

Management Commentary Analysis Report - JPMC

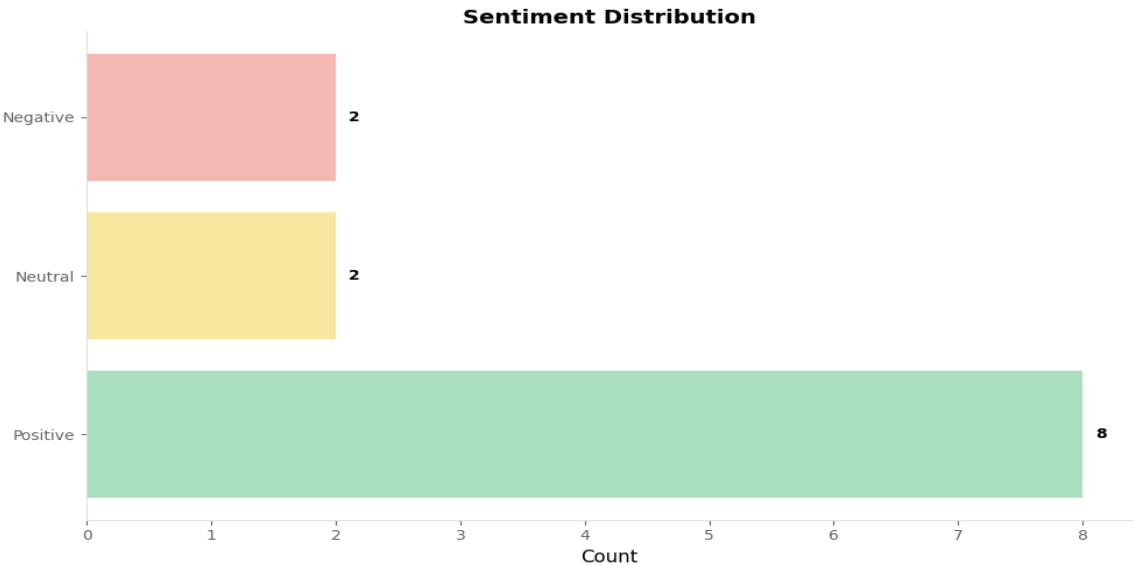
Executive Summary

Overall Sentiment	Confidence Level
Positive	High

Summary:

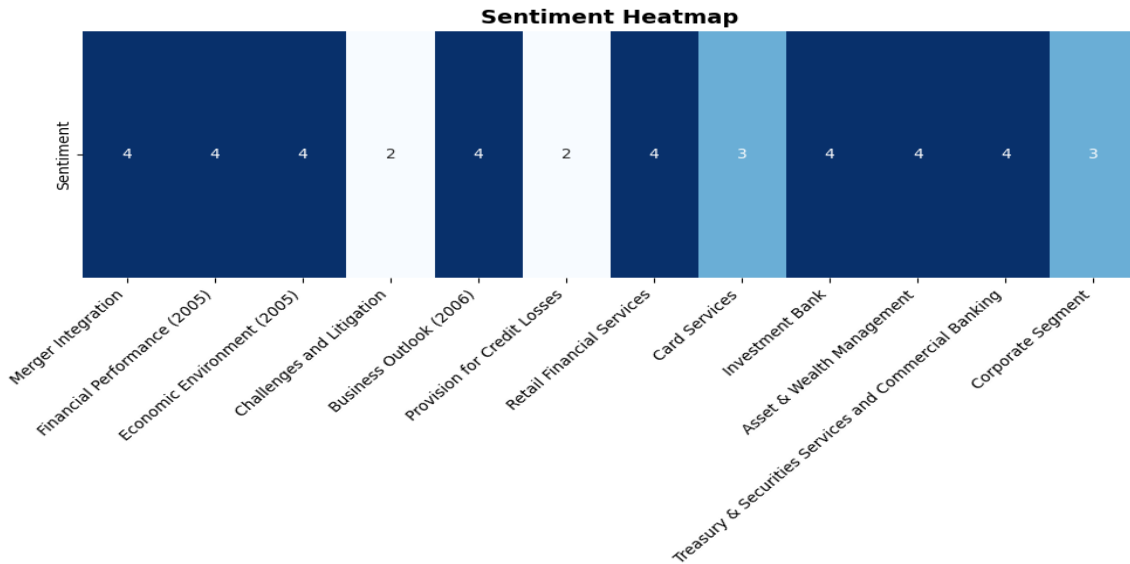
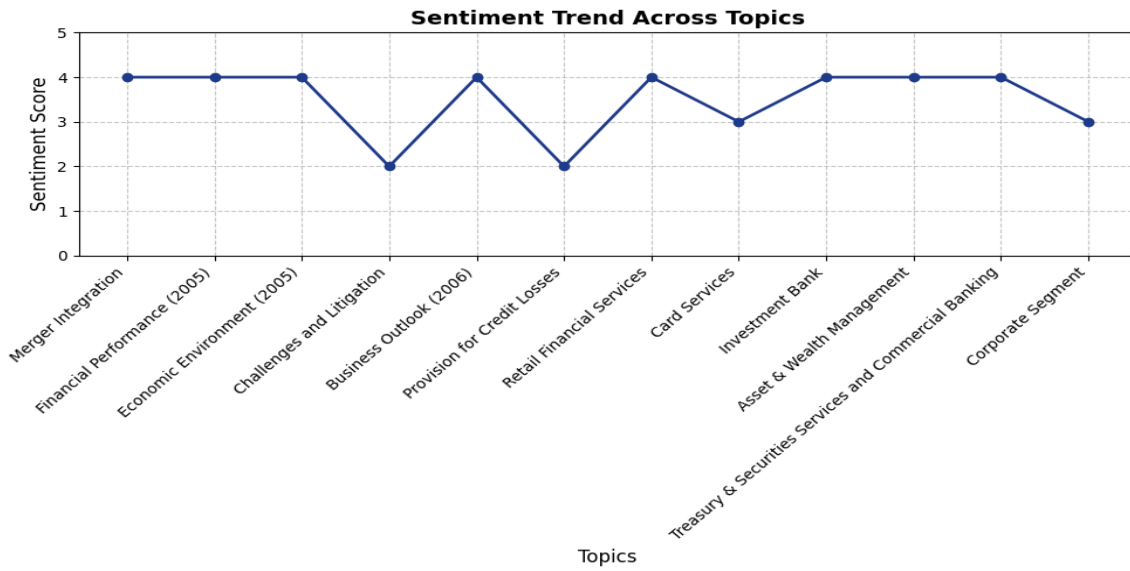
The management commentary reflects a positive outlook, driven by merger synergies, economic expansion, and strong capital markets activity in 2005. While challenges like litigation charges and interest rate pressures existed, the firm achieved significant earnings growth and anticipates further progress in 2006.

Topic Analysis



Challenges and Litigation





Topic	Sentiment	Confidence
Merger Integration	Positive	High
Financial Performance (2005)	Positive	High
Economic Environment (2005)	Positive	High
Challenges and Litigation	Negative	Medium
Business Outlook (2006)	Positive	Medium
Provision for Credit Losses	Negative	Medium
Retail Financial Services	Positive	Medium
Card Services	Neutral	Medium

Investment Bank	Positive	Medium
Asset & Wealth Management	Positive	Medium
Treasury & Securities Services and Corporate Commercial Banking	Positive	Medium
Corporate Segment	Neutral	Low

Detailed Topic Insights

Merger Integration

Sentiment: Positive (Confidence: High)

Key Statements:

- In 2005, the Firm successfully completed a number of milestones in the execution of its Merger integration plan.
- These accomplishments resulted in continued efficiencies from the Merger, and the Firm made significant progress toward reaching the merger-related savings target of approximately \$3.0 billion by the end of 2007.
- The Firm realized approximately \$1.5 billion of merger savings in 2005, bringing estimated cumulative savings to \$1.9 billion, and the annualized run-rate of savings entering 2006 is approximately \$2.2 billion.

Investor Implications:

The successful merger integration suggests operational efficiencies and cost reductions that will likely continue to benefit the company's bottom line, enhancing profitability and potentially leading to increased shareholder value.

Financial Performance (2005)

Sentiment: Positive (Confidence: High)

Key Statements:

- The Firm reported 2005 net income of \$8.5 billion, or \$2.38 per share, compared with net income of \$4.5 billion, or \$1.55 per share, for 2004.
- The return on common equity was 8% compared with 6% in 2004.

Investor Implications:

Significant improvement in net income and return on equity indicates strong financial health and operational effectiveness. Investors may see this as a signal of future growth potential, potentially driving stock price appreciation.

Economic Environment (2005)

Sentiment: Positive (Confidence: High)

Key Statements:

- In 2005, both the U.S. and global economies continued to expand.
- Capital markets activity was very strong during 2005, with debt and equity underwriting and merger and acquisition activity surpassing 2004 levels.
- The U.S. consumer sector showed continued strength buoyed by overall economic strength, which benefited from good levels of employment and retail sales that increased versus the prior year.

Investor Implications:

A favorable economic climate provides a supportive backdrop for JPMorgan Chase's operations across various business segments, creating opportunities for revenue growth and profitability. This reduces risks related to loan defaults and market downturns.

Challenges and Litigation

Sentiment: Negative (Confidence: Medium)

Key Statements:

- Results included \$2.0 billion in after-tax charges, or \$0.57 per share, which included nonoperating litigation charges of \$1.6 billion and Merger costs of \$448 million.
- Enron litigation settlement... settled, for \$2.2 billion... WorldCom litigation settlement... for \$2.0 billion

Investor Implications:

Significant litigation charges negatively impacted earnings, highlighting potential risks and uncertainties. While these events may be one-time, investors should monitor for future legal and regulatory challenges that could affect profitability.

Business Outlook (2006)

Sentiment: Positive (Confidence: Medium)

Key Statements:

- JPMorgan Chase's outlook for 2006 should be viewed against the backdrop of the global economy, financial markets and the geopolitical environment, all of which are integrally linked.
- While the Firm considers outcomes for, and has contingency plans to respond to, stress environments, the basic outlook for 2006 is predicated on the interest rate movements implied in the forward rate curve for U.S. treasuries, the continuation of favorable U.S. and international equity markets and continued expansion of the global economy.

Investor Implications:

The outlook relies on continued favorable market conditions. Investors should be aware of potential risks arising from interest rate fluctuations, geopolitical events, and changes in economic growth. Success depends on factors outside the firm's direct control.

Provision for Credit Losses

Sentiment: Negative (Confidence: Medium)

Key Statements:

- The Provision for credit losses in 2006 is anticipated to be higher than in 2005, primarily driven by a trend toward a more normal level of provisioning for credit losses in the wholesale businesses.
- The consumer Provision for credit losses in 2006 should reflect generally stable underlying asset quality. However, it is anticipated that the first half of 2006 will experience lower credit card net charge-offs... The second half of 2006 is expected to include increased credit card delinquencies and net charge-offs...

Investor Implications:

An expected increase in provisions for credit losses suggests potential deterioration in asset quality, particularly in the wholesale business. The anticipated rise in credit card delinquencies may signal weakening consumer credit trends, impacting future profitability.

Retail Financial Services

Sentiment: Positive (Confidence: Medium)

Key Statements:

- Retail Financial Services anticipates benefiting from the expanded branch network and salesforce, and improved sales productivity and cross-selling in the branches, partially offset by pressure on loan and deposit spreads due to the higher interest rate environment.
- The acquisition of Collegiate Funding Services is expected to contribute modestly to earnings in 2006.

Investor Implications:

Expansion of retail banking network and workforce could lead to future revenue growth. However, the impact of rising interest rates must be considered.

Card Services

Sentiment: Neutral (Confidence: Medium)

Key Statements:

- Card Services anticipates that managed receivables will grow in line with the overall credit card industry, benefiting from marketing initiatives, new partnerships and the acquisition of the Sears Canada credit card business.
- Revenues and expenses also will reflect the full-year impact of the Paymentech deconsolidation and the acquisition of the Sears Canada credit card business.

Investor Implications:

Expected growth in line with industry averages suggests moderate growth potential. Full integration of Paymentech deconsolidation and Sears Canada business should be considered, but no significant immediate impact to future performance.

Investment Bank

Sentiment: Positive (Confidence: Medium)

Key Statements:

- The Investment Bank enters 2006 with a strong investment banking fee pipeline and continues to focus on new product expansion initiatives, such as commodities and securitized products, which are intended to benefit growth and reduce volatility in trading results over time.
- Compared with 2005, the Investment Bank anticipates lower credit portfolio revenues due to reduced gains from loan workouts.

Investor Implications:

Strong pipeline indicates revenue growth, but lower credit portfolio revenues temper expectations. Diversification efforts may contribute to more stable profitability.

Asset & Wealth Management

Sentiment: Positive (Confidence: Medium)

Key Statements:

- Asset & Wealth Management anticipates continued growth driven by continued net inflows to Assets under supervision.

Investor Implications:

Continued growth driven by net inflows is expected, suggesting improved capital markets and strong investment performance.

Treasury & Securities Services and Commercial Banking

Sentiment: Positive (Confidence: Medium)

Key Statements:

- Treasury & Securities Services and Commercial Banking expect growth due to increased business activity and product sales.

Investor Implications:

Expectations for increased business activity and product sales is expected, suggesting improved capital markets and strong investment performance.

Corporate Segment

Sentiment: Neutral (Confidence: Low)

Key Statements:

- The revenue outlook for the Private Equity business is directly related to the strength of the equity markets and the performance of the under-lying portfolio investments. If current market conditions persist, the Firm anticipates continued realization of private equity gains in 2006, but results can be volatile from quarter to quarter.

Investor Implications:

Revenue heavily reliant on equity market performance is expected, suggesting improved capital markets and strong investment performance. However, revenue will experience a lot of volatility.