread risk) and equity risk. Before portfolio diversification, fixed income risk and equity risk accounted for roughly 58% and 23% of the average IB Trading Portfolio VAR, respectively. The diversification effect, which on average reduced the daily average IB Trading Portfolio VAR by \$44.4 million during the first nine months, reflects the fact that the largest losses for different positions and risks do not typically occur at the same time. The risk of a portfolio of positions is therefore usually less than the sum of the risks of the positions themselves. The degree of diversification is determined both by the extent to which different market variables tend to move together, and by the extent to which different businesses have similar positions.

Average IB trading and Credit Portfolio VAR for the first nine months of 2004 rose to \$94.6 million compared with \$60.8 million for the same period in 2003. Period-end VAR also increased over the same period, to \$83.6 million from \$64.0 million. In both cases, the increase was driven by a rise in fixed income and equities VAR, primarily due to increased risk positions, greater market volatility and higher correlation between lines of business.

For a complete discussion of the Firm's Trading Risk, see page 70 of JPMorgan Chase's 2003 Annual Report.

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VAR backtesting

To evaluate the soundness of its VAR model, the Firm conducts daily backtesting of VAR against actual financial results, based on daily market risk related gains and losses. Market risk related gains and losses are defined as the daily change in value of the mark-to-market trading portfolios plus any trading-related net interest income, brokerage commissions, underwriting fees or other revenue. The Firm's definition of market risk related gains and losses is consistent with the Federal Reserve Board's implementation of the Basel Committee's market risk capital rules.

The histogram below illustrates the daily market risk related gains and losses for the IB trading businesses for the nine months ended September 30, 2004. The chart shows that the IB posted market risk related gains on 171 out of 195 days in this period, with 9 days exceeding \$100 million. The inset graph looks at those days on which the IB experienced losses and depicts the amount by which VAR exceeded the actual loss on each of those days. Losses were sustained on 24 days, with no loss greater than \$50 million, and with no loss exceeding the VAR measure.

Stress testing

While VAR reflects the risk of loss due to unlikely events in normal markets, stress testing captures the Firm's exposure to unlikely but plausible events in abnormal markets. JPMorgan Chase performs a number of different scenario-based stress tests monthly for all the IB's trading portfolios, including credit derivatives, for a standard set of forward-looking scenarios for large, low probability changes in market variables. Scenarios are derived from either severe historical crises or forward assessment of developing market trends. Scenarios are reviewed and updated to reflect changes in the Firm's risk profile and economic events. Based on these stress scenarios, the stress test loss (pre-tax) in the IB's trading portfolio ranged from \$226 million to \$1.2 billion and \$227 million to \$895 million for the nine month periods ending September 30, 2004 and 2003, respectively. (The 2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results. In addition, the 2003 amounts have been revised to reflect the reclassification of certain mortgage banking positions from the trading portfolio to the nontrading portfolio, as well as the transfer of Global Treasury positions from the IB to the Corporate business segment.)

For a further discussion of the Firm's stress testing methodology, see pages 68-69 of the 2003 Annual Report.

Earnings-at-risk results pre-tax

Interest rate risk exposure in the Firm's core nontrading business activities (i.e., asset/liability management positions) results from various risks associated with on- and off-balance sheet positions. The Firm conducts simulations of NII for its nontrading activities under a variety of interest rate scenarios, which are consistent with the scenarios used for stress testing. NII earnings-at-risk tests measure the potential change in the Firm's NII over the next 12 months. These tests highlight exposures to various rate-sensitive

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factors, such as the rates themselves (e.g., the prime lending rate), pricing strategies on deposits and changes in product mix. The tests also take into account forecasted balance sheet changes, such as asset sales and securitizations, as well as prepayment and reinvestment behavior.

Based on immediate parallel shocks, the Firm's earnings at risk to rising interest rates, versus base case, declined. JPMorgan Chase's 12-month pretax earnings sensitivity profile as of September 30, 2004 was as follows:

| <i>(in millions)</i> | Immediate Change in Rates | | |
|---------------------------|---------------------------|----------------|-----------------|
| | +200 bp | +100 bp | -100 bp |
| September 30, 2004 | \$ (291) | \$ (30) | \$ (177) |

The decrease in measured risk to rising interest rates reflects management's decision to position the balance sheet for a period of rising interest rates, which was accomplished by restructuring the Firm's investment portfolio.

Parallel shocks present a limited view of risk, so a number of alternative scenarios are reviewed internally. These include more gradual and severe interest rate movements as well as non-parallel rate shifts. These scenarios are intended to provide a comprehensive view of JPMorgan Chase's interest rate risk, and do not necessarily represent management's view of future market movements.

Other statistical and nonstatistical risk measures

For a discussion of the Firm's other risk measures, see page 69 of JPMorgan Chase's 2003 Annual Report.

Capital allocation for market risk

For a discussion of the Firm's capital allocation for market risk, see page 71 of JPMorgan Chase's 2003 Annual Report.

Risk monitoring and control

For a discussion of the Firm's risk monitoring and control process, including limits, qualitative risk assessments, model review, and policies and procedures, see pages 71-72 of JPMorgan Chase's 2003 Annual Report.

OPERATIONAL RISK MANAGEMENT

For a discussion of JPMorgan Chase's operational risk management, refer to pages 72-74 of JPMorgan Chase's 2003 Annual Report.

PRIVATE EQUITY RISK MANAGEMENT

For a discussion of JPMorgan Chase's private equity risk management, refer to page 74 of JPMorgan Chase's 2003 Annual Report. While the Firm computes VAR on its public equity holdings, the potential loss calculated by VAR may not be indicative of the loss potential for these holdings, due to the fact that most of the positions are subject to sale restrictions and, often, represent significant concentration of ownership. Because VAR assumes that positions can

be exited in a normal market, JPMorgan Chase believes that the VAR for public equity holdings does not necessarily represent the true value-at-risk for these holdings. At September 30, 2004, the carrying value of the private equity portfolio was \$8.1 billion.

SUPERVISION AND REGULATION

SUPERVISION AND REGULATION

The following discussion should be read in conjunction with the Supervision and Regulation section on pages 1-5 of JPMorgan Chase's 2003 Form 10-K.

Dividends

JPMorgan Chase's bank subsidiaries could pay dividends to their respective bank holding companies, without the approval of their relevant banking regulators, in amounts up to the limitations imposed upon such banks by regulatory restrictions. These limitations, in the aggregate, totaled approximately \$6.1 billion at September 30, 2004.

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CRITICAL ACCOUNTING ESTIMATES USED BY THE FIRM

CRITICAL ACCOUNTING ESTIMATES USED BY THE FIRM

JPMorgan Chase's accounting policies and use of estimates are integral to understanding its reported results. The Firm's most complex accounting estimates require management's judgment to ascertain the valuation of assets and liabilities. The Firm has established detailed policies and control procedures intended to ensure that valuation methods, including any judgments made as part of such methods, are well controlled, independently reviewed and applied consistently from period to period. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. The Firm believes its estimates for determining the valuation of its assets and liabilities are appropriate. For a further description of the Firm's critical accounting estimates involving significant management valuation judgments, see pages 74-77 and the Notes to Consolidated Financial Statements in JPMorgan Chase's 2003 Annual Report.

Allowance for Credit Losses

JPMorgan Chase's Allowance for credit losses covers the wholesale and consumer loan portfolios as well as the Firm's portfolio of wholesale lending-related commitments. The Allowance for loan losses is intended to adjust the value of the Firm's loan assets for probable credit losses as of the balance sheet date. The Firm's Allowance for credit losses consists of three components: Asset-specific loss, Expected loss and Stress. For a further discussion of the components of and the methodologies used in establishing the Firm's Allowance for credit losses, see Note 11 on pages 72-73 of this Form 10-Q.

Wholesale Loans and Lending Related Commitments

The methodology for calculating both the Allowance for loan losses and the Allowance for lending-related commitments involves significant judgment. First and foremost, it involves the early identification of credits that are deteriorating. Second, it involves management judgment to derive loss factors. Third, it involves management judgment to evaluate certain macroeconomic factors, underwriting standards, and other relevant internal and external factors impacting the credit quality of the current portfolio, exclusive of the assets specifically provided for via a specific allowance.

The Firm uses a risk rating system to determine the credit quality of its loans. Wholesale loans are reviewed for information affecting the obligor's ability to fulfill its obligations. In assessing the risk rating of a particular loan, among the factors considered include the obligor's debt capacity and financial flexibility, the level of the obligor's earnings, the amount and sources of repayment, the level and nature of contingencies, management strength, and the industry and geography in which the obligor operates. These factors are based on an evaluation of historical information and current information, as well as subjective assessment and interpretation. Emphasizing one factor over another, or considering additional factors that may be relevant in determining the risk rating of a particular loan, but which are not currently an explicit part of the Firm's methodology, could impact the risk rating assigned by the Firm to that loan.

Management also applies its judgment to derive loss factors associated with each credit facility. These loss factors are determined by facility structure, collateral and type of obligor. Wherever possible, the Firm uses independent, verifiable data or the Firm's own historical loss experience in its models for estimating these loss factors. Many factors can affect management's estimates of Asset-specific loss and Expected loss, including volatility of loss given default, probability of default and rating migrations. Judgment is applied to determine whether the loss given default should be calculated as an average over the entire credit cycle or at a particular point in the credit cycle. The application of

different loss given default factors would change the amount of the Allowance for credit losses determined appropriate by the Firm. Similarly, there are judgments as to which external data on probability of default should be used, and when they should be used. Choosing data that are not reflective of the Firm's specific loan portfolio characteristics could affect loss estimates

The Stress component represents that portion of the overall allowance attributable to covering model imprecision and external factors and economic events that have occurred but are not yet reflected in factors used to derive the expected loss component. Stress testing provides management with a range of probable loss estimates. For the risk-rated portfolio, a base range is developed by stressing the loss given default and the probability of default factors. There is then an incremental stress on the base range related to certain concentrated and deteriorating industries. Stress level ranges and the determination of the appropriate point within the range are based upon management's view of uncertainties that relate to current macroeconomic and political conditions, quality of underwriting standards and other relevant internal and external factors impacting credit quality of the current portfolio.

Consumer Loans

The Expected loss component for consumer credits is generally determined by applying statistical loss factors and other risk indicators to pools of loans by asset type. These expected loss estimates are sensitive to changes in delinquency status, credit bureau scores, the realizable value of collateral, and other risk factors.

Stress testing the consumer portfolios is accomplished in part by analyzing the historical loss experience for each major product segment. Management analyzes the range of credit loss experienced for each major portfolio segment taking into account economic cycles, portfolio seasoning and underwriting criteria. Management then formulates a stress test range that incorporates relevant risk factors that impact overall credit performance.

Table of Contents**Trading and Available-for-Sale Portfolios**

The following table summarizes the Firm's trading and available-for-sale portfolios by valuation methodology at September 30, 2004:

| | Trading Assets | | Trading Liabilities | | AFS securities |
|---|----------------------|-------------|---------------------|-------------|----------------|
| | Securities purchased | Derivatives | Securities sold (a) | Derivatives | |
| | (a) | (b) | (a) | (b) | |
| Fair value based on: | | | | | |
| Quoted market prices | 89% | 2% | 97% | 1% | 96% |
| Internal models with significant observable market parameters | 8 | 97 | 1 | 98 | 2 |
| Internal models with significant unobservable market parameters | 3 | 1 | 2 | 1 | 2 |
| Total | 100% | 100% | 100% | 100% | 100% |

(a) Reflected as debt and equity instruments on the Firm's Consolidated balance sheet.

(b) Based on gross mark-to-market valuations of the Firm's derivatives portfolio prior to netting positions pursuant to FIN 39, as cross-product netting is not relevant to an analysis based upon valuation methodologies.

Goodwill Impairment

Under SFAS 142, goodwill must be allocated to reporting units and tested for impairment. The Firm tests goodwill for impairment at least annually or more frequently if events or circumstances, such as adverse changes in the business climate, indicate that there may be justification for conducting an interim test. Impairment testing is performed at the reporting-unit level (which is generally one level below the seven major business segments identified in Note 20 on pages 83-85 of this Form 10-Q). The first part of the test is a comparison, at the reporting unit level, of the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value is less than the carrying value, then the second part of the test is needed to measure the amount of potential goodwill impairment. The implied fair value of the reporting unit goodwill is calculated and compared to the carrying amount of goodwill recorded in the Firm's financial records. If the carrying value of reporting unit goodwill exceeds the implied fair value of that goodwill, then the Firm would recognize an impairment loss in the amount of the difference, which would be recorded as a charge against Net income.

The fair values of the reporting units are determined using discounted cash flow models based on each reporting unit's internal forecasts. In addition, analyses using market-based trading and transaction multiples, where available, are used to assess the reasonableness of the valuations derived from the discounted cash flow models.

Goodwill was not impaired as of September 30, 2004 or December 31, 2003, nor was any goodwill written-off during the three months or nine months ended September 30, 2004 and 2003. See Note 14 on pages 79-80 of this Form 10-Q, and Note 16 on page 107 of JPMorgan Chase's 2003 Annual Report for additional information related to the nature and accounting for goodwill and the carrying values of goodwill by major business segment.

MSRs and certain other retained interests

For a discussion of the most significant assumptions used to value these retained interests, as well as the applicable stress tests for those assumptions, see Notes 13 and 16 on pages 100-103 and 107-109, respectively, of JPMorgan

Chase's 2003 Annual Report.

ACCOUNTING AND REPORTING DEVELOPMENTS

ACCOUNTING AND REPORTING DEVELOPMENTS

Accounting for certain loans or debt securities acquired in a transfer

In December 2003, the AICPA issued Statement of Position 03-3 (SOP 03-3), Accounting for Certain Loans or Debt Securities Acquired in a Transfer. SOP 03-3 provides guidance on the accounting for differences between contractual and expected cash flows from the purchaser's initial investment in loans or debt securities acquired in a transfer, if those differences are attributable, at least in part, to credit quality. Among other things, SOP 03-3: (1) prohibits the recognition of the excess of contractual cash flows over expected cash flows as an adjustment of yield, loss accrual or valuation allowance at the time of purchase; (2) requires that subsequent increases in expected cash flows be recognized prospectively through an adjustment of yield; and (3) requires that subsequent decreases in expected cash flows be recognized as an impairment. In addition, SOP 03-3 prohibits the creation or carrying-over of a valuation allowance in the initial accounting of all loans within its scope that are acquired in a transfer. SOP 03-3 becomes effective for loans or debt securities acquired in fiscal years beginning after December 15, 2004. The Firm does not believe that the implementation of SOP 03-3 will have a material impact on the Firm's Consolidated financial statements.

Accounting for interest rate lock commitments (IRLCs)

IRLCs associated with mortgages to be held for sale represent commitments to extend credit at specified interest rates. On March 9, 2004, the SEC issued SAB No. 105, which summarizes the views of the SEC staff regarding the application of U.S. GAAP to loan commitments accounted for as derivative instruments. SAB 105 states that the value of the servicing asset should not be

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included in the estimate of fair value of IRLCs. SAB 105 is applicable for all IRLCs accounted for as derivatives and entered into on or after April 1, 2004.

Prior to April 1, 2004, JPMorgan Chase recorded IRLCs at estimated fair value. The fair value of IRLCs included an estimate of the value of the loan servicing right inherent in the underlying loan, net of the estimated costs to close the loan. Effective April 1, 2004, and as a result of SAB 105, the Firm no longer assigns fair value to IRLCs on the date they are entered into, with any initial gain being recognized upon the sale of the resultant loan. Also in connection with SAB 105, the Firm records any changes in the value of the IRLCs, excluding the servicing asset component, due to changes in interest rates after they are locked. Adopting SAB 105 did not have a material impact on the Firm's 2004 Consolidated financial statements.

Accounting for Postretirement Health Care Plans which Provide Prescription Drug Benefits

In May 2004, the FASB issued FSP FAS106-2, which provides guidance on the accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act); the Act was signed into law on December 8, 2003. Under the Act, a subsidy is available to sponsors of postretirement health care plans whose benefits are actuarially equivalent to Medicare Part D. The Firm has determined that its plans are actuarially equivalent and has reflected the effects of the subsidy in its financial statements and disclosures.

Impairment of available-for-sale and held-to-maturity securities

In September 2004, the FASB issued FSP EITF 03-1-1 which delayed the effective date of EITF Issue 03-1, until the FASB staff addresses additional measurement issues affecting the consensus. EITF 03-1 addresses issues related to other-than-temporary impairment for securities classified as either available-for-sale or held-to-maturity under SFAS 115 (including individual securities and investments in mutual funds) and for investments accounted for under the cost method. A proposed FSP addressing these issues has been issued and is expected to be finalized in late 2004. The Firm is currently evaluating the potential impact of the proposed guidance.

Disclosures about segments of an enterprise

In September 2004, the EITF reached a consensus on Issue 04-10 that operating segments must always have similar economic characteristics and meet a majority of the five characteristics listed in FAS 131 in order to be aggregated. Those characteristics include the nature of the products and services; the nature of the production processes; the type or class of customer; the method used to distribute products or provide services; and the nature of the regulatory environment. EITF 04-10 is applicable for the Firm's Consolidated financial statements for the year ending December 31, 2004. The Firm is currently assessing the impact on its segment disclosure.

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REPORT OF MANAGEMENT

Management of JPMorgan Chase & Co. (the Firm) is responsible for the preparation, integrity and fair presentation of its published financial reports. These reports include consolidated financial statements that have been prepared in accordance with accounting principles generally accepted in the United States of America, using management's best judgment and all information available.

Management of the Firm is responsible for establishing and maintaining disclosure controls and procedures to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's (SEC) rules and forms. In addition to disclosure controls and procedures, management of the Firm is responsible for establishing and maintaining an effective process for internal control over financial reporting, which provides reasonable, but not absolute, assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Firm maintains systems of controls that it believes are reasonably designed to provide management with timely and accurate information about the operations of the Firm. This process is supported by an internal audit function along with the ongoing appraisal of controls by the Audit Committee of the Board of Directors. The Audit Committee, which consists solely of independent directors, meets at least quarterly with the independent registered public accounting firm, internal audit and representatives of management to discuss, among other things, accounting and financial reporting matters. The Firm's independent registered public accounting firm, the internal audit function and the Audit Committee have free access to each other. Disclosure controls and procedures, internal controls, systems and corporate-wide processes and procedures are continually evaluated and enhanced.

Management of the Firm evaluated its disclosure controls and procedures as of September 30, 2004. Based on this evaluation, the Principal Executive Officer, Principal Operating Officer and Principal Financial Officer each concludes that as of September 30, 2004, the Firm maintained effective disclosure controls and procedures in all material respects, including those to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to management, including the Principal Executive Officer, the Principal Operating Officer and the Principal Financial Officer, as appropriate to allow for timely decisions regarding required disclosure. There has been no change in the Firm's internal control over financial reporting that occurred during the Firm's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Firm's internal control over financial reporting.

The Firm is dedicated to maintaining a culture that reflects the highest standards of integrity and ethical conduct when engaging in its business activities. Management of the Firm is responsible for compliance with various federal and state laws and regulations, and the Firm has established procedures that are designed to ensure that management's policies relating to conduct, ethics and business practices are followed on a uniform basis.

JPMorgan Chase & Co.

November 9, 2004

/s/ William B. Harrison, Jr.

William B. Harrison, Jr.
Chairman and Chief Executive Officer

/s/ James Dimon

James Dimon
President and Chief Operating Officer

/s/ Michael J. Cavanagh

Michael J. Cavanagh
Executive Vice President and
Chief Financial Officer

Table of Contents**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

JPMORGAN CHASE & CO.
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(in millions, except per share data)

| | Three months ended | | Nine months ended | |
|--|---------------------------|-----------------|--------------------------|-----------------|
| | September 30, | | September 30, (b) | |
| | 2004 | 2003 (a) | 2004 | 2003 |
| Revenue | | | | |
| Investment banking fees | \$ 879 | \$ 649 | \$ 2,464 | \$ 2,044 |
| Trading revenue | 408 | 829 | 3,001 | 3,673 |
| Lending & deposit related fees | 943 | 456 | 1,769 | 1,276 |
| Asset management, administration and commissions | 2,141 | 1,518 | 5,682 | 4,320 |
| Securities/private equity gains (losses) | 413 | 284 | 1,305 | 1,287 |
| Mortgage fees and related income | 277 | 15 | 874 | 774 |
| Credit card income | 1,782 | 635 | 3,018 | 1,781 |
| Other income | 210 | 196 | 602 | 340 |
| Subtotal | 7,053 | 4,582 | 18,715 | 15,495 |
| Interest income | 9,493 | 5,839 | 20,733 | 18,268 |
| Interest expense | 4,041 | 2,641 | 9,301 | 8,485 |
| Net interest income | 5,452 | 3,198 | 11,432 | 9,783 |
| Total net revenue | 12,505 | 7,780 | 30,147 | 25,278 |
| Provision for credit losses | 1,169 | 223 | 1,387 | 1,401 |
| Noninterest expense | | | | |
| Compensation expense | 4,050 | 2,631 | 10,295 | 8,879 |
| Occupancy expense | 604 | 391 | 1,475 | 1,430 |
| Technology and communications expense | 1,046 | 719 | 2,651 | 2,088 |
| Professional & outside services | 1,103 | 703 | 2,671 | 2,098 |
| Marketing | 506 | 179 | 907 | 510 |
| Other expense | 920 | 431 | 1,878 | 1,233 |
| Amortization of intangibles | 396 | 73 | 554 | 220 |
| Total noninterest expense before merger costs and litigation reserve charge | 8,625 | 5,127 | 20,431 | 16,458 |
| Merger costs | 752 | | 842 | |
| Litigation reserve charge | | | 3,700 | 100 |
| Total noninterest expense | 9,377 | 5,127 | 24,973 | 16,558 |
| Income before income tax expense | 1,959 | 2,430 | 3,787 | 7,319 |
| Income tax expense | 541 | 802 | 987 | 2,464 |
| Net income | \$ 1,418 | \$ 1,628 | \$ 2,800 | \$ 4,855 |

| | | | | |
|--|-----------------|----------|-----------------|----------|
| Net income applicable to common stock | \$ 1,405 | \$ 1,615 | \$ 2,761 | \$ 4,817 |
| Net income per common share | | | | |
| Basic earnings per share | \$ 0.40 | \$ 0.80 | \$ 1.09 | \$ 2.40 |
| Diluted earnings per share | 0.39 | 0.78 | 1.06 | 2.35 |
| Average basic shares | 3,513.5 | 2,012.2 | 2,533.1 | 2,006.0 |
| Average diluted shares | 3,592.0 | 2,068.2 | 2,598.5 | 2,047.0 |
| Cash dividends per common share | \$ 0.34 | \$ 0.34 | \$ 1.02 | \$ 1.02 |

(a) *Heritage JPMorgan Chase only.*

(b) *2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.*

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

Table of Contents**CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

JPMORGAN CHASE & CO.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(in millions, except share data)

| | Sept. 30, 2004 | Dec. 31, 2003 (a) |
|--|---------------------|----------------------|
| Assets | | |
| Cash and due from banks | \$ 30,815 | \$ 20,268 |
| Deposits with banks | 33,082 | 10,175 |
| Federal funds sold and securities purchased under resale agreements | 96,031 | 76,868 |
| Securities borrowed | 50,546 | 41,834 |
| Trading assets (including assets pledged of \$95,607 at Sept. 30, 2004, and \$81,312 at Dec. 31, 2003) | 272,647 | 252,871 |
| Securities: | | |
| Available-for-sale (including assets pledged of \$32,605 at Sept. 30, 2004, and \$31,639 at Dec. 31, 2003) | 92,695 | 60,068 |
| Held-to-maturity (Fair Value: \$129 at Sept. 30, 2004, and \$186 at Dec. 31, 2003) | 121 | 176 |
| Interests in purchased receivables | 30,479 | 4,752 |
| Loans (net of Allowance for loan losses of \$7,493 at Sept. 30, 2004, and \$4,523 at Dec. 31, 2003) | 386,208 | 210,243 |
| Private equity investments | 8,547 | 7,250 |
| Accrued interest and accounts receivable | 19,876 | 12,356 |
| Premises and equipment | 8,880 | 6,487 |
| Goodwill | 42,947 | 8,511 |
| Other intangible assets: | | |
| Mortgage servicing rights | 5,168 | 4,781 |
| Purchased credit card relationships | 4,055 | 1,014 |
| All other intangibles | 5,945 | 685 |
| Other assets | 50,427 | 52,573 |
| Total assets | \$ 1,138,469 | \$ 770,912 |
| Liabilities | | |
| Deposits: | | |
| U.S.: | | |
| Noninterest-bearing | \$ 122,054 | \$ 73,154 |
| Interest-bearing | 254,611 | 125,855 |
| Non-U.S. offices: | | |
| Noninterest-bearing | 7,259 | 6,311 |
| Interest-bearing | 112,530 | 121,172 |
| Total deposits | 496,454 | 326,492 |
| Federal funds purchased and securities sold under repurchase agreements | 167,313 | 113,466 |
| Commercial paper | 10,307 | 14,284 |
| Other borrowed funds | 9,454 | 8,925 |

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| | | |
|---|---------------------|------------|
| Trading liabilities | 131,074 | 149,448 |
| Accounts payable, accrued expenses and other liabilities (including the Allowance for lending-related commitments of \$541 at Sept. 30, 2004 and \$324 at Dec. 31, 2003) | 61,198 | 43,970 |
| Beneficial interests issued by consolidated variable interest entities | 45,840 | 12,295 |
| Long-term debt | 91,754 | 48,014 |
| Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities | 11,745 | 6,768 |
| Insurance policy and claims reserves | 7,477 | 1,096 |
| Total liabilities | 1,032,616 | 724,758 |
| Commitments and contingencies (see Note 17 of this Form 10-Q) | | |
| Stockholders Equity | | |
| Preferred stock | 1,009 | 1,009 |
| Common stock (authorized 9,000,000,000 shares at Sept. 30, 2004, and 4,500,000,000 shares at Dec. 31, 2003; issued 3,576,131,663 shares at Sept. 30, 2004, and 2,044,436,509 shares at Dec. 31, 2003) | 3,576 | 2,044 |
| Capital surplus | 72,183 | 13,512 |
| Retained earnings | 29,779 | 29,681 |
| Accumulated other comprehensive income (loss) | (242) | (30) |
| Treasury stock, at cost (12,061,201 shares at Sept. 30, 2004, and 1,816,495 shares at Dec. 31, 2003) | (452) | (62) |
| Total stockholders equity | 105,853 | 46,154 |
| Total liabilities and stockholders equity | \$ 1,138,469 | \$ 770,912 |

(a) *Heritage JPMorgan Chase only.*

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

Table of Contents**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)**

JPMORGAN CHASE & CO.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)
(in millions, except per share data)

| | Preferred Stock | Common Stock Shares | Common Stock Amount | Capital Surplus | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock Shares | Treasury Stock Amount | Total Stockholders Equity |
|---|--------------------|------------------------|------------------------|--------------------|----------------------|---|--------------------------|--------------------------|---------------------------------|
| Balance-December 31, 2003 (a) | \$ 1,009 | 2,044 | \$ 2,044 | \$ 13,512 | \$ 29,681 | \$ (30) | 2 | \$ (62) | \$ 46,154 |
| Comprehensive income: | | | | | | | | | |
| Net income | | | | | 2,800 | | | | 2,800 |
| Net unrealized gains (losses) on available-for-sale securities, net of taxes | | | | | | (88) | | | (88) |
| Cash flow hedges, net of taxes | | | | | | (122) | | | (122) |
| Foreign currency translation adjustment, net of taxes | | | | | | (2) | | | (2) |
| Total comprehensive income | | | | | 2,800 | (212) | | | 2,588 |
| Cash dividends: | | | | | | | | | |
| Common (\$1.02 per share) | | | | | (2,663) | | | | (2,663) |
| Preferred | | | | | (39) | | | | (39) |
| Shares issued in connection with the Merger | | 1,469 | 1,469 | 55,867 | | | | | 57,336 |
| Shares issued and commitments to issue common stock under employee plans | | 63 | 63 | 2,804 | | | | | 2,867 |
| Forfeitures to treasury stock under employee plans | | | | | | | 7 | (252) | (252) |
| Purchase of treasury stock | | | | | | | 3 | (138) | (138) |
| Balance-September 30, 2004 | \$ 1,009 | 3,576 | \$ 3,576 | \$ 72,183 | \$ 29,779 | \$ (242) | 12 | \$ (452) | \$ 105,853 |

| | | | | | | | | | |
|--|----------|-------|----------|-----------|-----------|----------|------|------------|-----------|
| Balance-December 31, 2002 (a) | \$ 1,009 | 2,024 | \$ 2,024 | \$ 13,222 | \$ 25,851 | \$ 1,227 | 25 | \$ (1,027) | \$ 42,306 |
| Comprehensive income: | | | | | | | | | |
| Net income | | | | | 4,855 | | | | 4,855 |
| Net unrealized gains (losses) on available-for-sale securities, net of taxes | | | | | | (678) | | | (678) |
| Cash flow hedges, net of taxes | | | | | | (362) | | | (362) |
| Total comprehensive income | | | | | 4,855 | (1,040) | | | 3,815 |
| Cash dividends: | | | | | | | | | |
| Common (\$1.02 per share) | | | | | (2,128) | | | | (2,128) |
| Preferred | | | | | (38) | | | | (38) |
| Shares issued and commitments to issue common stock under employee plans | | 17 | 17 | 16 | | | | | 33 |
| Forfeitures to treasury stock under employee plans | | | | | | | 3 | (113) | (113) |
| Reissuances from treasury stock | | | | | | | (26) | 1,082 | 1,082 |
| Balance-September 30, 2003 (a) | \$ 1,009 | 2,041 | \$ 2,041 | \$ 13,238 | \$ 28,540 | \$ 187 | 2 | \$ (58) | \$ 44,957 |

(a) *Heritage JPMorgan Chase only.*

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

Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

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

| | Nine Months Ended September 30, | |
|---|---------------------------------|-----------|
| | (a) | |
| | 2004 | 2003 |
| Operating Activities | | |
| Net income | \$ 2,800 | \$ 4,855 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Provision for credit losses | 1,387 | 1,401 |
| Depreciation and amortization | 2,604 | 2,340 |
| Deferred tax provision (benefit) | (684) | 1,051 |
| Investment securities gains | (305) | (1,417) |
| Private equity unrealized (gains) losses | (408) | 88 |
| Net change in: | | |
| Trading assets | (29,795) | 19,519 |
| Securities borrowed | (7,934) | (2,953) |
| Accrued interest and accounts receivable | (858) | 150 |
| Other assets | (8,585) | (25,019) |
| Trading liabilities | (5,293) | 22,450 |
| Accounts payable, accrued expenses and other liabilities | 5,942 | 15,332 |
| Other operating adjustments | (64) | 385 |
| Net cash (used in) provided by operating activities | (41,193) | 38,182 |
| Investing Activities | | |
| Net change in: | | |
| Deposits with banks | (15,598) | (1,659) |
| Federal funds sold and securities purchases under resale agreements | (7,778) | (22,943) |
| Other change in loans | (100,866) | (136,464) |
| Held-to-maturity securities: | | |
| Proceeds | 55 | 186 |
| Purchases | | |
| Available-for-sale securities: | | |
| Proceeds from maturities | 8,554 | 8,370 |
| Proceeds from sales | 108,314 | 270,332 |
| Purchases | (108,530) | (259,199) |
| Loans due to sales and securitizations | 82,463 | 124,665 |
| Cash received (used) in business acquisitions | 14,281 | (23) |
| All other investing activities, net | 515 | 1,953 |
| Net cash used in investing activities | (18,590) | (14,782) |
| Financing Activities | | |
| Net change in: | | |

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| | | |
|--|------------------|------------------|
| Deposits | 23,178 | 8,985 |
| Federal funds purchased and securities sold under repurchase agreements | 46,591 | (37,524) |
| Commercial paper and other borrowed funds | (6,226) | 310 |
| Proceeds from the issuance of long-term debt and capital debt securities | 19,828 | 11,042 |
| Repayments of long-term debt and capital debt securities | (11,580) | (6,042) |
| Net issuance of stock and stock-based awards | 1,444 | 1,002 |
| Treasury stock purchased | (138) | |
| Cash dividends paid | (2,691) | (2,136) |
| All other financing activities, net | | 64 |
| | | |
| Net cash provided by (used in) financing activities | 70,406 | (24,299) |
| Effect of exchange rate changes on cash and due from banks | (76) | 266 |
| | | |
| Net increase (decrease) in cash and due from banks | 10,547 | (633) |
| Cash and due from banks at December 31, 2003 and 2002 | 20,268 | 19,218 |
| | | |
| Cash and due from banks at September 30, 2004 and 2003 | \$ 30,815 | \$ 18,585 |
| | | |
| Cash interest paid | \$ 9,152 | \$ 8,523 |
| Cash income taxes paid | 947 | 983 |

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

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

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

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See Glossary of Terms on pages 88 - 89 of this Form 10-Q for definitions of terms used throughout the Notes to consolidated

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1 BASIS OF PRESENTATION

The accounting and financial reporting policies of JPMorgan Chase & Co. (JPMorgan Chase or the Firm) and its subsidiaries conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and prevailing industry practices for interim reporting. Additionally, where applicable, the policies conform to the accounting and reporting guidelines prescribed by bank regulatory authorities. The unaudited consolidated financial statements prepared in conformity with U.S. GAAP require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expense and the disclosure of contingent assets and liabilities. Actual results could be different from these estimates. In addition, certain amounts in the prior periods have been reclassified to conform to the current presentation. In the opinion of management, all normal recurring adjustments have been included for a fair statement of this interim financial information. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in JPMorgan Chase's Annual Report on Form 10-K for the year ended December 31, 2003 (2003 Annual Report).

As further described in Note 2 of this Form 10-Q, on July 1, 2004, the Firm merged with Bank One Corporation (Bank One) and acquired all of its outstanding stock. The merger was accounted for using the purchase method of accounting. Bank One's results of operations were included in the Firm's results beginning July 1, 2004.

NOTE 2 BUSINESS CHANGES AND DEVELOPMENTS

Merger with Bank One Corporation

Effective July 1, 2004, Bank One Corporation (Bank One) merged with and into JPMorgan Chase (the Merger) pursuant to the Agreement and Plan of Merger, dated as of January 14, 2004. As a result of the Merger, each outstanding share of common stock of Bank One was converted in a stock-for-stock exchange into the right to receive 1.32 shares of common stock of JPMorgan Chase; cash payments for fractional shares were approximately \$3.1 million. JPMorgan Chase stockholders kept their shares, which remained outstanding and unchanged as shares of JPMorgan Chase following the Merger. The Merger will provide the combined company with a more balanced business mix and greater geographic diversification. The Merger is being accounted for using the purchase method of accounting, which requires that the assets and liabilities of Bank One be fair valued as of July 1, 2004. The purchase price to complete the Merger was \$58.5 billion.

Purchase price allocation and goodwill

The purchase price has been allocated to the assets acquired and liabilities assumed using their fair values at the merger date. The computation of the purchase price and the allocation of the purchase price to the net assets of Bank One based on their respective fair values as of July 1, 2004, and the resulting goodwill are presented below. The allocation of the purchase price will be modified over the next nine months, as more information is obtained about the fair value of assets acquired and liabilities assumed.

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| | | |
|--|--------------|-----------|
| <i>(in millions, except per share amount)</i> | July 1, 2004 | |
| Purchase price | | |
| Bank One common stock exchanged | 1,113 | |
| Exchange ratio | 1.32 | |
| JPMorgan Chase common stock issued | 1,469 | |
| Average purchase price per JPMorgan Chase common share (a) | \$ 39.02(a) | |
| | | \$ 57,336 |
| Fair value of employee stock awards and direct acquisition costs | | 1,210 |
| Total purchase price | | 58,546 |
| Net assets acquired: | | |
| Bank One stockholders' equity | \$ 24,156 | |
| Bank One goodwill and other intangible assets | (2,754) | |
| Subtotal | 21,402 | |
| Adjustments to reflect assets acquired at fair value: | | |
| Loans and leases | (2,261) | |
| Private equity investments | (100) | |
| Identified intangibles | 8,789 | |
| Pension plan assets | (778) | |
| Premises and equipment | (436) | |
| Other assets | (265) | |
| Adjustments to reflect liabilities assumed at fair value | | |
| Deposits | (373) | |
| Deferred income taxes | 947 | |
| Postretirement plan liabilities | (44) | |
| Other liabilities | (1,142) | |
| Long-term debt | (1,477) | |
| | | 24,262 |
| Goodwill resulting from merger | | \$ 34,284 |

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

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

| <i>(in millions)</i> | Fair value | Weighted average life (in years) | Useful life (in years) |
|----------------------|------------|----------------------------------|------------------------|
|----------------------|------------|----------------------------------|------------------------|

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| | | | |
|---|----------|------------|----------|
| Core deposit intangibles | \$ 3,650 | 5.1 | Up to 10 |
| Purchased credit card relationships | 3,340 | 4.6 | Up to 10 |
| Other credit card-related intangibles | 419 | 4.6 | Up to 10 |
| Other customer relationship intangibles | 870 | 4.6 - 10.5 | Up to 20 |
| Indefinite-lived asset management intangibles | 510 | NA | NA |
| Total | \$ 8,789 | | |

Table of Contents**Unaudited Pro Forma Condensed Combined Financial Information**

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

| <i>(in millions, except per share data)</i> | Three months ended September 30, | Nine months ended September 30, | |
|--|--|------------------------------------|-----------|
| | 2003 | 2004 | 2003 |
| Total revenue before net interest income | \$ 6,719 | \$ 23,554 | \$ 21,909 |
| Net interest income | 5,430 | 16,037 | 16,277 |
| Provision for credit losses | 635 | 1,570 | 2,762 |
| Noninterest expense | 7,947 | 31,118 | 24,832 |
| Income before income taxes | 3,567 | 6,903 | 10,592 |
| Net income | 2,374 | 4,878 | 7,002 |
| Per common share information | | | |
| Earnings | \$ 0.68 | \$ 1.38 | \$ 1.99 |
| Diluted earnings | 0.66 | 1.35 | 1.96 |
| Average common shares issued and outstanding | 3,483.9 | 3,508.9 | 3,498.8 |
| Average diluted common shares issued and outstanding | 3,551.8 | 3,590.0 | 3,549.3 |

NOTE 3 TRADING ASSETS AND LIABILITIES

For a discussion of the accounting policies related to trading assets and liabilities, see Note 3 on pages 87-88 of JPMorgan Chase's 2003 Annual Report. The following table presents Trading assets and Trading liabilities for the dates indicated:

| <i>(in millions)</i> | September 30, 2004 | Heritage JPMC only December 31, 2003 |
|--|--------------------------|---|
| | Trading assets | |
| Debt and equity instruments: | | |
| U.S. government, federal agencies and municipal securities | \$ 63,241 | \$ 44,678 |
| Certificates of deposit, bankers' acceptances and commercial paper | 7,732 | 5,765 |
| Debt securities issued by non-U.S. governments | 45,446 | 36,243 |
| Corporate securities and other | 98,433 | 82,434 |
| Total debt and equity instruments | 214,852 | 169,120 |
| Derivative receivables: (a) | | |
| Interest rate | 41,996 | 60,176 |
| Foreign exchange | 3,481 | 9,760 |
| Equity | 6,446 | 8,863 |
| Credit derivatives | 2,386 | 3,025 |

| | | |
|----------------------------------|-------------------|------------|
| Commodity | 3,486 | 1,927 |
| Total derivative receivables | 57,795 | 83,751 |
| Total trading assets | \$ 272,647 | \$ 252,871 |
| Trading liabilities | | |
| Debt and equity instruments (b) | \$ 78,767 | \$ 78,222 |
| Derivative payables: (a) | | |
| Interest rate | 36,274 | 49,189 |
| Foreign exchange | 3,687 | 10,129 |
| Equity | 7,588 | 8,203 |
| Credit derivatives | 2,293 | 2,672 |
| Commodity | 2,465 | 1,033 |
| Total derivative payables | 52,307 | 71,226 |
| Total trading liabilities | \$ 131,074 | \$ 149,448 |

(a) *Included in Trading assets and Trading liabilities are the reported receivables (unrealized gains) and payables (unrealized losses) related to derivatives. These amounts include the effect of legally enforceable master netting agreements. Effective January 1, 2004, the Firm elected to net cash paid and received under legally enforceable master netting agreements.*

(b) *Primarily represents securities sold, not yet purchased.*

Table of Contents**NOTE 4 INTEREST INCOME AND INTEREST EXPENSE**

Details of Interest income and Interest expense were as follows:

| <i>(in millions)</i> | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|----------|--------------------------|----------|
| | September 30, | | September 30,(b) | |
| | 2004 | 2003 (a) | 2004 | 2003 |
| Interest income | | | | |
| Loans | \$ 5,648 | \$ 2,997 | \$ 11,029 | \$ 8,928 |
| Securities | 1,011 | 880 | 2,390 | 2,826 |
| Trading assets debt and equity instruments | 1,990 | 1,491 | 5,455 | 4,935 |
| Federal funds sold and securities purchased under resale agreements | 474 | 344 | 1,095 | 1,171 |
| Securities borrowed | 120 | 72 | 303 | 248 |
| Deposits with banks | 131 | 24 | 331 | 129 |
| Interests in purchased receivables | 119 | 31 | 130 | 31 |
| Total interest income | 9,493 | 5,839 | 20,733 | 18,268 |
| Interest expense | | | | |
| Interest-bearing deposits | 1,503 | 789 | 3,125 | 2,807 |
| Short-term and other liabilities | 1,579 | 1,437 | 4,333 | 4,511 |
| Long-term debt | 788 | 369 | 1,595 | 1,121 |
| Beneficial interests issued by consolidated variable interest entities | 171 | 46 | 248 | 46 |
| Total interest expense | 4,041 | 2,641 | 9,301 | 8,485 |
| Net interest income | 5,452 | 3,198 | 11,432 | 9,783 |
| Provision for credit losses | 1,169 | 223 | 1,387 | 1,401 |
| Net interest income after provision for credit losses | \$ 4,283 | \$ 2,975 | \$ 10,045 | \$ 8,382 |

(a) *Heritage JPMorgan Chase only.*

(b) *2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.*

NOTE 5 PENSION AND OTHER POSTRETIREMENT EMPLOYEE BENEFIT PLANS

For a discussion of JPMorgan Chase's postretirement employee benefit plans, see Note 6 on pages 89-93 of JPMorgan Chase's 2003 Annual Report. The following table presents the components of net periodic benefit costs reported in the Consolidated statements of income for the U.S. and non-U.S. defined benefit pension and other postretirement benefit plans of the Firm:

| Defined benefit pension plans | Other postretirement | |
|---|----------------------|---------------|
| U.S. | Non-U.S. | benefit plans |
| Three months ended September 30, | | |

| <i>(in millions)</i> | 2004(a) | 2003(c) | 2004 | 2003(c) | 2004(a)(b) | 2003(c) |
|--|----------------|--------------|--------------|-------------|-------------------|-------------|
| Components of net periodic benefit costs | | | | | | |
| Benefits earned during the period | \$ 74 | \$ 41 | \$ 4 | \$ 2 | \$ 3 | \$ 4 |
| Interest cost on benefit obligations | 108 | 67 | 21 | 9 | 20 | 19 |
| Expected return on plan assets | (195) | (78) | (22) | (10) | (22) | (21) |
| Amortization of unrecognized amounts: | | | | | | |
| Prior service cost | 2 | 2 | | | | |
| Net actuarial (gain) loss | (9) | 15 | 11 | 4 | | |
| Curtailement loss | | | | | 8 | |
| Settlement loss | | | | 1 | | |
| Net periodic benefit costs reported in Compensation expense | \$ (20) | \$ 47 | \$ 14 | \$ 6 | \$ 9 | \$ 2 |

| <i>(in millions)</i> | Defined benefit pension plans | | | | Other postretirement benefit plans | |
|--|--|---------------|--------------|--------------|------------------------------------|-------------|
| | U.S. | | Non-U.S. | | | |
| | 2004(a) | 2003 | 2004 | 2003 | 2004(a)(b) | 2003 |
| | Nine months ended September 30, (d) | | | | | |
| | 2004 | | | | | |
| | (a)(b) | | | | | |
| Components of net periodic benefit costs | | | | | | |
| Benefits earned during the period | \$ 172 | \$ 116 | \$ 11 | \$ 7 | \$ 12 | \$ 12 |
| Interest cost on benefit obligations | 242 | 182 | 64 | 33 | 58 | 58 |
| Expected return on plan assets | (386) | (212) | (66) | (37) | (64) | (63) |
| Amortization of unrecognized amounts: | | | | | | |
| Prior service cost | 10 | 5 | | | | |
| Net actuarial loss | 12 | 41 | 33 | 16 | | |
| Curtailement loss | | | | | 8 | |
| Settlement loss | | | 5 | 3 | | |
| Net periodic benefit costs reported in Compensation expense | \$ 50 | \$ 132 | \$ 47 | \$ 22 | \$ 14 | \$ 7 |

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- (a) For the three and nine months ended September 30, 2004, U.S. pension and other postretirement expense includes a total adjustment of \$(56) million and \$3 million, respectively, resulting from finalization of 2004 actuarial valuations.
- (b) The effect of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 resulted in a \$35 million reduction in the accumulated Other postretirement benefit obligation. The impact on the Firm's net periodic benefit costs was immaterial.
- (c) Heritage JPMorgan Chase only.
- (d) Year-to-date 2004 results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only. Effective July 1, 2004, the Firm assumed the obligations of heritage Bank One's postretirement plans. These plans are similar to those of JPMorgan Chase and are expected to be merged into JPMorgan Chase's postretirement benefit plans in 2005.

JPMorgan Chase made a discretionary cash contribution of \$1.1 billion to its U.S. defined benefit pension plan on April 1, 2004, funding it to the maximum allowable amount under applicable tax law. This contribution reduced U.S. pension costs by \$22 million in the third quarter and \$43 million for the nine months ended September 30, 2004. This contribution is expected to reduce U.S. pension costs by an additional \$21 million over the remaining three months of 2004.

NOTE 6 EMPLOYEE STOCK-BASED INCENTIVES**Employee stock-based incentives**

For a discussion of the accounting policies relating to employee stock-based compensation, see Note 7 on pages 93-95 of JPMorgan Chase's 2003 Annual Report. The following table presents Net income and basic and diluted earnings per share as reported, and as if all outstanding awards were accounted for at fair value in each period.

| | Three Months Ended | | Nine Months Ended September | |
|---|---------------------------|-----------------------------------|------------------------------------|-------------------------|
| | 2004 | September 30, 2003 (a) | 2004 | 30, (b) 2003 |
| <i>(in millions, except per share data)</i> | | | | |
| Net income as reported | \$ 1,418 | \$ 1,628 | \$ 2,800 | \$ 4,855 |
| Add: Employee stock-based compensation expense included in reported net income, net of related tax effects | 227 | 133 | 581 | 420 |
| Deduct: Employee stock-based compensation expense determined under the fair value method for all awards, net of related tax effects | (265) | (217) | (703) | (704) |
| Pro forma net income | \$ 1,380 | \$ 1,544 | \$ 2,678 | \$ 4,571 |
| Earnings per share: | | | | |
| Basic as reported | \$ 0.40 | \$ 0.80 | \$ 1.09 | \$ 2.40 |
| Basic pro forma | 0.39 | 0.76 | 1.04 | 2.26 |
| Diluted as reported | \$ 0.39 | \$ 0.78 | \$ 1.06 | \$ 2.35 |
| Diluted pro forma | 0.38 | 0.74 | 1.01 | 2.21 |

(a) Heritage JPMorgan Chase only.

(b) 2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.

Deferred compensation plan

JPMorgan Chase has a deferred compensation plan, under which employees that meet certain compensation requirements may elect to defer all or a portion of their cash incentive awards each year on a tax-deferred basis. Amounts deferred are not invested in actual funds but rather are credited with returns as if they were invested in investment choices selected by the employee. Employees may elect to receive distributions following retirement or termination of employment, or in a specified year, subject to a minimum deferral period. Employees also may elect to receive payments in a lump sum or in annual installments. The plan is unfunded. The employees' cash incentive awards are recorded in Compensation expense in the year they are earned, with the related deferral recorded in Other liabilities. Changes in the value of the employees' deferred compensation liability accounts are recognized in earnings in the current period. At September 30, 2004, and December 31, 2003, the deferred compensation liability was \$4.6 billion (which includes \$447 million assumed from Bank One) and \$3.7 billion, respectively.

Table of Contents**NOTE 7 MERGER COSTS**

A summary by expense category is shown in the following table for the three and nine months ended September 30, 2004. These costs and the related accrued liability have been determined in accordance with a formal plan approved by management, and is being executed currently.

| <i>(in millions)</i> | Three Months Ended September 30, 2004 | | Nine Months Ended September 30, (a) 2004 | |
|---|--|-----|---|-----|
| Expense category | | | | |
| Compensation | \$ | 380 | \$ | 445 |
| Occupancy | | 147 | | 167 |
| Technology and communications and other | | 225 | | 230 |
| Total (b) | \$ | 752 | \$ | 842 |

(a) 2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results.

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

In addition to the merger costs reflected in the table above, \$1.0 billion of merger costs were accounted for as purchase accounting adjustments and recorded as an increase to goodwill. The table below shows the change in the liability balance related to merger costs.

| <i>(in millions)</i> | Three Months Ended September 30, 2004 | | Nine Months Ended September 30, (a) 2004 | |
|--|--|-------|---|-------|
| Liability balance, beginning of period | \$ | | \$ | |
| Recorded as merger costs | | 752 | | 842 |
| Recorded as goodwill | | 1,025 | | 1,025 |
| Liability utilized | | (546) | | (636) |
| Liability balance, end of period | \$ | 1,231 | \$ | 1,231 |

NOTE 8 SECURITIES AND PRIVATE EQUITY INVESTMENTS

For a discussion of the accounting policies relating to Securities, see Note 9 on pages 96-97 of JPMorgan Chase's 2003 Annual Report. The following table presents realized gains and losses from available-for-sale (AFS) securities:

| <i>(in millions)</i> | Three Months Ended September 30, 2004 | | Nine Months Ended September 30, (b) 2004 | |
|----------------------|--|-------|---|-------|
| Realized gains | \$ | 167 | \$ | 576 |
| Realized losses | | (27) | \$ | 423 |
| | | (412) | \$ | 2,000 |
| | | | \$ | (118) |
| | | | \$ | (583) |

| | | | | |
|--|---------------|--------|-----------------|----------|
| Net realized securities gains | 140 | 164 | 305 | 1,417 |
| Private equity gains (losses) | 273 | 120 | 1,000 | (130) |
| Total Securities/private equity gains (losses) | \$ 413 | \$ 284 | \$ 1,305 | \$ 1,287 |

(a) *Heritage JPMorgan Chase only.*

(b) *2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.*

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

| | At September 30, 2004 | | | | Heritage JPMC Only At December 31, 2003 | | | | Fair Value |
|---|-----------------------|-------------|--------------|------------|--|-------------|--------------|------------|------------|
| | Amortized Cost | Gross Gains | Gross Losses | Fair Value | Amortized Cost | Gross Gains | Gross Losses | Fair Value | |
| <i>(in millions)</i> | | | | | | | | | |
| Available-for-sale securities | | | | | | | | | |
| U.S. government and federal agencies/ corporations obligations: | | | | | | | | | |
| Mortgage-backed securities | \$ 46,563 | \$ 254 | \$ 840 | \$ 45,977 | \$ 32,248 | \$ 101 | \$ 417 | \$ 31,932 | |
| Collateralized mortgage obligations | 399 | 2 | | 401 | 1,825 | 3 | | 1,828 | |
| U.S. treasuries | 12,492 | 20 | 180 | 12,332 | 11,511 | 13 | 168 | 11,356 | |
| Agency obligations | 1,574 | 22 | 15 | 1,581 | 106 | 2 | | 108 | |
| Obligations of state and political subdivisions | 3,116 | 137 | 20 | 3,233 | 2,841 | 171 | 52 | 2,960 | |
| Debt securities issued by non-U.S. governments | 8,030 | 36 | 11 | 8,055 | 7,232 | 47 | 41 | 7,238 | |
| Corporate debt securities | 7,193 | 149 | 6 | 7,336 | 818 | 23 | 8 | 833 | |
| Equity securities | 5,364 | 34 | 5 | 5,393 | 1,393 | 24 | 11 | 1,406 | |
| Other, primarily asset-backed securities (a) | 8,366 | 34 | 13 | 8,387 | 2,448 | 61 | 102 | 2,407 | |
| Total available for sale securities | \$ 93,097 | \$ 688 | \$ 1,090 | \$ 92,695 | \$ 60,422 | \$ 445 | \$ 799 | \$ 60,068 | |
| Held-to-maturity securities | | | | | | | | | |
| (b) | | | | | | | | | |
| Total held-to-maturity securities | \$ 121 | \$ 8 | \$ | \$ 129 | \$ 176 | \$ 10 | \$ | \$ 186 | |

(a) *Includes collateralized mortgage obligations of private issuers, which generally have underlying collateral consisting of obligations of U.S. government and federal agencies and corporations.*

(b) *Consists primarily of mortgage-backed securities.*

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For a further description of private equity investments, see Note 15 on page 106 of JPMorgan Chase's 2003 Annual Report. The following table presents the carrying value and cost of the Firm's private equity investment portfolio for the dates indicated:

| <i>(in millions)</i> | September 30, 2004 | | H-JPMC Only December 31, 2003 | |
|----------------------------------|---------------------------|------------------|----------------------------------|----------|
| | Carrying value | Cost | Carrying value | Cost |
| Total private equity investments | \$ 8,547 | \$ 10,407 | \$ 7,250 | \$ 9,147 |

NOTE 9 SECURITIES FINANCING ACTIVITIES

For a discussion of the accounting policies relating to Securities Financing Activities, see Note 10 on page 98 of JPMorgan Chase's 2003 Annual Report. The following table details the components of securities financing activities at each of the dates indicated:

| <i>(in millions)</i> | September | H-JPMC Only |
|--|---------------------|----------------------|
| | 30, 2004 | December 31, 2003 |
| Securities purchased under resale agreements | \$ 77,946 | \$ 62,801 |
| Securities borrowed | 50,546 | 41,834 |
| Securities sold under repurchase agreements | 153,343 | 103,610 |
| Securities loaned | 6,171 | 4,260 |

Transactions similar to financing activities that do not meet the SFAS 140 definition of a repurchase agreement are accounted for as buys and sells rather than financing transactions. Notional amounts of transactions accounted for as purchases under SFAS 140 were \$15 billion at both September 30, 2004, and December 31, 2003, respectively. Notional amounts of transactions accounted for as sales under SFAS 140 were \$17 billion and \$8 billion at September 30, 2004, and December 31, 2003, respectively.

JPMorgan Chase pledges certain financial instruments it owns to collateralize repurchase agreements and other securities financings. Pledged securities that can be sold or repledged by the secured party are identified as financial instruments owned (pledged to various parties) on the Consolidated balance sheet. At September 30, 2004, the Firm had received securities as collateral that can be repledged, delivered or otherwise used with a fair value of approximately \$255 billion. This collateral was generally obtained under resale or securities borrowing agreements. Of these securities, approximately \$242 billion were repledged, delivered or otherwise used, generally as collateral under repurchase agreements, securities lending agreements or to cover short sales.

NOTE 10 LOANS

For a discussion of the accounting policies relating to Loans, see Note 11 on pages 98-99 of JPMorgan Chase's 2003 Annual Report. The composition of the loan portfolio at each of the dates indicated was as follows:

| <i>(in millions)</i> | September 30, 2004 | H-JPMC Only December 31, 2003 |
|-----------------------------------|-----------------------------------|--|
| Wholesale loans: (a) | | |
| Commercial and industrial | \$ 87,566 | \$ 53,664 |
| Real estate (b) | 14,295 | 4,594 |
| Financial institutions | 21,576 | 14,615 |
| Lease financing receivables | 2,912 | 696 |
| Other | 5,995 | 1,850 |
| Total wholesale loans | 132,344 | 75,419 |
| Consumer loans: (c) | | |
| Consumer real estate | | |
| Home finance home equity & other | 67,368 | 24,179 |
| Home finance mortgage | 56,035 | 50,381 |
| Auto & education finance | 62,587 | 43,157 |
| Small business and other consumer | 15,126 | 4,204 |
| Credit card receivables | 60,241 | 17,426 |
| Total consumer loans | 261,357 | 139,347 |
| Total loans (d)(e) | \$ 393,701 | \$ 214,766 |

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

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- (b) *Represents credits extended for real estate-related purposes to borrowers who are primarily in the real estate development or investment business and for which the primary repayment is from the sale, lease, management, operations or refinancing of the property.*
- (c) *Includes Retail Financial Services and Card Services.*
- (d) *Loans are presented net of unearned income of \$4.0 billion and \$1.3 billion at September 30, 2004, and December 31, 2003, respectively.*
- (e) *Includes loans held for sale (principally mortgage-related loans) of \$20.1 billion at September 30, 2004, and \$20.8 billion at December 31, 2003, respectively. The results of operations for the three months ended September 30, 2004 and 2003, included \$(6) million and \$638 million, respectively, in net gains (losses) on the sales of loans held for sale. The results of operations for the nine months ended September 30, 2004 and 2003, included \$287 million and \$1.4 billion, respectively, in net gains on the sales of loans held for sale. The results of operations for the three months ended September 30, 2004 and 2003, included \$15 million and \$36 million, respectively, in adjustments to record loans held for sale at the lower of cost or market. The results of operations for the nine months ended September 30, 2004 and 2003, included \$25 million and \$22 million, respectively, in adjustments to record loans held for sale at the lower of cost or market.*

NOTE 11 ALLOWANCE FOR CREDIT LOSSES

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

As a result of the Merger, management developed a single methodology for determining the Provision for credit losses for the combined Firm. The effect of conforming methodologies during the third quarter was a decrease in the consumer allowance of \$227 million and a net decrease in the wholesale allowance (including both funded loans and lending related commitments) of \$161 million. In addition, the Bank One seller's interest in credit card securitizations was decertificated; this resulted in an increase to the provision for loan losses of \$721 million (pre-tax) in the third quarter of 2004. It is anticipated that a similar increase will impact the provision in the fourth quarter of 2004.

The Allowance for loan losses consists of three components: Asset-specific loss, Expected loss and Stress.

The Asset-specific loss component includes provisions for losses on loans considered impaired and measured pursuant to SFAS No. 114. An allowance is established when the discounted cash flows (or collateral value or observable market price) of an impaired loan are lower than the carrying value of that loan. To compute the Asset-specific component of the allowance, larger impaired loans are evaluated individually, and smaller impaired loans are evaluated as a pool using historical loss experience for the respective class of assets.

The Expected loss component covers performing wholesale and consumer loans. Expected losses are the product of probability of default and loss given default. For risk-rated loans (generally wholesale lines of business), these factors are differentiated by risk rating and maturity. For scored loans (generally consumer lines of business), expected loss is primarily determined by applying statistical loss factors and other risk indicators to pools of loans by asset type.

The Stress component represents that portion of the overall allowance attributable to covering model imprecision and external factors and economic events that have occurred but are not yet reflected in factors used to derive the Expected loss component. Stress testing provides management with a range of probable loss estimates. The Stress component of the risk-rated performing loan portfolio is determined by creating stress test ranges using historical experience of both loss given default and probability of default. In addition, incremental stress related to certain concentrated and deteriorating industries is also incorporated. Stress-testing the scored loan portfolios is accomplished in part by analyzing the historical loss experience for each major product segment. Stress level ranges and the determination of

the appropriate point within the range are based upon management's view of uncertainties that relate to current macroeconomic and political conditions, quality of underwriting standards and other relevant internal and external factors impacting credit quality of the current portfolio.

The Allowance for lending-related commitments provides for the risk of loss inherent in the Firm's process of extending credit. Management also computes Specific loss and Expected loss components for wholesale lending-related commitments. These are computed using a methodology similar to that used for the wholesale loan portfolio, modified for expected maturities and probabilities of drawdown.

JPMorgan Chase's Risk Management Committee reviews, at least quarterly, the Allowance for credit losses relative to the risk profile of the Firm's credit portfolio and current economic conditions. In addition, the Audit Committee of the Board of Directors is responsible for reviewing, on a quarterly basis, overall adequacy with respect to the Allowances for credit losses. As of September 30, 2004, JPMorgan Chase deemed the Allowance for credit losses to be appropriate (i.e., sufficient to absorb losses that are inherent in the portfolio including those not yet identifiable).

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

| <i>(in millions)</i> | Nine months ended September 30, | |
|--|--|-------------|
| | 2004 | 2003 |
| Allowance for loan losses at January 1 | \$ 4,523 | \$ 5,350 |
| Addition resulting from the Merger, July 1 | 3,123 | |
| Charge-offs | (2,240) | (2,246) |
| Recoveries | 539 | 348 |
| Net charge-offs | (1,701) | (1,898) |
| Provision for loan losses | 1,677 | 1,435 |
| Other (b) | (129) | (134) |
| Allowance for loan losses at September 30 | \$ 7,493 | \$ 4,753 |

(a) 2004 year-to-date activity includes three months of the combined Firm's activity and six months of heritage JPMorgan Chase activity, while 2003 year-to-date activity includes heritage JPMorgan Chase only.

(b) Primarily represents the transfer of the allowance for accrued interest and fees on reported and securitized credit card loans.

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

| <i>(in millions)</i> | Nine months ended September | |
|---|------------------------------------|-------------|
| | 2004 | 2003 |
| Allowance for lending-related commitments at January 1 | \$ 324 | \$ 363 |
| Addition resulting from the Merger, July 1 | 508 | |
| Provision for lending-related commitments | (290) | (34) |
| Other | (1) | |
| Allowance for lending-related commitments at September 30 | \$ 541 | \$ 329 |

(a) 2004 year-to-date activity includes three months of the combined Firm's activity and six months of heritage JPMorgan Chase activity, while 2003 year-to-date activity includes heritage JPMorgan Chase only.

NOTE 12 LOAN SECURITIZATIONS

For a discussion of loan securitizations and the Firm's related accounting policies, see Note 13 on pages 100-103 of JPMorgan Chase's 2003 Annual Report. The Firm securitizes, sells and services various consumer loans such as consumer real estate, credit card and automobile loans, as well as certain wholesale loans (primarily real estate) originated by the Investment Bank. JPMorgan Chase-sponsored securitizations utilize special purpose entities (SPEs) as part of the securitization process. These SPEs are structured to meet the definition of a qualifying special purpose entity (QSPE), as discussed in Note 1 of the JPMorgan Chase 2003 Annual Report; accordingly, the assets and liabilities of securitization-related QSPEs are not reflected in the Firm's Consolidated balance sheet (except for retained interests, as described below) but are included on the balance sheet of the QSPE purchasing the assets. Assets

held by securitization-related QSPEs as of September 30, 2004, and December 31, 2003, were as follows:

| <i>(in billions)</i> | September 30, 2004 | H-JPMC Only December 31, 2003 |
|----------------------------------|-----------------------------------|--|
| Credit card receivables | \$ 106.2 | \$ 42.6 |
| Residential mortgage receivables | 21.1 | 21.1 |
| Wholesale loans | 34.3 | 33.8 |
| Automobile loans | 5.6 | 6.5 |
| Total | \$ 167.2 | \$ 104.0 |

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The following table summarizes new securitization transactions that were completed during each of the three and nine months ended September 30, 2004 and 2003; the resulting gains arising from such securitizations; certain cash flows received from such securitizations; and the key economic assumptions used in measuring the retained interests, as of the dates of such sales:

| | | Three months ended September 30, | | | | | | | | | |
|-----------------|-------|--|-------------------|------------------|-----------------|--------------------|-------------------|----|-------------|----|-------------------|
| | | 2004 | | | | | 2003 (a) | | | | |
| Mortgage | | Credit card | Automobile | Wholesale | Mortgage | Credit card | Automobile | | | | |
| \$ | 1,029 | \$ | 3,050 | \$ | 1,732 | \$ | 3,309 | \$ | 1,725 | \$ | 1,500 |
| | (6) | | 17 | | 19 | | 103 | | 9 | | 10 |
| | 1,026 | | 3,050 | | 1,324 | | 3,388 | | 1,725 | | 1,498 |
| | 3 | | 22 | | 1 | | 7 | | 22 | | 2 |
| | | | 74 | | | | 1 | | 60 | | |
| | | | 42,044 | | | | | | 15,225 | | |
| | | | 16.7% | | 50% | | 10.2 - 36.2% CPR | | 15.2% | | 1.50% WAC/ WAM |
| | | | 0.5 | | 2.0 | | 2.0 - 3.9 | | 0.6 | | 1.8 |
| | | | 5.6% | | NA(c) | | 0.8 - 1.0% | | 5.5% | | 0.5% |
| | | | 12% | | 0.7% | | 13.0 - 30.0% | | 9.3 - 12.0% | | 4.1% |
| | | Nine months ended September 30, (d) | | | | | | | | | |
| | | 2004 | | | | | 2003 | | | | |
| Mortgage | | Credit card | Automobile | Wholesale | Mortgage | Credit card | Automobile | | | | |
| \$ | 5,551 | \$ | 6,300 | \$ | 5,500 | \$ | 8,829 | \$ | 5,990 | \$ | 3,510 |
| | 54 | | 36 | | 92 | | 246 | | 31 | | 13 |
| | | | (3) | | | | | | | | |

| | | | | | | |
|------------------|--------------|------------------|--------------|------------------|--------------|------------------|
| 5,603 | 6,300 | 1,597 | 5,570 | 9,053 | 5,990 | 3,505 |
| 7 | 35 | 1 | 2 | 11 | 41 | 4 |
| | 109 | | 12 | 1 | 108 | |
| | 71,234 | | | | 42,535 | |
| 23.8 - 25.9% CPR | 15.5 - 16.7% | 1.5% WAC/ WAM | 17.0 - 50.0% | 10.2 - 36.2% CPR | 15.0 - 15.2% | 1.5% WAC/ WAM |
| 2.8 - 3.0 | 0.5 - 0.6 | 1.8 | 2.0 - 4.0 | 2.0 - 4.0 | 0.6 | 1.8 |
| 1.0% | 5.5 - 5.8% | 0.6% | NA(c) | 0.8 - 1.1% | 5.5 - 5.8% | 0.5% |
| 15.0 - 30.0% | 12.0% | 4.1% | 0.6 - 5.0% | 13.0 - 30.0% | 5.4 - 12.0% | 3.9 - 4.1% |

(a) *Heritage JPMorgan Chase only.*

(b) *CPR: constant prepayment rate; WAC/WAM: weighted-average coupon/weighted-average maturity.*

(c) *Expected credit losses for wholesale securitizations are minimal and are incorporated into other assumptions.*

(d) *2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.*

In addition, the Firm sold residential mortgage loans totaling \$53.1 billion and \$89.7 billion during the nine months ended September 30, 2004 and 2003, respectively, primarily as GNMA, FNMA and Freddie Mac mortgage-backed securities; these sales resulted in pre-tax gains of \$45 million and \$833 million, respectively.

At both September 30, 2004, and December 31, 2003, the Firm had, with respect to its credit card master trusts, \$34.4 billion and \$7.3 billion, respectively, related to its undivided interest, and \$2.3 billion and \$1.1 billion, respectively, related to its subordinated interest in accrued interest and fees on the securitized receivables. Credit card securitization trusts require the Firm to maintain a minimum undivided interest of 4% to 7% of the principal receivables in the trusts. The Firm maintained an average undivided interest in its principal receivables in the trusts of approximately 22% and 17% for the nine months ended September 30, 2004 and twelve months ended December 31, 2003, respectively.

The Firm also maintains escrow accounts up to predetermined limits for some of its credit card and automobile securitizations, in the unlikely event of deficiencies in cash flows owed to investors. The amounts available in such escrow accounts are recorded in Other assets and, as of September 30, 2004, amounted to \$446 million and \$143 million for credit card and automobile securitizations, respectively; as of December 31, 2003, these amounts were \$456 million and \$137 million for credit card and automobile securitizations, respectively.

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

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| <i>(in millions)</i> | September 30, 2004 | H-JPMC Only December 31, 2003 |
|--------------------------|-----------------------------------|--|
| Residential mortgage (a) | \$ 461 | \$ 570 |
| Credit card (a) | 498 | 193 |
| Automobile (a) | 106 | 151 |
| Wholesale | 30 | 34 |
| Total | \$ 1,095 | \$ 948 |

(a) *Pre-tax unrealized gains (losses) recorded in Stockholders' equity that relate to retained securitization interests totaled \$133 million and \$155 million for Residential mortgage; \$(1) million and \$11 million for Credit card; and \$10 million and \$6 million for Automobile at September 30, 2004, and December 31, 2003, respectively.*

The table below outlines the key economic assumptions used to determine the fair value of the remaining retained interests at September 30, 2004, and December 31, 2003, respectively; and the sensitivities to those fair values to immediate 10% and 20% adverse changes in those assumptions:

| <i>(in millions)</i> | September 30, 2004 | | | |
|----------------------------------|---------------------------|------------------------|-------------------|----------------------------|
| | Mortgage | Credit card | Automobile | Wholesale |
| Weighted-average life (in years) | 1.0 - 3.4 | 0.5 - 1.0 | 1.4 | 0.2 - 5.3 NA(a), 17.0 - |
| Prepayment rate | 15.4 - 33.7% CPR | 8.3 - 16.7% | 1.4% WAC/WAM | 50.0% |
| Impact of 10% adverse change | \$ (8) | \$ (35) | \$ (8) | \$ (1) |
| Impact of 20% adverse change | (14) | (70) | (15) | (2) |
| Loss assumption | 0.0 - 4.9%(b) | 5.4 - 8.8% | 0.7% | NA(c) |
| Impact of 10% adverse change | \$ (22) | \$ (135) | \$ (5) | \$ |
| Impact of 20% adverse change | (44) | (270) | (10) | |
| Discount rate | 13.0 - 30.0%(d) | 4.3 - 12.0% | 5.0% | 1.0 - 23.4% |
| Impact of 10% adverse change | \$ (11) | \$ (1) | \$ (1) | \$ (1) |
| Impact of 20% adverse change | (21) | (3) | (3) | (1) |

| <i>(in millions)</i> | Heritage JPMC Only December 31, 2003 | | | |
|----------------------------------|---|--------------------|-------------------|------------------|
| | Mortgage | Credit card | Automobile | Wholesale |
| Weighted-average life (in years) | 1.4 - 2.7 | 0.4 - 1.3 | 1.5 | 0.6 - 5.9 |
| Prepayment rate | 29.0 - 31.7% CPR | 8.1 - 15.1% | 1.5% WAC/WAM | NA(a), 50.0% |
| Impact of 10% adverse change | \$ (17) | \$ (7) | \$ (10) | \$ (1) |

| | | | | |
|------------------------------|-----------------|-------------|--------|-------------|
| Impact of 20% adverse change | (31) | (13) | (19) | (2) |
| Loss assumption | 0.0 - 4.0%(b) | 5.5 - 8.0% | 0.6% | NA(c) |
| Impact of 10% adverse change | \$ (28) | \$ (21) | \$ (6) | \$ |
| Impact of 20% adverse change | (57) | (41) | (12) | |
| Discount rate | 13.0 - 30.0%(d) | 8.3 - 12.0% | 4.4% | 5.0 - 20.9% |
| Impact of 10% adverse change | \$ (14) | \$ (1) | \$ (1) | \$ (1) |
| Impact of 20% adverse change | (27) | (3) | (2) | (2) |

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

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

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The table below presents information about delinquencies, net credit losses and components of reported and securitized financial assets at September 30, 2004, and December 31, 2003:

| | Total loans | | Nonaccrual and 90 days or more past due | | Net loan charge-offs Nine months ended | |
|--|--------------------------|-----------------------------|--|-----------------------------|---|-----------------|
| | September 30, 2004 | December 31, 2003 (a) | September 30, 2004 | December 31, 2003 (a) | September 30, (b) 2004 2003 | |
| <i>(in millions)</i> | | | | | | |
| Consumer real estate | \$ 123,403 | \$ 74,560 | \$ 789 | \$ 374 | \$ 119 | \$ 98 |
| Credit card receivables | 60,241 | 17,426 | 843 | 284 | 1,199 | 847 |
| Auto & education finance | 62,587 | 43,157 | 211 | 123 | 167 | 128 |
| Small business & other consumer | 15,126 | 4,204 | 308 | 72 | 98 | 51 |
| Consumer loans | 261,357 | 139,347 | 2,151 | 853 | 1,583 | 1,124 |
| Wholesale loans | 132,344 | 75,419 | 1,795 | 2,046 | 118 | 774 |
| Total loans reported | 393,701 | 214,766 | 3,946 | 2,899 | 1,701 | 1,898 |
| Securitized loans: | | | | | | |
| Residential mortgage (c) | 12,546 | 15,564 | 497 | 594 | 119 | 143 |
| Credit card | 71,256 | 34,856 | 1,467 | 879 | 1,887 | 1,408 |
| Automobile | 5,430 | 6,315 | 12 | 13 | 18 | 18 |
| Total consumer loans securitized | 89,232 | 56,735 | 1,976 | 1,486 | 2,024 | 1,569 |
| Wholesale securitized | 1,865 | 2,108 | 12 | 9 | | |
| Total loans securitized | 91,097 | 58,843 | 1,988 | 1,495 | 2,024 | 1,569 |
| Total loans reported and securitized (d)(e) | \$ 484,798 | \$ 273,609 | \$ 5,934 | \$ 4,394 | \$ 3,725 | \$ 3,467 |

(a) Heritage JPMorgan Chase only.

(b) 2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.

(c) Includes \$11.2 billion and \$13.6 billion of outstanding principal balances on securitized sub-prime 1-4 family residential mortgage loans as of September 30, 2004 and December 31, 2003.

(d) Total assets held in securitization-related SPEs were \$167.2 billion and \$104.0 billion at September 30, 2004, and December 31, 2003, respectively. The \$91.1 billion and \$58.8 billion of loans securitized at September 30, 2004, and December 31, 2003, respectively, excludes: \$40.8 billion and \$37.1 billion of securitized loans, in which the Firm's only continuing involvement is the servicing of the assets; \$34.4 billion and \$7.3 billion of seller's interests in credit card master trusts, respectively; and \$0.9 billion and \$0.8 billion of escrow accounts and other assets, respectively.

(e)

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

NOTE 13 VARIABLE INTEREST ENTITIES

Refer to Note 1 on pages 86-87 and Note 14 on pages 103-106 of JPMorgan Chase's 2003 Annual Report for a further description of JPMorgan Chase's policies regarding consolidation of variable interest entities. In December 2003, the FASB issued a revision to FIN 46 (FIN 46R) to address various technical corrections and implementation issues that had arisen since the issuance of FIN 46. Effective March 31, 2004, JPMorgan Chase implemented FIN 46R for all variable interest entities (VIEs), excluding certain investments made by its private equity business, as discussed further below. Implementation of FIN 46R did not have a material effect on the Firm's Consolidated financial statements.

The application of FIN 46R involved significant judgments and interpretations by management. The Firm is aware of differing interpretations being developed among accounting professionals and the EITF with regard to analyzing derivatives under FIN 46R. Management's current interpretation is that derivatives should be evaluated by focusing on an economic analysis of the rights and obligations of a VIE's assets, liabilities, equity, and other contracts, while considering: the entity's activities and design; the terms of the derivative contract and the role it has with the entity; and whether the derivative contract creates and/or absorbs variability of the VIE. The Firm will continue to monitor developing interpretations.

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

Investment Bank: Utilize VIEs to assist clients in accessing the financial markets in a cost-efficient manner, by providing the structural flexibility to meet their needs pertaining to price, yield and desired risk. There are two broad categories of transactions involving VIEs in the Investment Bank: (1) multi-seller conduits and (2) client intermediation; both are discussed below.

Treasury & Securities Services: Provides trustee and custodial services to a number of VIEs. These services are similar to those provided to non-VIEs. TSS earns market-based fees for services provided.

The Firm's private equity business is involved with entities that may be deemed VIEs. Private equity activities are accounted for in accordance with the Investment Company Audit Guide (Audit Guide). The FASB deferred adoption of FIN 46R for non-registered investment companies that apply the Audit Guide until the proposed Statement of Position on the clarification of the scope of the Audit Guide is finalized. The Firm continues to apply this deferral provision; had FIN 46R been applied to VIEs

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subject to this deferral, the impact would have had an insignificant impact on the Firm's Consolidated financial statements as of September 30, 2004.

Multi-seller conduits

The Firm is an active participant in the asset-backed securities business, where it helps meet customers' financing needs by providing access to the commercial paper markets through VIEs known as multi-seller conduits. These entities are separate bankruptcy-remote corporations in the business of purchasing interests in, and making loans secured by, receivables pools and other financial assets pursuant to agreements with customers. The entities fund their purchases and loans through the issuance of highly-rated commercial paper. The primary source of repayment of the commercial paper is the cash flow from the pools of assets. Investors in the commercial paper have no recourse to the general assets of the Firm. JPMorgan Chase serves as the administrator and provides contingent liquidity support and limited credit enhancement for several multi-seller conduits.

The commercial paper issued by the conduits is backed by sufficient collateral, credit enhancements and commitments to provide liquidity to support receiving at least a liquidity rating of A-1, P-1 and, in certain cases, F1.

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

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

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

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

| | Consolidated | | Nonconsolidated | | Total | |
|--|--------------------------|-----------------------------|--------------------------|--------------------------------|--------------------------|--------------------------------|
| | September 30, 2004 | December 31, 2003 (b) | September 30, 2004 | December 31, 2003 (b)(c) | September 30, 2004 | December 31, 2003 (b)(c) |
| <i>(in billions)</i> | | | | | | |
| Total commercial paper issued by conduits | \$ 34.2 | \$ 6.3 | \$ 9.3 | \$ 5.4 | \$ 43.5 | \$ 11.7 |
| Commitments | | | | | | |
| Asset-purchase agreements | \$ 45.9 | \$ 9.3 | \$ 15.9 | \$ 8.7 | \$ 61.8 | \$ 18.0 |
| Program-wide liquidity commitments | 3.0 | 1.6 | 2.0 | 1.0 | 5.0 | 2.6 |
| Limited credit enhancements | 1.1 | 0.9 | 1.1 | 1.0 | 2.2 | 1.9 |
| Maximum exposure to loss (a) | 46.6 | 9.7 | 16.4 | 9.0 | 63.0 | 18.7 |

(a)

The Firm's maximum exposure to loss is limited to the amount of drawn commitments (i.e., sellers' assets held by the multi-seller conduits for which the Firm provides liquidity support) of \$40.8 billion at September 30, 2004, and \$11.7 billion at December 31, 2003, plus contractual but undrawn commitments of \$22.2 billion at September 30, 2004, and \$7.0 billion at December 31, 2003. Since the Firm provides credit enhancement and liquidity to these multi-seller conduits, the maximum exposure is not adjusted to exclude exposure absorbed by third-party liquidity providers.

(b) Heritage JPMorgan Chase only.

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

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

Additionally, the Firm is involved with a structured investment vehicle (SIV) that funds a diversified portfolio of highly rated assets by issuing commercial paper, medium-term notes and capital. The assets and liabilities of this SIV are included in the Firm's Consolidated balance sheet at September 30, 2004. Assets held by the SIV at September 30, 2004, were approximately \$6.5 billion, of which \$6.1 billion was reported in Available-for-sale securities.

Table of Contents**Client intermediation**

As a financial intermediary, the Firm is involved in structuring VIE transactions to meet investor and client needs. The Firm intermediates various types of risks (including, for example, fixed income, equity and credit), typically using derivative instruments. In certain circumstances, the Firm also provides liquidity and other support to the VIEs to facilitate the transaction. For a basic description of the types of client intermediation VIEs, see pages 104-105 of JPMorgan Chase's 2003 Annual Report.

Assets held by certain client intermediation-related VIEs at September 30, 2004, and December 31, 2003, were as follows:

| <i>(in billions)</i> | September 30, 2004 | H-JPMC Only December 31, 2003 |
|--|-----------------------------------|--|
| Structured wholesale loan vehicles (a) | \$ 3.6 | \$ 5.3 |
| Credit-linked note vehicles (b) | 15.7 | 17.7 |
| Municipal bond vehicles (c) | 6.7 | 5.5 |
| Other client intermediation vehicles (d) | 4.6 | 5.8 |

- (a) JPMorgan Chase was committed to provide liquidity to these VIEs of up to \$5.2 billion and \$8.0 billion at September 30, 2004, and December 31, 2003, respectively, of which \$3.8 billion at September 30, 2004, and \$6.3 billion at December 31, 2003, was in the form of asset purchase agreements. The Firm's maximum exposure to loss to these vehicles at September 30, 2004, and December 31, 2003, was \$3.1 billion and \$5.5 billion, respectively, which reflects the netting of collateral and other program limits.
- (b) The fair value of the Firm's derivative contracts with credit-linked note vehicles was not material at September 30, 2004. Assets of \$2.0 billion and \$2.1 billion reported in the table above were recorded on the Firm's Consolidated balance sheet at September 30, 2004, and December 31, 2003, respectively, due to contractual relationships held by the Firm that relate to collateral held by the VIE.
- (c) For vehicles in which the Firm owns the residual interests, the Firm consolidates the VIE; total amounts consolidated were \$2.5 billion at September 30, 2004 and December 31, 2003, and are reported in the table above. In vehicles where third-party investors own the residual interests, the Firm's exposure is limited. The Firm often serves as remarketing agent for the VIE and provides liquidity to support the remarketing; total liquidity commitments were \$2.1 billion and \$1.8 billion at September 30, 2004, and December 31, 2003, respectively. The Firm's maximum credit exposure to all municipal bond vehicles was \$4.6 billion and \$4.3 billion at September 30, 2004, and December 31, 2003, respectively.
- (d) The Firm structures, on behalf of clients, other client intermediation vehicles in which it transfers the risks and returns of the assets held by the VIE, typically debt and equity instruments, to clients through derivative contracts. The Firm's net exposure arising from these intermediation transactions is not significant.

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

considered significant for disclosure purposes.

Consolidated VIE Assets

The following table summarizes the Firm's total consolidated VIE assets, by classification on the Consolidated balance sheets, as of September 30, 2004, and December 31, 2003:

| <i>(in billions)</i> | September 30, 2004 | H-JPMC Only December 31, 2003 |
|--|-----------------------------------|--|
| Consolidated VIE assets (a) | | |
| Investment securities | \$ 10.0 | \$ 3.8 |
| Trading assets (b) | 4.3 | 2.7 |
| Loans | 3.1 | 1.1 |
| Interests in purchased receivables (c) | 30.3 | 4.7 |
| Other assets | 0.4 | 0.1 |
| Total consolidated VIE assets | \$ 48.1 | \$ 12.4 |

(a) *The Firm also holds \$3.3 billion of assets, primarily as a seller's interest, in certain consumer securitizations in a segregated entity, as part of a two-step securitization transaction. This interest is included in the securitization activities disclosed in Note 12 on pages 73-76 of this Form 10-Q.*

(b) *Includes the market value of securities and derivatives.*

(c) *Represents interest in receivables purchased by Firm-administered conduits which have been consolidated in accordance with FIN 46R.*

The interest-bearing beneficial interest liabilities issued by consolidated VIEs are classified in the line item titled Beneficial interests issued by consolidated variable interest entities. The holders of these beneficial interests do not have recourse to the general credit of JPMorgan Chase.

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Goodwill and other intangible assets consist of the following:

| <i>(in millions)</i> | September 30, 2004 | H-JPMC Only December 31, 2003 |
|---|-----------------------------------|--|
| Goodwill | \$ 42,947 | \$ 8,511 |
| Mortgage servicing rights, net of valuation allowance | 5,168 | 4,781 |
| Purchased credit card relationships | 4,055 | 1,014 |
| All other intangibles: | | |
| Other credit card-related intangibles | \$ 404 | \$ |
| Core deposit intangibles | 3,493 | 8 |
| All other intangibles | 2,048 | 677 |
| Total All other intangibles | \$ 5,945 | \$ 685 |

Goodwill

As of September 30, 2004, goodwill increased by \$34.4 billion compared with December 31, 2003, principally in connection with the Bank One Merger. Goodwill was not impaired at September 30, 2004, or December 31, 2003, nor was any goodwill written off during the three or nine months ended September 30, 2004 or 2003.

Under SFAS 142, goodwill must be allocated to reporting units and tested for impairment. Goodwill by business segment is as follows:

| <i>(in millions)</i> | Goodwill resulting from the Merger, July 1, 2004 | September 30, 2004 | H-JPMC Only December 31, 2003 |
|--------------------------------|---|-------------------------------|--|
| Investment Bank | \$ 1,243 | \$ 3,323 | \$ 2,084 |
| Retail Financial Services | 14,652 | 15,106 | 446 |
| Card Services | 12,800 | 12,800 | |
| Commercial Banking | 2,592 | 2,650 | 61 |
| Treasury & Securities Services | 461 | 2,006 | 1,390 |
| Asset & Wealth Management | 2,536 | 6,685 | 4,153 |
| Corporate (Private Equity) | | 377 | 377 |

| | | | | | | |
|----------------|----|--------|----|--------|----|-------|
| Total Goodwill | \$ | 34,284 | \$ | 42,947 | \$ | 8,511 |
|----------------|----|--------|----|--------|----|-------|

Mortgage servicing rights

For a further description of mortgage servicing rights (MSRs) and interest rate risk management of MSRs, see Note 16 on pages 107-109 of JPMorgan Chase's 2003 Annual Report. The following table summarizes the changes in MSRs during the first nine months of 2004 and 2003:

| <i>(in millions)</i> | Nine months ended September 30, | |
|--|---------------------------------|-----------|
| | 2004 | 2003 |
| Balance at January 1 | \$ 6,159 | \$ 4,864 |
| Other additions | 1,400 | 2,411 |
| Addition resulting from the Merger, July 1 | 90 | |
| Sales | (3) | |
| Other-than-temporary impairment | (32) | (274) |
| Amortization | (974) | (1,078) |
| SFAS 133 hedge valuation adjustments | (804) | (502) |
| Balance at September 30 | 5,836 | 5,421 |
| Less: valuation allowance | 668 | 1,414 |
| Balance at September 30, after valuation allowance | \$ 5,168 | \$ 4,007 |
| Estimated fair value at September 30 | \$ 5,254 | \$ 4,007 |
| Weighted-average prepayment speed assumption | 17.7% CPR | 21.2% CPR |
| Weighted-average discount rate | 7.55% | 7.64% |

(a) 2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.
CPR - constant prepayment rate

JPMorgan Chase uses a combination of derivatives, AFS securities and trading instruments to manage changes in the fair value of MSRs. The intent is to offset any changes in the fair value of MSRs with changes in the fair value of the related risk management instrument. MSRs decrease in value when interest rates decline. Conversely, securities (such as mortgage-backed securities), principal-only certificates, and derivatives (when the Firm receives fixed-rate interest payments) decrease in value when interest rates increase.

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

| <i>(in millions)</i> | Nine months ended September 30, (a) | |
|---|--|-------------|
| | 2004 | 2003 |
| Balance at January 1 | \$ 1,378 | \$ 1,634 |
| Other-than-temporary impairment | (32) | (274) |
| SFAS 140 impairment (recovery) adjustment | (678) | 54 |
| Balance at September 30 | \$ 668 | \$ 1,414 |

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

Other intangible assets

For the nine months ended September 30, 2004, other intangible assets increased by approximately \$8.3 billion, principally, as a result of the Merger. See Note 2 on pages 65-67 of this Form 10-Q for additional information. The increase in intangibles included \$510 million of indefinite lived intangibles, which are not amortized, but instead are tested for impairment at least annually. The remainder of the Firm's other acquired intangible assets are subject to amortization.

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

| <i>(in millions)</i> | September 30, 2004 | | | Heritage JPMC Only December 31, 2003 | | |
|---------------------------------------|---------------------------|---------------------------------|---------------------------|---|---------------------------------|---------------------------|
| | Gross Amount | Accumulated Amortization | Net Carrying Value | Gross Amount | Accumulated Amortization | Net Carrying Value |
| Purchased credit card relationships | \$ 5,225 | \$ 1,170 | \$ 4,055 | \$ 1,885 | \$ 871 | \$ 1,014 |
| Other credit-card related intangibles | 419 | 15 | 404 | | | |
| Core deposit intangibles | 3,797 | 304 | 3,493 | 147 | 139 | 8 |
| All other intangibles | 2,405 | 357(a) | 2,048 | 946 | 269 | 677 |

| <i>(in millions)</i> | Three months ended September 30, | | Nine months ended September 30, (c) | |
|----------------------|---|-----------------|--|-------------|
| | 2004 | 2003 (b) | 2004 | 2003 |

Amortization expense

| | | | | | | | | |
|---------------------------------------|----|------------|----|----|----|------------|----|-----|
| Purchased credit card relationships | \$ | 179 | \$ | 64 | \$ | 299 | \$ | 192 |
| Other credit card-related intangibles | | 15 | | | | 15 | | |
| Core deposit intangibles | | 164 | | 1 | | 165 | | 5 |
| All other intangibles | | 38 | | 8 | | 75 | | 23 |
| Total amortization expense | \$ | 396 | \$ | 73 | \$ | 554 | \$ | 220 |

(a) Includes \$13 million of amortization expense related to servicing assets on securitized automobile loans, which is recorded in Asset management, administration and commissions, for the nine months ended September 30, 2004.

(b) Heritage JPMorgan Chase only.

(c) 2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.

Future amortization expense

The following table presents estimated amortization expense related to credit card relationships, core deposits and All other intangible assets at September 30, 2004:

| (in millions) | Purchased credit card relationships | Other credit card- related intangibles | Core deposit intangibles | All other intangibles | | | | |
|-------------------------|---|---|-----------------------------|--------------------------|----|------------|----|-----------|
| Year ended December 31, | | | | | | | | |
| 2004 (a) | \$ | 177 | \$ | 15 | \$ | 165 | \$ | 41 |
| 2005 | | 702 | | 59 | | 622 | | 155 |
| 2006 | | 673 | | 57 | | 531 | | 143 |
| 2007 | | 604 | | 52 | | 403 | | 126 |
| 2008 | | 501 | | 48 | | 294 | | 118 |
| 2009 | | 360 | | 44 | | 239 | | 114 |

(a) Excludes \$299 million, \$15 million, \$165 million and \$75 million of amortization expense related to purchased credit card relationships, other credit card-related intangibles, core deposit intangibles and All other intangibles, respectively, recognized during the first nine months of 2004.

Table of Contents**NOTE 15 EARNINGS PER SHARE**

For a discussion of the computation of basic and diluted earnings per share (EPS), see Note 22 on page 112 of JPMorgan Chase's 2003 Annual Report. The following table presents the calculation of basic and diluted EPS for the three and nine months ended September 30, 2004 and 2003:

| <i>(in millions, except per share data)</i> | Three months ended Sept. 30, | | Nine months ended Sept. 30, | |
|---|-------------------------------------|-----------------|------------------------------------|-----------------|
| | 2004 | 2003 (a) | 2004 | 2003 (b) |
| Basic earnings per share | | | | |
| Net income | \$ 1,418 | \$ 1,628 | \$ 2,800 | \$ 4,855 |
| Less: preferred stock dividends | 13 | 13 | 39 | 38 |
| Net income applicable to common stock | \$ 1,405 | \$ 1,615 | \$ 2,761 | \$ 4,817 |
| Weighted-average basic shares outstanding | 3,513.5 | 2,012.2 | 2,533.1 | 2,006.0 |
| Net income per share | \$ 0.40 | \$ 0.80 | \$ 1.09 | \$ 2.40 |
| Diluted earnings per share | | | | |
| Net income applicable to common stock | \$ 1,405 | \$ 1,615 | \$ 2,761 | \$ 4,817 |
| Weighted-average basic shares outstanding | 3,513.5 | 2,012.2 | 2,533.1 | 2,006.0 |
| Additional shares issuable upon exercise of stock options for dilutive effect | 78.5 | 56.0 | 65.4 | 41.0 |
| Weighted-average diluted shares outstanding | 3,592.0 | 2,068.2 | 2,598.5 | 2,047.0 |
| Net income per share (c) | \$ 0.39 | \$ 0.78 | \$ 1.06 | \$ 2.35 |

(a) *Heritage JPMorgan Chase only.*

(b) *2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.*

(c) *Options issued under employee benefit plans to purchase 207 million and 320 million shares of common stock were outstanding for the three months ended September 30, 2004 and 2003, respectively, but were not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of the common shares.*

NOTE 16 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

| <i>(in millions)</i> | Unrealized gains (losses) on AFS securities (a) | Translation adjustment | Cash flow hedges | Accumulated other comprehensive income (loss) |
|---|--|-------------------------------|-------------------------|--|
| Nine months ended September 30, 2004 | | | | |
| Balance at January 1, 2004 | \$ 19 | \$ (6) | \$ (43) | \$ (30) |

| | | | | | | | | |
|--|----|----------|----|--------|----|----------|----|---------|
| Net change during period (b) | | (88)(c) | | (2)(d) | | (122)(f) | | (212) |
| Balance at September 30, 2004 | \$ | (69) | \$ | (8)(e) | \$ | (165) | \$ | (242) |
| Nine months ended September 30, 2003 (g) | | | | | | | | |
| Balance at January 1, 2003 | \$ | 731 | \$ | (6) | \$ | 502 | \$ | 1,227 |
| Net change during period | | (678)(c) | | (d) | | (362)(f) | | (1,040) |
| Balance at September 30, 2003 | \$ | 53 | \$ | (6)(e) | \$ | 140 | \$ | 187 |

- (a) Represents the after-tax difference between the fair value and amortized cost of the AFS securities portfolio and retained interests in securitizations recorded in Other assets.
- (b) Includes three months of combined Firm's activity and six months of heritage JPMorgan Chase activity.
- (c) The net change for the nine months ended September 30, 2004, is primarily due to increasing rates. The net change for the nine months ended September 30, 2003, was primarily due to increasing rates and the recognition of gains on sales of AFS Securities.
- (d) At September 30, 2004 and 2003, included \$(31) million and \$303 million, respectively, of after-tax gains (losses) on foreign currency translation from operations for which the functional currency is other than the U.S. dollar, offset by \$29 million and \$(303) million, respectively, of after-tax gains (losses) on hedges.
- (e) Includes after-tax gains and losses on foreign currency translation, including related hedge results from operations for which the functional currency is other than the U.S. dollar.
- (f) The net change for the nine months ended September 30, 2004, included \$36 million of after-tax losses recognized in income and \$158 million of after-tax losses representing the net change in derivative fair values that were recorded in comprehensive income. The net change for the nine months ended September 30, 2003, included \$479 million of after-tax gains recognized in income and \$117 million of after-tax gains representing the net change in derivative fair values that were reported in comprehensive income.
- (g) Heritage JPMorgan Chase only.

Table of Contents**NOTE 17 COMMITMENTS AND CONTINGENCIES****Litigation reserve**

At June 30, 2004, JPMorgan Chase recorded a \$3.7 billion (pre-tax) addition to the Litigation reserve. While the outcome of litigation is inherently uncertain, the addition reflects management's assessment of the appropriate reserve level in light of all currently known information. Management reviews litigation reserves periodically, and the reserve may be increased or decreased in the future to reflect further developments. The Firm believes it has meritorious defenses to claims asserted against it and intends to continue to defend itself vigorously, litigating or settling cases, according to management's judgment as to what is in the best interest of stockholders. For a further discussion of legal proceedings, see Part II, Item 1, Legal Proceedings, of this Form 10-Q.

NOTE 18 ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The majority of JPMorgan Chase's derivatives are entered into for trading purposes. The Firm also uses derivatives as an end-user to hedge market exposures, modify the interest rate characteristics of related balance sheet instruments or meet longer-term investment objectives. Both trading and end-user derivatives are recorded in trading assets and liabilities. For a further discussion of the Firm's use of derivative instruments, see pages 58-61 and Note 28 on pages 116-117 of JPMorgan Chase's 2003 Annual Report.

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

| <i>(in millions)</i> | Three months ended | | Nine months ended September | |
|---|---------------------------|-----------------|------------------------------------|-------------|
| | September 30, | | 30, (b) | |
| | 2004 | 2003 (a) | 2004 | 2003 |
| Fair value hedge ineffective net gains (losses) (c) | \$ (53) | \$ (277) | \$ (282) | \$ 243 |
| Cash flow hedge ineffective net gains (losses) (c) | (1) | (2) | (2) | (2) |

(a) *Heritage JPMorgan Chase only.*

(b) *2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.*

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

Over the next 12 months, it is expected that \$49 million (after-tax) of net losses recorded in Other comprehensive income at September 30, 2004, will be recognized in earnings. The maximum length of time over which forecasted transactions are hedged is 10 years, related to core lending and borrowing activities.

NOTE 19 OFF BALANCE SHEET LENDING-RELATED FINANCIAL INSTRUMENTS AND GUARANTEES

For a discussion of off-balance sheet lending-related financial instruments and guarantees and the Firm's related accounting policies, see Note 29 on pages 117-119 of JPMorgan Chase's 2003 Annual Report.

To provide for the risk of loss inherent in wholesale-related contracts, an Allowance for credit losses on lending-related commitments is maintained. See pages 51-53 of this Form 10-Q for a further discussion on the Allowance for credit losses on lending-related commitments.

The following table summarizes the contractual amounts of off balance sheet lending-related financial instruments and guarantees and the related allowance for credit losses on lending-related commitments at September 30, 2004, and December 31, 2003:

Off balance sheet lending-related financial instruments

| <i>(in millions)</i> | Contractual amount | | Allowance for lending-related commitments | |
|---|---------------------------|------------------------------|--|------------------------------|
| | September 30, 2004 | December 31, 2003 (a) | September 30, 2004 | December 31, 2003 (a) |
| Consumer-related | \$ 593,345 | \$ 181,198 | \$ 12 | \$ 4 |
| Wholesale-related: | | | | |
| Other unfunded commitments to extend credit (b)(c)(d) | 217,173 | 172,369 | 201 | 153 |
| Standby letters of credit and guarantees (b)(e) | 92,356 | 34,922 | 325 | 165 |
| Other letters of credit (b) | 6,417 | 4,192 | 3 | 2 |
| Total wholesale-related | 315,946 | 211,483 | 529 | 320 |
| Total | \$ 909,291 | \$ 392,681 | \$ 541 | \$ 324 |
| Customers securities lent (f) | \$ 187,765 | \$ 143,143 | NA | NA |

(a) *Heritage JPMorgan Chase only.*

(b) *Represents contractual amount net of risk participations totaling \$29.4 billion and \$16.5 billion at September 30, 2004, and December 31, 2003, respectively.*

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- (c) *Includes unused advised lines of credit totaling \$20 billion at September 30, 2004, and \$19 billion at December 31, 2003, which are not legally binding. In regulatory filings with the Federal Reserve Board, unused advised lines are not reportable.*
- (d) *Includes certain asset purchase agreements to the Firm's administered multi-seller asset-backed commercial paper conduits of \$31.0 billion and \$11.7 billion at September 30, 2004, and December 31, 2003, respectively; excludes \$30.8 billion at September 30, 2004, and \$6.3 billion at December 31, 2003, of asset purchase agreements related to the Firm's administered multi-seller asset-backed commercial paper conduits consolidated in accordance with FIN 46R, as the underlying assets of the conduits are reported in the Firm's Consolidated balance sheets. It also includes \$8.3 billion at September 30, 2004, and \$9.2 billion at December 31, 2003, of asset purchase agreements to structured commercial loan vehicles and other third-party entities. The allowance for credit losses on lending-related commitments related to these agreements was insignificant at September 30, 2004, and December 31, 2003.*
- (e) *The Firm held collateral relating to \$7.7 billion of these arrangements at both September 30, 2004 and December 31, 2003.*
- (f) *Collateral held by the Firm in support of these agreements was \$192.7 billion at September 30, 2004, and \$146.7 billion at December 31, 2003.*

For a discussion of the off balance sheet lending arrangements which the Firm considers to be guarantees under FIN 45, see pages 117-118 of JPMorgan Chase's 2003 Annual Report. The amount of the liability related to guarantees recorded at September 30, 2004, and December 31, 2003, excluding the allowance for credit losses on lending-related commitments and derivative contracts discussed below, was approximately \$325 million and \$59 million, respectively.

In addition to the contracts noted above, there are certain derivative contracts to which the Firm is a counterparty that meet the characteristics of a guarantee under FIN 45. For a description of the derivatives the Firm considers to be guarantees, see Note 29 on pages 117-119 of JPMorgan Chase's 2003 Annual Report. These derivatives are recorded on the Consolidated balance sheets at fair value. The total notional values of the derivatives that the Firm deems to be guarantees were \$52 billion and \$50 billion at September 30, 2004, and December 31, 2003, respectively. The fair values related to these contracts at September 30, 2004, were a derivative receivable of \$177 million and a derivative payable of \$755 million. The fair values of these contracts at December 31, 2003, were a derivative receivable of \$163 million and a derivative payable of \$333 million.

NOTE 20 BUSINESS SEGMENTS

JPMorgan Chase is organized into seven major businesses: the Investment Bank, Retail Financial Services, Card Services, Commercial Banking, Treasury & Securities Services, Asset & Wealth Management and Corporate. These businesses are segmented based on the products and services provided, or the type of customer served, and they reflect the manner in which financial information is currently evaluated by management. Results of these lines of business are presented on an operating basis. For a definition of operating basis, see the Glossary of Terms on pages 88-89 of this Form 10-Q. For a further discussion concerning JPMorgan Chase's business segments, see Business Segment Results on pages 11-37 of this Form 10-Q.

In connection with the Merger, business segment reporting was realigned to reflect the new business structure of the combined Firm. Global Treasury was transferred from the Investment Bank into Corporate. Treasury & Securities Services remains unchanged. Investment Management & Private Banking has been renamed Asset & Wealth Management. JPMorgan Partners, which formerly was a stand-alone business segment, was moved into Corporate. The segment formerly known as Chase Financial Services was comprised of Chase Home Finance, Cardmember Services, Chase Auto Finance, Chase Regional Banking and Chase Middle Market. As a result of the Merger, this

segment is now called Retail Financial Services, and is now comprised of Home Finance, Auto and Education Finance, Consumer and Small Business Banking and Insurance. Chase Middle Market moved into Commercial Banking, and Chase Cardmember Services is now its own segment called Card Services. Lastly, Corporate is currently comprised of Global Treasury and Private Equity, formerly JPMorgan Partners, and support units including technology, legal, internal audit, finance, human resources, risk management, real estate management, procurement, executive management and marketing groups.

Segment results, which are presented on an operating basis, reflect revenues on a tax-equivalent basis. The tax-equivalent gross-up for each business segment is based upon the level, type and tax jurisdiction of the earnings and assets within each business segment. The amount of the tax-equivalent gross-up for each business segment is eliminated within the Support Units and Corporate segment and was \$(106) million and \$(115) million for the three months ended September 30, 2004 and 2003, respectively.

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The following table provides a summary of the Firm's segment results for the three and nine months ended September 30, 2004 and 2003. Segment results for periods prior to the third quarter of 2004 have been restated to reflect the new business segments and reporting classifications.

| <i>(in millions, except ratios)</i> | Retail | | Card Services | Commercial Banking | Treasury & Securities Services | Asset & Wealth Management | Corporate/ Reconciling Items (a) | Total |
|--|--------------------|-----------------------|------------------|-----------------------|---|------------------------------------|--|-----------|
| | Investment Bank | Financial Services | | | | | | |
| Three months ended September 30, 2004 | | | | | | | | |
| Operating revenue (b) | \$ 2,701 | \$ 3,800 | \$ 3,771 | \$ 833 | \$ 1,339 | \$ 1,193 | \$ (86) | \$ 13,551 |
| Intersegment revenue (b) | (111) | (17) | 7 | 25 | 61 | 21 | 14 | |
| Income tax expense | 344 | 501 | 251 | 124 | 44 | 111 | (372) | 1,003 |
| Operating earnings (loss) (c) | 627 | 822 | 421 | 215 | 96 | 197 | (219) | 2,159 |
| Average equity (d) | 20,000 | 13,050 | 11,800 | 3,400 | 1,900 | 2,400 | 51,819 | 104,369 |
| Average managed assets | 496,347 | 227,716 | 136,753 | 55,957 | 24,831 | 39,882 | 204,884 | 1,186,370 |
| Return on average equity (d) (e) | 12% | 25% | 14% | 25% | 20% | 33% | NM | 8% |

| <i>(in millions, except ratios)</i> | Retail | | Card Services | Commercial Banking | Treasury & Securities Services | Asset & Wealth Management | Corporate/ Reconciling Items (a) | Total |
|--|--------------------|-----------------------|------------------|-----------------------|---|------------------------------------|--|----------|
| | Investment Bank | Financial Services | | | | | | |
| Three months ended September 30, 2003 | | | | | | | | |
| Operating revenue (b) | \$ 2,792 | \$ 1,529 | \$ 1,565 | \$ 341 | \$ 906 | \$ 760 | \$ 358 | \$ 8,251 |
| Intersegment revenue (b) | (66) | (7) | (2) | 6 | 52 | 20 | (3) | |
| Income tax expense | 449 | 104 | 110 | 44 | 53 | 47 | (5) | 802 |
| Operating earnings (loss) (c) | 693 | 181 | 199 | 63 | 115 | 85 | 292 | 1,628 |
| Average equity (d) | 17,949 | 4,422 | 3,422 | 1,050 | 2,627 | 5,539 | 8,122 | 43,131 |
| Average managed assets | 434,911 | 155,247 | 51,442 | 16,775 | 17,564 | 33,290 | 105,694 | 814,923 |
| Return on average equity (d) (e) | 15% | 16% | 23% | 24% | 17% | 6% | NM | 15% |

| <i>(in millions, except ratios)</i> | Retail | | Card Services | Commercial Banking | Treasury & Securities Services | Asset & Wealth Management | Corporate/ Reconciling Items (a) | Total |
|-------------------------------------|--------------------|-----------------------|------------------|-----------------------|---|------------------------------------|--|-------|
| | Investment Bank | Financial Services | | | | | | |

**Nine months ended
September 30, 2004**

| | | | | | | | | |
|---------------------------|----------|----------|----------|----------|----------|----------|---------|-----------|
| Operating revenue (b) | \$ 9,404 | \$ 7,246 | \$ 6,915 | \$ 1,489 | \$ 3,444 | \$ 2,869 | \$ 785 | \$ 32,152 |
| Intersegment revenue (b) | (287) | (25) | 9 | 59 | 174 | 67 | 3 | |
| Income tax expense | 1,324 | 841 | 439 | 223 | 131 | 230 | (303) | 2,885 |
| Operating earnings (loss) | | | | | | | | |
| (c) | 2,288 | 1,424 | 759 | 354 | 295 | 418 | 357 | 5,895 |
| Average equity (d) | 16,380 | 7,764 | 6,200 | 1,654 | 2,761 | 4,406 | 26,660 | 65,825 |
| Average managed assets | 452,714 | 171,585 | 80,211 | 29,921 | 21,715 | 36,765 | 150,294 | 943,205 |
| Return on average equity | | | | | | | | |
| (d) (e) | 19% | 24% | 16% | 29% | 14% | 13% | NM | 12% |

| (in millions, except ratios) | Retail | | Treasury & Securities | | Asset & Corporate/Reconciling | | (a) | Total |
|---|-----------------|--------------------|-------------------------|----------|-------------------------------|----------|---------|-----------|
| | Investment Bank | Financial Services | Car/Commercial Services | Banking | Wealth Management | Items | | |
| Nine months ended September 30, 2003 | | | | | | | | |
| Operating revenue (b) | \$ 9,786 | \$ 5,706 | \$ 4,529 | \$ 1,012 | \$ 2,628 | \$ 2,125 | \$ 900 | \$ 26,686 |
| Intersegment revenue (b) | (186) | (15) | (5) | 16 | 131 | 84 | (25) | |
| Income tax expense | 1,198 | 714 | 283 | 153 | 132 | 107 | (123) | 2,464 |
| Operating earnings (loss) | | | | | | | | |
| (c) | 1,996 | 1,242 | 510 | 218 | 299 | 181 | 409 | 4,855 |
| Average equity (d) | 19,074 | 4,095 | 3,453 | 1,103 | 2,737 | 5,521 | 6,604 | 42,587 |
| Average managed assets | 434,717 | 146,425 | 51,380 | 16,658 | 17,828 | 33,657 | 106,458 | 807,123 |
| Return on average equity | | | | | | | | |
| (d) (e) | 14% | 41% | 20% | 26% | 15% | 4% | NM | 15% |

- (a) Corporate/Reconciling Items includes Global Treasury, Private Equity, Support Units and the net effect of management accounting policies.
- (b) Operating revenue includes Intersegment revenue, which includes intercompany revenue and revenue-sharing agreements, net of intersegment expenses.
- (c) For the consolidated financial statements, there are no reconciling items between Operating earnings and Net income in 2003.
- (d) Average common stockholders' equity at the consolidated level is equivalent to the average equity at the segment level.
- (e) Based on annualized net income amounts.

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The following table provides a reconciliation of the Firm's operating earnings to net income:

| <i>(in millions)</i> | Three months ended | | Nine months ended September | |
|----------------------------------|---------------------------|----------|------------------------------------|----------|
| | September 30, | | 30, (b) | |
| | 2004 | 2003 (a) | 2004 | 2003 |
| Consolidated operating earnings | \$ 2,159 | \$ 1,628 | \$ 5,895 | \$ 4,855 |
| Merger costs (c) | (462) | | (522) | |
| Litigation reserve charge (c) | | | (2,294) | |
| Accounting policy conformity (c) | (279) | | (279) | |
| Consolidated net income (loss) | \$ 1,418 | \$ 1,628 | \$ 2,800 | \$ 4,855 |

(a) *Heritage JPMorgan Chase only.*

(b) *2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.*

(c) *Represents the after-tax amounts of the Firm's Merger costs, Litigation reserve charge and Accounting policy conformity adjustments, which are excluded from the operating basis, as management believes these items are not part of the Firm's normal daily business operations and, therefore, not indicative of trends, and also that they do not provide meaningful comparisons with other periods.*

The following table provides a reconciliation of the Firm's reported revenue to operating revenue:

| <i>(in millions)</i> | Three months ended | | Nine months ended September | |
|----------------------------------|---------------------------|----------|------------------------------------|-----------|
| | September 30, | | 30, (b) | |
| | 2004 | 2003 (a) | 2004 | 2003 |
| Reported revenue | \$ 12,505 | \$ 7,780 | \$ 30,147 | \$ 25,278 |
| Credit card securitizations (c) | 928 | 471 | 1,887 | 1,408 |
| Accounting policy conformity (d) | 118 | | 118 | |
| Operating revenue | \$ 13,551 | \$ 8,251 | \$ 32,152 | \$ 26,686 |

(a) *Heritage JPMorgan Chase only.*

(b) *2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.*

(c) *Represents the impact of credit card securitizations. For securitized receivables, amounts that normally would be reported as Net interest income and as Provision for credit losses are reported as noninterest revenue.*

(d) *Represents the pre-tax amount of the Firm's accounting policy conformity adjustments, which are excluded from the operating basis, as management believes this item is not part of the Firm's normal daily business operations and, therefore, not indicative of trends, and that they also do not provide meaningful comparisons with other periods.*

The following table provides a reconciliation of the Firm's consolidated average assets to average managed assets:

| <i>(in millions)</i> | Three months ended September | | Nine months ended September | |
|-------------------------------------|-------------------------------------|-----------------|------------------------------------|-----------------|
| | 2004 | 2003 (a) | 2004 | 2003 (b) |
| Average assets | \$ 1,117,335 | \$ 782,426 | \$ 897,978 | \$ 775,122 |
| Average credit card securitizations | 69,035 | 32,497 | 45,227 | 32,001 |
| Average managed assets | \$ 1,186,370 | \$ 814,923 | \$ 943,205 | \$ 807,123 |

(a) *Heritage JPMorgan Chase only.*

(b) *2004 year-to-date results include three months of the combined Firm's results and six months of heritage JPMorgan Chase results, while 2003 year-to-date results include heritage JPMorgan Chase only.*

Table of Contents**CONSOLIDATED AVERAGE BALANCE SHEET, INTEREST AND RATES**

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

| | Third Quarter 2004 | | | Heritage JPMC Only Third Quarter 2003 | | |
|---|--------------------|----------|----------------------|--|----------|----------------------|
| | Average Balance | Interest | Rate (Annualized) | Average Balance | Interest | Rate (Annualized) |
| ASSETS | | | | | | |
| Deposits with Banks | \$ 34,166 | \$ 131 | 1.53% | \$ 10,163 | \$ 24 | 0.93% |
| Federal Funds Sold and Securities Purchased under Resale Agreements | 102,042 | 474 | 1.85 | 89,865 | 344 | 1.52 |
| Securities Borrowed | 47,087 | 120 | 1.01 | 40,019 | 72 | 0.71 |
| Trading Assets Debt and Equity Instruments | 170,663 | 1,991 | 4.64 | 138,829 | 1,492 | 4.27 |
| Securities: Available-for-sale | 94,590 | 1,045 | 4.39(a) | 74,778 | 883 | 4.68(a) |
| Held-to-maturity | 130 | 3 | 10.02 | 254 | 4 | 6.25 |
| Interests in purchased receivables | 28,917 | 119 | 1.63 | 11,862 | 31 | 1.04 |
| Loans | 390,753 | 5,664 | 5.77 | 225,646 | 3,000 | 5.27 |
| Total Interest-Earning Assets | 868,348 | 9,547 | 4.37 | 591,416 | 5,850 | 3.92 |
| Allowance for loan losses | (7,450) | | | (5,077) | | |
| Cash and Due from Banks | 30,773 | | | 17,017 | | |
| Trading Assets Derivative Receivables | 59,232 | | | 81,496 | | |
| Other Assets | 166,432 | | | 97,574 | | |
| Total assets | \$ 1,117,335 | | | \$ 782,426 | | |
| LIABILITIES | | | | | | |
| Interest-Bearing Deposits | \$ 365,104 | \$ 1,503 | 1.64 | \$ 221,539 | \$ 789 | 1.41 |
| Federal Funds Purchased and Securities Sold under Repurchase Agreements | 163,206 | 626 | 1.52 | 148,132 | 481 | 1.29 |
| Commercial Paper | 12,497 | 47 | 1.49 | 13,088 | 33 | 1.00 |
| Other Borrowings (b) | 84,387 | 906 | 4.27 | 72,191 | 923 | 5.08 |
| Beneficial interests issued by consolidated VIEs | 43,308 | 171 | 1.58 | 19,791 | 46 | 0.92 |
| Long-Term Debt | 101,060 | 788 | 3.10 | 48,685 | 369 | 3.01 |
| Total Interest-Bearing Liabilities | 769,562 | 4,041 | 2.09 | 523,426 | 2,641 | 2.00 |
| Noninterest-Bearing Deposits | 120,991 | | | 84,353 | | |

| | | | | |
|---|---------------------|--------------|-----------------|-------|
| Trading Liabilities | | | | |
| Derivative Payables | 51,387 | | 64,800 | |
| All Other Liabilities, Including the Allowance for Lending-Related Commitments | 70,017 | | 65,707 | |
| Total Liabilities | 1,011,957 | | 738,286 | |
| STOCKHOLDERS | | | | |
| EQUITY | | | | |
| Preferred Stock | 1,009 | | 1,009 | |
| Common Stockholders Equity | 104,369 | | 43,131 | |
| Total Stockholders Equity | 105,378 | | 44,140 | |
| Total Liabilities, Preferred Stock of Subsidiary and Stockholders Equity | \$ 1,117,335 | | \$ 782,426 | |
| INTEREST RATE | | | | |
| SPREAD | | | | |
| | | 2.28% | | 1.92% |
| NET INTEREST INCOME | | | | |
| AND NET YIELD ON | | | | |
| INTEREST-EARNING | | | | |
| ASSETS | | | | |
| | \$ 5,506 | 2.52% | \$ 3,209 | 2.15% |

(a) For the three months ended September 30, 2004 and 2003, the annualized rate for available-for-sale securities based on amortized cost was 6.41% and 4.63%, respectively.

(b) Includes securities sold but not yet purchased.

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

| | Nine months ended September 30, 2004 | | | H-JPMC Only Nine months ended September 30, 2003 | | |
|---|--------------------------------------|-----------------|----------------------|--|----------|----------------------|
| | Average Balance | Interest (a) | Rate (Annualized) | Average Balance | Interest | Rate (Annualized) |
| ASSETS | | | | | | |
| Deposits with Banks | \$ 27,560 | \$ 331 | 1.60% | \$ 9,075 | \$ 129 | 1.91% |
| Federal Funds Sold and Securities Purchased under Resale Agreements | 90,601 | 1,095 | 1.61 | 84,745 | 1,171 | 1.85 |
| Securities Borrowed | 49,966 | 303 | 0.81 | 40,283 | 248 | 0.82 |
| Trading Assets Debt and Equity Instruments | 163,559 | 5,459 | 4.46 | 146,278 | 4,949 | 4.52 |
| Securities: Available-for-sale | 74,171 | 2,440 | 4.39(c) | 81,686 | 2,833 | 4.64(c) |
| Held-to-maturity | 191 | 9 | 6.46 | 318 | 17 | 7.30 |
| Interests in purchased receivables | 10,552 | 130 | 1.64 | 3,997 | 31 | 1.04 |
| Loans | 277,428 | 11,050 | 5.32 | 220,529 | 8,937 | 5.42 |
| Total Interest-Earning Assets | 694,028 | 20,817 | 4.01 | 586,911 | 18,315 | 4.17 |
| Allowance for loan losses | (5,363) | | | (5,299) | | |
| Cash and Due from Banks | 23,494 | | | 17,512 | | |
| Trading Assets Derivative Receivables | 57,151 | | | 87,595 | | |
| Other Assets | 128,668 | | | 88,403 | | |
| Total assets | \$ 897,978 | | | \$ 775,122 | | |
| LIABILITIES | | | | | | |
| Interest-Bearing Deposits | \$ 286,071 | \$ 3,125 | 1.46 | \$ 224,279 | \$ 2,807 | 1.67 |
| Federal Funds Purchased and Securities Sold under Repurchase Agreements | 154,669 | 1,522 | 1.31 | 167,735 | 1,786 | 1.42 |
| Commercial Paper | 13,308 | 113 | 1.13 | 13,419 | 118 | 1.17 |
| Other Borrowings (b) | 81,722 | 2,698 | 4.41 | 68,069 | 2,607 | 5.12 |
| Beneficial interests issued by consolidated VIEs | 20,253 | 248 | 1.64 | 6,671 | 46 | 0.92 |
| Long-Term Debt | 70,663 | 1,595 | 3.02 | 47,978 | 1,121 | 3.12 |
| Total Interest-Bearing Liabilities | 626,686 | 9,301 | 1.98 | 528,151 | 8,485 | 2.15 |
| Noninterest-Bearing Deposits | 93,487 | | | 78,485 | | |
| | 49,701 | | | 68,347 | | |

| | | | | | |
|---|------------|-------------------|--------------|-----------------|--------------|
| Trading Liabilities | Derivative | | | | |
| Payables | | | | | |
| All Other Liabilities, Including the Allowance for Lending-Related Commitments | | 61,270 | | 56,543 | |
| Total Liabilities | | 831,144 | | 731,526 | |
| STOCKHOLDERS | | | | | |
| EQUITY | | | | | |
| Preferred Stock | | 1,009 | | 1,009 | |
| Common Stockholders | Equity | 65,825 | | 42,587 | |
| Total Stockholders | Equity | 66,834 | | 43,596 | |
| Total Liabilities, Preferred Stock of Subsidiary and Stockholders | Equity | \$ 897,978 | | \$ 775,122 | |
| INTEREST RATE SPREAD | | | | | |
| NET INTEREST INCOME | | | | | |
| AND NET YIELD ON | | | | | |
| INTEREST-EARNING | | | | | |
| ASSETS | | | | | |
| | | \$ 11,516 | 2.22% | \$ 9,830 | 2.24% |

- (a) Includes three months of the combined Firm's activity and six months of heritage JPMorgan Chase activity.
- (b) Includes securities sold but not yet purchased.
- (c) For the nine months ended September 30, 2004 and 2003, the annualized rate for available-for-sale securities based on amortized cost was 4.36% and 4.68%, respectively.

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GLOSSARY OF TERMS

AICPA: American Institute of Certified Public Accountants.

Assets under management: Represent assets actively managed by Asset & Wealth Management on behalf of institutional, private banking, private client services and retail clients.

Assets under supervision: Represent assets under management as well as custody, brokerage, administration and deposit accounts.

Average managed assets: Refers to total assets on the Firm's balance sheet plus credit card receivables that have been securitized.

bp: Denotes basis points; 100 bp equals 1%.

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

Credit risk: Risk of loss from obligor or counterparty default.

Criticized: An indication of credit quality based on JPMorgan Chase's internal risk assessment system. Criticized assets generally represent a risk profile similar to a rating of a CCC+/Caa1 or lower, as defined by the independent rating agencies.

EITF: Emerging Issues Task Force.

EITF Issue 03-1: The Meaning of Other-than-temporary Impairment and Its Application to Certain Investments.

EITF Issue 04-10: Applying Paragraph 19 of FASB Statement No. 131, Disclosures About Segments of an Enterprise and Related Information, in Determining Whether to Aggregate Operating Segments that do not Meet the Quantitative Thresholds.

FASB: Financial Accounting Standards Board.

FASB Staff Position (FSP) EITF Issue 03-1-1: Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, The Meaning of Other-than-temporary Impairment and Its Application to Certain Investments.

FIN 39: FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts.

FIN 45: FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirement for Guarantees, including Indirect Guarantees of Indebtedness of Others.

FIN 46R: FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51.

Foreign exchange contracts: Contracts that provide for the future receipt and delivery of foreign currency at previously agreed-upon terms.

FSP FAS 106-2: Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

H-JPMC: Represents heritage JPMorgan Chase, prior to the merger with Bank One Corporation effective July 1, 2004.

Interest rate options: These instruments, including caps and floors, are contracts to modify interest rate risk in exchange for the payment of a premium when the contract is initiated. A writer of interest rate options receives a premium in exchange for bearing the risk of unfavorable changes in interest rates. Conversely, a purchaser of an option pays a premium for the right, but not the obligation, to buy or sell a financial instrument or currency at predetermined terms in the future.

Investment-grade: An indication of credit quality based on JPMorgan Chase's internal risk assessment system. Investment-grade generally represents a risk profile similar to a rating of a BBB-/Baa3 or better, as defined by independent rating agencies.

Liquidity risk: The risk of being unable to fund a portfolio of assets at appropriate maturities and rates, and the risk of being unable to liquidate a position in a timely manner at a reasonable price.

Managed credit card receivables: Refers to credit card receivables on the Firm's balance sheet plus credit card receivables that have been securitized.

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Mark-to-market exposure: A measure, at a point in time, of the value of a derivative or foreign exchange contract in the open market. When the mark-to-market value is positive, it indicates the counterparty owes JPMorgan Chase and, therefore, creates a repayment risk for the Firm. When the mark-to-market value is negative, JPMorgan Chase owes the counterparty. In this situation, the Firm does not have repayment risk.

Market risk: The potential loss in value of portfolios and financial instruments caused by movements in market variables, such as interest and foreign exchange rates, credit spreads, and equity and commodity prices.

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

NA: Data is not available for the period presented.

Net yield on interest-earning assets: The average rate for interest-earning assets less the average rate paid for all sources of funds.

NM: Not meaningful.

Operating (Managed) Basis or Operating Earnings: In addition to analyzing the Firm's results on a reported basis, management looks at 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, the operating basis includes the reclassification of net interest income related to trading activities to Trading revenue. In the case of Card Services, operating or managed basis excludes the impact of credit card securitizations. These adjustments do not change JPMorgan Chase's reported net income. Finally, operating basis excludes the Merger costs, the Litigation reserve charge and accounting policy conformity adjustments related to the Merger, as management believes these items are not part of the Firm's normal daily business operations (and, therefore, not indicative of trends), and do not provide meaningful comparisons with other periods.

Operational risk: The risk of loss resulting from inadequate or failed processes or systems, human factors or external events.

Overhead ratio: Noninterest expense as a percentage of total net revenue.

SFAS: Statement of Financial Accounting Standards.

SFAS 114: Accounting by Creditors for Impairment of a Loan.

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

SFAS 133: Accounting for Derivative Instruments and Hedging Activities.

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

SFAS 142: Goodwill and Other Intangible Assets.

Staff Accounting Bulletin (SAB) 105: Application of Accounting Principles to Loan Commitments.

Statement of Position (SOP) 03-3: Accounting for Certain Loans or Debt Securities Acquired in a Transfer.

Stress testing: A scenario that measures market risk under unlikely but plausible events in abnormal markets.

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

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

Value-at-Risk (VAR): A measure of the dollar amount of potential loss from adverse market moves in an ordinary market environment.

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Item 3 Quantitative and Qualitative Disclosures about Market Risk

For a discussion of the quantitative and qualitative disclosures about market risk, see the Market Risk Management section of the MD&A on pages 54-56 of this Form 10-Q.

Item 4 Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of the Firm's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934). See Exhibits 31.1, 31.2 and 31.3 for the Certification statements issued by the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer. Based upon that evaluation, the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective. No significant changes were made in the Firm's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Table of Contents**Part II OTHER INFORMATION****Item 1 Legal Proceedings**

Enron litigation. JPMorgan Chase is involved in a number of lawsuits and investigations arising out of its banking relationships with Enron Corp. and its subsidiaries (Enron). A lawsuit in London by the Firm against Westdeutsche Landesbank Girozentrale (WLB) sought to compel payment of \$165 million under an Enron-related letter of credit issued by WLB. The trial of that action was conducted in June and July 2004, and on August 3, 2004, the Court issued its decision in favor of JPMorgan Chase and ruled that WLB must pay the letter of credit in full. That order has become final.

Actions involving Enron have been initiated by parties against JPMorgan Chase, its directors and certain of its officers. These lawsuits include a series of purported class actions brought on behalf of shareholders of Enron, including the lead action captioned *Newby v. Enron Corp.*, and a series of purported class actions brought on behalf of Enron employees who participated in various employee stock ownership plans, including the lead action captioned *Tittle v. Enron Corp.* The consolidated complaint filed in *Newby* names as defendants, among others, JPMorgan Chase, several other investment banking firms, a number of law firms, Enron s former accountants and affiliated entities and individuals, and other individual defendants, including present and former officers and directors of Enron; it purports to allege claims against JPMorgan Chase and the other defendants under federal and state securities laws. The *Tittle* complaint named as defendants, among others, JPMorgan Chase, several other investment banking firms, a law firm, Enron s former accountants and affiliated entities and individuals, and other individual defendants, including present and former officers and directors of Enron; it purports to allege claims against JPMorgan Chase and certain other defendants under the Racketeer Influenced and Corrupt Organizations Act (RICO) and state common law. On December 20, 2002, the Court denied the motion of JPMorgan Chase and other defendants to dismiss the *Newby* action, and the *Newby* trial is scheduled to commence in October 2006. On September 30, 2003, Judge Harmon dismissed all claims against JPMorgan Chase in *Tittle*.

Additional actions include: a purported, consolidated class action lawsuit by JPMorgan Chase stockholders alleging that the Firm issued false and misleading press releases and other public documents relating to Enron in violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder; putative class actions on behalf of JPMorgan Chase employees who participated in the Firm s employee stock ownership plans alleging claims under the Employee Retirement Income Security Act (ERISA) for alleged breaches of fiduciary duties and negligence by JPMorgan Chase, its directors and named officers; shareholder derivative actions alleging breaches of fiduciary duties and alleged failures to exercise due care and diligence by the Firm s directors and named officers in the management of JPMorgan Chase; individual and putative class actions in various courts by Enron investors, creditors and holders of participating interests related to syndicated credit facilities; third-party actions brought by defendants in Enron-related cases, alleging federal and state law claims against JPMorgan Chase and many other defendants; investigations by governmental agencies with which the Firm is cooperating; and an adversary proceeding brought by Enron in bankruptcy court seeking damages for alleged aiding and abetting breaches of fiduciary duty by Enron insiders, return of alleged fraudulent conveyances and preferences, and equitable subordination of JPMorgan Chase s claims in the Enron bankruptcy.

By joint order of the district court handling *Newby*, *Tittle* and a number of other Enron-related cases and the bankruptcy court handling Enron s bankruptcy case, a mediation among various investors and creditor plaintiffs, the Enron bankruptcy estate and a number of financial institution defendants, including JPMorgan Chase, has been initiated before The Honorable William C. Conner, Senior United States District Judge for the Southern District of New York.

On July 28, 2003, the Firm announced that it had reached agreements with the Securities and Exchange Commission (SEC), the Federal Reserve Bank of New York (FRB), the New York State Banking Department (NYSBD) and the New York County District Attorney s Office (NYDA) resolving matters relating to JPMorgan Chase s involvement with certain transactions involving Enron. In connection with these settlements, JPMorgan Chase has committed to take certain measures to improve controls with respect to structured finance transactions. The agreement with the FRB and NYSBD, a formal written agreement, requires JPMorgan Chase to adopt programs acceptable to the FRB and the NYSBD for enhancing the Firm s management of credit risk and legal and reputational risk, particularly in relation to its participation in structured finance transactions.

WorldCom litigation. J.P. Morgan Securities Inc. (JPMSI) and JPMorgan Chase were named as defendants in more than 50 actions that were filed in U.S. District Courts, in state courts in more than 20 states, and in one arbitral panel beginning in July 2002, arising out of alleged accounting irregularities in the books and records of WorldCom Inc. Plaintiffs in these actions are individual and institutional investors, including state pension funds, who purchased debt securities issued by WorldCom pursuant to public offerings in 1997, 1998, 2000 and 2001. JPMSI acted as an underwriter of the 1998, 2000 and 2001 offerings and was an initial purchaser in the December 2000 private bond offering. In addition to JPMSI, JPMorgan Chase and, in two actions, J.P. Morgan Securities Ltd. (JPMSL), in its capacity as one of the underwriters of the international tranche of the 2001 offering, the defendants in various of the actions include other underwriters, certain executives of WorldCom and WorldCom s auditors. In the actions, plaintiffs allege that defendants knew, or were reckless or negligent in not knowing, that the securities were sold to plaintiffs on the basis of misrepresentations and omissions of material facts concerning the financial condition and business of WorldCom. The complaints against JPMorgan Chase, JPMSI and JPMSL assert claims under federal and state securities laws, under other state statutes and under common law theories of fraud and negligent misrepresentation. A trial date of late February 2005 has been set for the class actions pending in the U.S. District Court for the Southern District of New York.

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Commercial Financial Services litigation. JPMSI (formerly known as Chase Securities Inc.) has been named as a defendant in several actions that were filed in or transferred to the U.S. District and Bankruptcy Courts for the Northern District of Oklahoma or filed in Oklahoma state court beginning in October 1999, arising from the failure of Commercial Financial Services, Inc. (CFSI). Plaintiffs in these actions are institutional investors who purchased approximately \$2.0 billion (original face amount) of asset-backed securities issued by CFSI. The securities were backed by charged-off credit card receivables. In addition to JPMSI, the defendants in various of the actions are the founders and key executives of CFSI, as well as its auditors and outside counsel. JPMSI is alleged to have been the investment bankers to CFSI and to have acted as an initial purchaser and placement agent in connection with the issuance of certain of the securities. Plaintiffs allege that defendants knew, or were reckless or negligent in not knowing, that the securities were sold to plaintiffs on the basis of misleading misrepresentations and omissions of material facts. The complaints against JPMSI assert claims under the Securities Exchange Act of 1934, under the Oklahoma Securities Act and under common-law theories of fraud and negligent misrepresentation. In the actions against JPMSI, damages in the amount of approximately \$1.6 billion, allegedly suffered as a result of defendants misrepresentations and omissions, plus punitive damages and interest, are being claimed. CFSI has commenced an action against JPMSI in Oklahoma state court and has asserted claims against JPMSI for professional negligence and breach of fiduciary duty. CFSI alleges that JPMSI failed to detect and prevent its insolvency. CFSI seeks unspecified damages. CFSI also has commenced, in its bankruptcy case, an adversary proceeding against JPMSI and its credit card affiliate, Chase Manhattan Bank USA, N.A., alleging that certain payments, aggregating \$78.4 million, made in connection with CFSI s purchase or securitization of charged-off credit card receivables were constructive fraudulent conveyances, and it seeks to recover such payments and interest. A trial date on the adversary proceeding has been set for April 2005.

IPO allocation litigation. Beginning in May 2001, JPMorgan Chase and certain of its securities subsidiaries were named, along with numerous other firms in the securities industry, as defendants in a large number of putative class action lawsuits filed in the U.S. District Court for the Southern District of New York. These suits purport to challenge alleged improprieties in the allocation of stock in various public offerings, including some offerings for which a JPMorgan Chase entity served as an underwriter. The suits allege violations of securities and antitrust laws arising from alleged material misstatements and omissions in registration statements and prospectuses for the initial public offerings (IPOs) and alleged market manipulation with respect to aftermarket transactions in the offered securities. The securities claims allege, among other things, misrepresentation and market manipulation of the aftermarket trading for these offerings by tying allocations of shares in IPOs to undisclosed excessive commissions paid to JPMorgan Chase and to required aftermarket purchase transactions by customers who received allocations of shares in the respective IPOs, as well as allegations of misleading analyst reports. The antitrust claims allege an illegal conspiracy to require customers, in exchange for IPO allocations, to pay undisclosed and excessive commissions and to make aftermarket purchases of the IPO securities at a price higher than the offering price as a precondition to receiving allocations. The securities cases were all assigned to one judge for coordinated pre-trial proceedings, and the antitrust cases were all assigned to another judge. On February 13, 2003, the Court denied the motions of JPMorgan Chase and others to dismiss the securities complaints. On October 13, 2004, the Court granted in part plaintiffs motion to certify classes in six focus cases in the securities litigation, and the underwriter defendants have petitioned to appeal that decision. On November 3, 2003, the Court granted defendants motion to dismiss the antitrust claims relating to the IPO allocation practices, and that decision is on appeal. A separate antitrust claim alleging that JPMSI and the other underwriters conspired to fix their underwriting fees is in discovery.

JPMorgan Chase also has received various subpoenas and informal requests from governmental and other agencies seeking information relating to IPO allocation practices. On February 20, 2003, JPMSI reached a settlement with the National Association of Securities Dealers (NASD), pursuant to which the NASD censured JPMSI and fined it \$6 million for activities it found to constitute unlawful profit-sharing by Hambrecht & Quist Group in the period immediately prior to and following its acquisition in 2000. In agreeing to the resolution of the charges, JPMSI neither admitted nor denied the NASD s contentions. In late September 2003, JPMSI and the SEC agreed to resolve matters

relating to the SEC's investigation of JPMSI's IPO allocation practices during 1999 and 2000. The SEC alleged that JPMSI violated Rule 101 of SEC Regulation M in certain "hot" IPOs by attempting to induce certain customers to place aftermarket orders for IPO shares before the IPO was completed. Also, in the case of one IPO, the SEC alleged that JPMSI violated "just and equitable principles of trade" under NASD Conduct Rule 2110 by persuading at least one customer to accept an allocation of shares in a "cold" IPO in exchange for a promise of an allocation of shares in an upcoming IPO that was expected to be oversubscribed. JPMSI neither admitted nor denied the SEC's allegations but consented to a judgment (entered October 1, 2003) enjoining JPMSI from future violations of Regulation M and NASD Conduct Rule 2110 and requiring JPMSI to pay a civil penalty of \$25 million.

Research analyst conflicts. On December 20, 2002, the Firm reached a settlement agreement in principle with the SEC, the NASD, the New York Stock Exchange ("NYSE"), the New York State Attorney General's Office and the North American Securities Administrators Association, on behalf of state securities regulators, to resolve their investigations of JPMorgan Chase relating to research analyst independence. Pursuant to the agreement in principle, JPMorgan Chase, without admitting or denying the allegations concerning alleged conflicts, agreed, among other things: (i) to pay \$50 million for retrospective relief, (ii) to adopt internal structural and operational reforms that will further augment the steps it has already taken to ensure the integrity of JPMorgan Chase analyst research, (iii) to contribute \$25 million spread over five years to provide independent third-party research to clients and (iv) to contribute \$5 million towards investor education. Mutually satisfactory settlement documents have been

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negotiated and approved by the SEC, the NYSE, the NASD and the regulatory authorities in all states. On October 31, 2003, the Court entered final judgment pursuant to the settlement with the SEC.

JPMSI has been named as a co-defendant with nine other broker-dealers in two actions involving allegations similar to those at issue in the regulatory investigations: a putative class action filed in federal court in Colorado, seeking an unspecified amount of money damages for alleged violations of federal securities laws; and an action filed in West Virginia state court by West Virginia's Attorney General, seeking recovery from the defendants in the aggregate of \$5,000 for each of what are alleged to be hundreds of thousands of violations of the state's consumer protection statute. On August 8, 2003, the plaintiffs in the Colorado action dismissed the complaint without prejudice. In West Virginia, the court denied defendants' motion to dismiss and certified the question for appeal to the West Virginia state court. A motion to disqualify private counsel retained by the Attorney General to prosecute that action is pending.

JPMSI was served by the SEC, NASD and NYSE on or about May 30, 2003, with subpoenas or document requests seeking information regarding certain present and former officers and employees in connection with a follow-up to the regulatory investigations, this time focusing on whether particular individuals properly performed supervisory functions regarding domestic equity research. These regulators have also raised issues regarding JPMSI's document retention procedures and policies. The Firm has been notified that the regulators intend to pursue a books and records charge against it concerning email that its heritage entities could not retrieve for the period prior to July 2001. The Firm is engaged in negotiations to resolve the investigation without resort to litigation.

National Century Financial Enterprises litigation. JPMorgan Chase, JPMorgan Chase Bank, JPMorgan Partners, Beacon Group, LLC and three current or former Firm employees have been named as defendants in 13 actions filed in or transferred to the United States District Court for the Southern District of Ohio. In seven of these actions Bank One, Bank One, N.A., and Banc One Capital Markets, Inc. are also named as defendants. These actions arose out of the November 2002 bankruptcy of National Century Financial Enterprises, Inc. and various of its affiliates ("NCFE"). Prior to bankruptcy, NCFE provided financing to various healthcare providers through wholly-owned special-purpose vehicles, including NPF VI and NPF XII, which purchased discounted accounts receivable to be paid under third-party insurance programs. NPF VI and NPF XII financed the purchases of such receivables primarily through private placements of notes ("Notes") to institutional investors and pledged the receivables for, among other things, the repayment of the Notes. JPMorgan Chase Bank is sued in its role as indenture trustee for NPF VI, which issued approximately \$1 billion in Notes. Bank One, N.A. is sued in its role as indenture trustee for NPF XII, which issued approximately \$2 billion in Notes. The three current or former Firm employees are sued in their roles as former members of NCFE's board of directors (the "Defendant Employees"). JPMorgan Chase, JPMorgan Partners and Beacon Group, LLC, are claimed to be vicariously liable for the alleged actions of the Defendant Employees. Banc One Capital Markets, Inc. is sued in its role as co-manager for three note offerings made by NPF XII. Other defendants include the founders and key executives of NCFE, its auditors and outside counsel, and rating agencies and placement agents that were involved with the issuance of the Notes. Plaintiffs in these actions include institutional investors who purchased more than \$2.7 billion in original face amount of asset-backed securities issued by NCFE. Plaintiffs allege that the trustees violated fiduciary and contractual duties, improperly permitted NCFE and its affiliates to violate the applicable indentures and violated securities laws by (among other things) failing to disclose the true nature of the NCFE arrangements. Plaintiffs further allege that the Defendant Employees controlled the Board and audit committees of the NCFE entities, were fully aware or negligent in not knowing of NCFE's alleged manipulation of its books and are liable for failing to disclose their purported knowledge of the alleged fraud to the plaintiffs. Plaintiffs also allege that Banc One Capital Markets, Inc. is liable for cooperating in the sale of securities based on false and misleading statements. Motions to dismiss on behalf of the JPMorgan Chase entities, the Bank One entities and the Defendant Employees are currently pending.

Mutual fund litigation: On June 29, 2004, Banc One Investment Advisors ("BOIA") entered into a settlement with the New York Attorney General and the SEC related to alleged market timing in the One Group mutual funds. Under the

settlement, BOIA paid \$10 million in restitution and fee disgorgement plus a civil penalty of \$40 million. BOIA also agreed to reduce fees over a 5-year period in the amount of \$8 million per year, consented to a cease-and-desist order and a censure, and agreed to undertake certain compliance and mutual fund governance reforms. Additionally, JPMorgan Chase, Bank One, and certain subsidiaries and officers have been named, along with numerous other entities related to the mutual fund industry, as defendants in private party litigation arising out of alleged late trading and market timing in mutual funds. The actions have been filed in or transferred to U.S. District Court in Baltimore, Maryland. Certain plaintiffs allege that BOIA and related entities and officers allowed favored investors to market time and late trade in the One Group mutual funds. These complaints include a purported class action on behalf of One Group shareholders alleging claims under federal securities laws and common law; a purported derivative suit on behalf of the One Group funds under the Investment Company Act, the Investment Advisers Act and common law; and a purported class action on behalf of participants and beneficiaries of the Bank One Corporation 401(k) plan, alleging claims under the Employee Retirement Income Security Act.

On September 29, 2004, certain other plaintiffs in the federal action in Baltimore, Maryland filed amended complaints which included JPMorgan Chase and JPMSI as defendants. The amended complaints allege that JPMorgan Chase and JPMSI, with several co-defendants including Bank of America, Bank of America Securities, Canadian Imperial Commerce Bank, Bear Stearns,

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and CFSB provided financing to Canary Capital which was used to engage in the market timing and late trading. JPMorgan Chase and JPMSI allegedly knowingly financed the market timing and late trading by Canary Capital and Edward Stern, and knowingly created short position equity baskets to allow Canary to profit from trading in a falling market.

Certain JPMorgan Chase subsidiaries have also received various subpoenas and information requests relating to market timing and late trading in mutual funds from various governmental and other agencies, including the SEC, the NASD, the U.S. Department of Labor, the Attorneys General of West Virginia and Vermont, and regulators in the United Kingdom, Luxembourg, Republic of Ireland, Chile and Hong Kong. The Firm is fully cooperating with these investigations.

On September 2, 2004, the NASD advised Bank One Securities Corporation (BOSC) that the staff had made a preliminary determination to recommend disciplinary action against BOSC for failure to establish and maintain a supervisory system and written procedures reasonably designed to detect and prevent late trading in mutual fund transactions, resulting in violations of NASD rules and the Securities Exchange Act. BOSC and the NASD have engaged in negotiations to resolve this investigation without resort to litigation.

Bank One Securities Litigation. Bank One and several former officers and directors are defendants in three class actions and one individual action arising out of the mergers between Banc One Corporation (Banc One) and First Commerce Corporation (First Commerce) and Banc One Corporation and First Chicago NBD Corporation (FCNBD). These actions were filed in 2000 and are pending in the United States District Court for the Northern District of Illinois in Chicago under the general caption, *In re Bank One Securities Litigation*. The cases were filed after Bank One's earnings announcements in August and November 1999 that lowered Bank One's earnings expectations for the third and fourth quarter 1999. Following the announcements, Bank One's stock price had dropped by 37.7% as of November 10, 1999.

Two of these class actions were brought by representatives of FCNBD shareholders and Banc One shareholders, respectively, alleging certain misrepresentations and omissions of material fact made in connection with the merger between FCNBD and Banc One that was completed in October 1998. There is also an individual lawsuit proceeding in connection with that same merger. A third class action was filed by another individual plaintiff representing shareholders of First Commerce alleging certain misrepresentations and omissions of material fact made in connection with the merger between Banc One and First Commerce, which was completed in June 1998. All of these plaintiff groups claim that as a result of various misstatements or omissions regarding payment processing issues at First USA Bank, N.A., a wholly-owned subsidiary of Banc One, and as a result of the use of various accounting practices, the price of Banc One common stock was artificially inflated, causing their shareholders to acquire shares of the Company's common stock in the merger at an exchange rate that was artificially deflated. The complaints against Bank One and the individual defendants assert claims under federal securities laws. Fact discovery, with limited exceptions, closed in December 2003. The parties are in the middle of expert discovery, which is scheduled to close in March 2005.

In addition to the various cases, proceedings and investigations discussed above, JPMorgan Chase and its subsidiaries are named as defendants in a number of other legal actions and governmental proceedings arising in connection with their respective businesses. Additional actions, investigations or proceedings may be brought from time to time in the future. In view of the inherent difficulty of predicting the outcome of legal matters, particularly where the claimants seek very large or indeterminate damages, or where the cases present novel legal theories, involve a large number of parties, or are in early stages of discovery, the Firm cannot state with confidence what the eventual outcome of these pending matters will be, what the timing of the ultimate resolution of these matters will be or what the eventual loss, fines or penalties related to each pending matter may be. Subject to the foregoing caveat, JPMorgan Chase anticipates, based upon its current knowledge, after consultation with counsel and after taking into account its litigation reserves,

that the outcome of the legal actions, proceedings and investigations currently pending against it should not have a material adverse effect on the consolidated financial condition of the Firm, although the outcome of a particular proceeding or the imposition of a particular fine or penalty may be material to JPMorgan Chase's operating results for a particular period, depending upon, among other factors, the size of the loss or liability and the level of JPMorgan Chase's income for that period.

Table of Contents**Item 2 Unregistered Sales of Equity Securities and Use of Proceeds**

During the third quarter of 2004, shares of common stock of JPMorgan Chase & Co. were issued in transactions exempt from registration under the Securities Act of 1933 pursuant to Section 4(2) thereof. Shares of common stock were issued to retired directors who had deferred receipt of such common stock pursuant to the Deferred Compensation Plan for Non-Employee Directors as follows: July 1, 2004, 1,431 shares. Shares of common stock were issued to retired employees who had deferred receipt of such common shares pursuant to the Corporate Performance Incentive Plan as follows: July 12, 2004, 13,143 shares.

On July 20, 2004, the Board of Directors approved an initial stock repurchase program in the aggregate amount of \$6.0 billion. This amount includes shares to be repurchased to offset issuances under the Firm's employee equity-based plans. The actual amount of shares repurchased will be subject to various factors, including market conditions; legal considerations affecting the amount and timing of repurchase activity; the Firm's capital position (taking into account purchase accounting adjustments); internal capital generation; and alternative potential investment opportunities.

The Firm's repurchases of equity securities were as follows:

| | Total open market shares repurchased (a) | Average price paid per share | Dollar value of remaining authorized repurchase program (in millions) |
|-----------------------|---|---|---|
| July 2004 | | \$ | \$ 6,000 |
| August 2004 | 137,700 | 36.77 | 5,995 |
| September 2004 | 3,360,000 | 39.54 | 5,862 |
| Total | 3,497,700 | \$ 39.15 | |

(a) *In addition to the open market repurchase program, under the Long-Term Incentive Plan and Stock Option Plan, recipients are given the option of having shares withheld to cover income taxes. Shares of restricted stock withheld under the plans to pay income taxes are treated as share repurchases and were as follows for the quarter ended September 30, 2004: July 2004-725,131 shares at an average price per share of \$38.07; August 2004-110,758 shares at an average price per share of \$37.03; and September 2004-159,797 shares at an average price per share of \$39.43.*

Item 3 Defaults Upon Senior Securities

None

Item 4 Submission of Matters to a Vote of Security Holders

None

Item 5 Other Information

None

Item 6 Exhibits

- 31.1 Certification
- 31.2 Certification
- 31.3 Certification
- 32 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

JPMORGAN CHASE &
CO.
(Registrant)

Date: November 9,
2004

By /s/ Joseph L. Sclafani

Joseph L. Sclafani

Executive Vice President and
Controller
[Principal Accounting Officer]

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INDEX TO EXHIBITS
SEQUENTIALLY NUMBERED

| EXHIBIT NO. | EXHIBITS | PAGE AT WHICH LOCATED |
|--------------------|-----------------|------------------------------|
| 31.1 | Certification | 98 |
| 31.2 | Certification | 99 |
| 31.3 | Certification | 100 |

The following exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that Section. In addition, Exhibit No. 32 shall not be deemed incorporated into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

| | | |
|----|---|-----|
| 32 | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | 101 |
|----|---|-----|