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2007 BancAnalysts Association of Boston Conference

# Agenda

- RFS financial results
- Home equity credit
- Home lending opportunity
- Branch banking update

# Retail Financial Services results

## Financial results (\$mm)

	YTD 3Q06	YTD 3Q07	\$0/(U)
Revenue <sup>1</sup>	\$11,097	\$12,664	\$1,567
Credit Costs Expense <sup>1</sup>	299	1,559	(1,260)
	<u>6,636</u>	<u>7,360</u>	<u>(724)</u>
Net Income	\$2,495	\$2,283	(\$212)
Regional Banking	\$2,265	\$1,930	(\$335)
Mortgage	(\$51)	\$107	\$158
Auto Finance	\$281	\$246	(\$35)
ROE	24%	19%	
Overhead (ex. CDI)	57%	55%	

## Credit Costs (\$mm)

	YTD 3Q06	YTD 3Q07	\$0/(U)
Net Charge-offs	\$362	\$805	(\$443)
Increase in Allowance	(63)	754	(817)
Total	\$299	\$1,559	(\$1,260)

## Comments

- 2007 includes impact of BNY
- Revenue growth of 14% driven by:
  - Regional Banking up 7%
  - Mortgage Production up 68%
- Credit costs increased due to home equity and subprime mortgage
- Expense growth reflects:
  - Increased production and sales
  - Investment in retail distribution

<sup>1</sup> As a result of the adoption of SFAS 159 ("Fair Value Option") certain loan origination costs commenced being recorded as expense in 1Q07

# HOME EQUITY CREDIT

# Consumer real estate exposure

## Balances

	Balances EOP (\$B)			Markdowns/Net Reserve Build (\$mm)
	1Q07	2Q07	3Q07	3Q07YTD
Mortgage Banking Warehouse <sup>1</sup>	\$20.3	\$20.0	\$14.7	(\$186)
RFS - Portfolio				
Prime Mortgage	\$2.4	\$2.3	\$2.5	
Subprime Mortgage	9.0	8.7	12.1	(\$121)
Home Equity	\$87.7	\$91.0	\$93.0	(\$635) <sup>2</sup>
RFS Portfolio	\$99.1	\$102.0	\$107.6	
Prime Mortgage - Corporate <sup>3</sup>	26.5	27.3	32.8	
<b>Total Consumer Real Estate Exposure</b>	<b>\$125.6</b>	<b>\$129.3</b>	<b>\$140.4</b>	

<sup>1</sup> Prime warehouse loans include prime mortgage loans originated with the intent to sell, which, for new originations on or after January 1, 2007, were accounted for at fair value under FAS 159. These loans, classified as Trading Assets on the Consolidated Balance Sheet totaled \$14.4 billion, \$15.2 billion, and \$11.6 billion at September 30, 2007, June 30, 2007 and March 31, 2007

<sup>2</sup> Includes (\$329) in 2Q07 and (\$306) in 3Q07

<sup>3</sup> Held-for-investment prime mortgage loans were transferred from RFS to the Corporate segment for risk management and reporting purposes

# Credit performance

## Key credit statistics

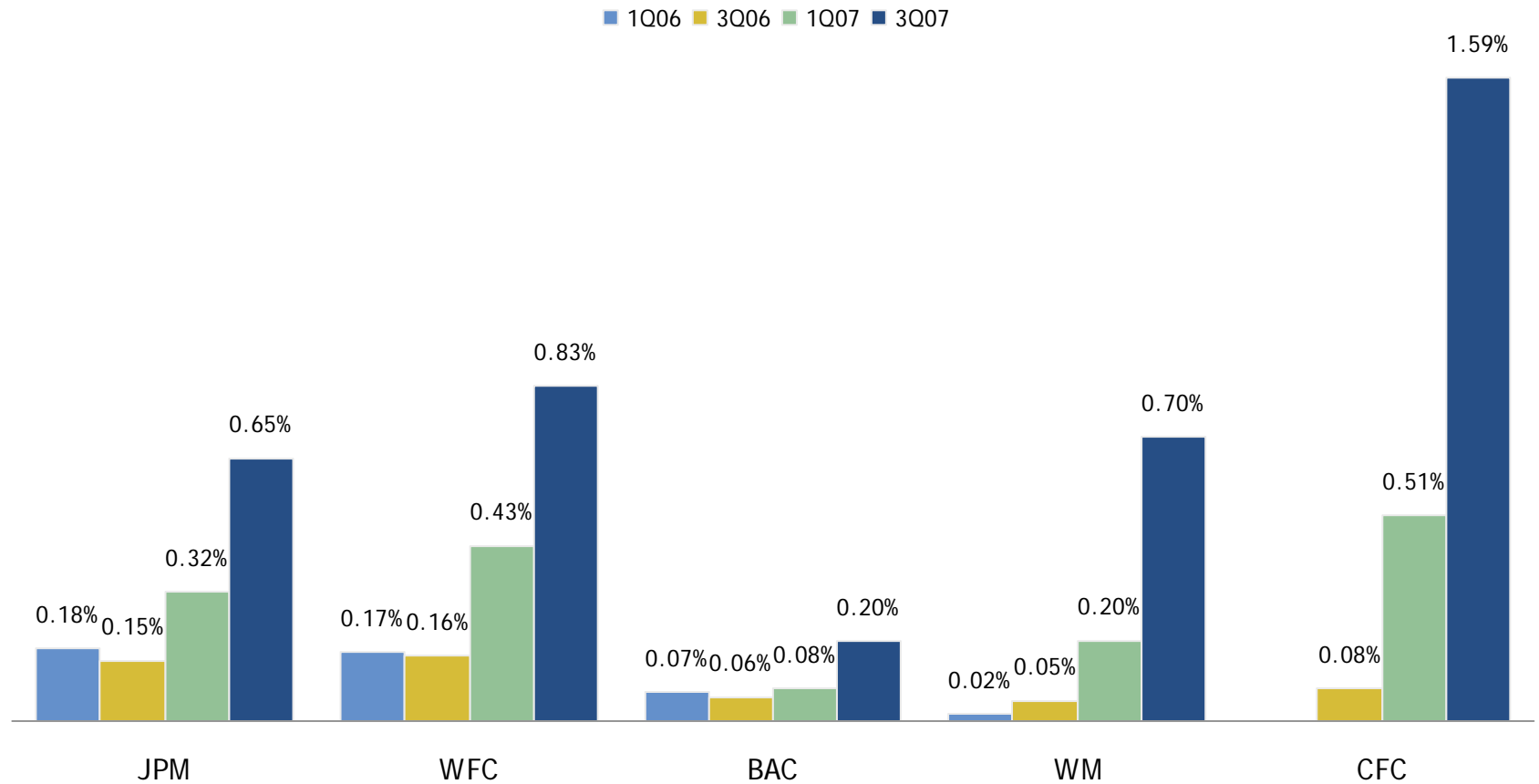
	3Q06	4Q06	1Q07	2Q07	3Q07
<u>Home Equity</u>					
Average Outstandings (\$B)	\$78.8	\$84.2	\$86.3	\$89.2	\$91.8
Net Charge-offs (\$mm)	\$29	\$51	\$68	\$98	\$150
Net Charge-off Rate	0.15%	0.24%	0.32%	0.44%	0.65%
<u>Total</u>					
Allowance for Loan Losses (\$mm)	\$1,306	\$1,392	\$1,453	\$1,772	\$2,105
Nonperforming Loans (\$mm) <sup>1</sup>	\$1,404	\$1,677	\$1,655	\$1,760	\$1,991
Allowance to Annualized NCOs	2.6x	1.6x	2.0x	1.7x	1.5x
Allowance to NPLs <sup>2</sup>	95%	89%	94%	115%	107%

<sup>1</sup> NPLs included loans hold-for-sale and loans accounted for at fair value under SFAS 159

<sup>2</sup> Loans held-for-sale and Loans accounted for at fair value under SFAS 159 were excluded when calculating the allowance coverage ratio and the Net charge-off rate

# Home Equity net charge-off trends

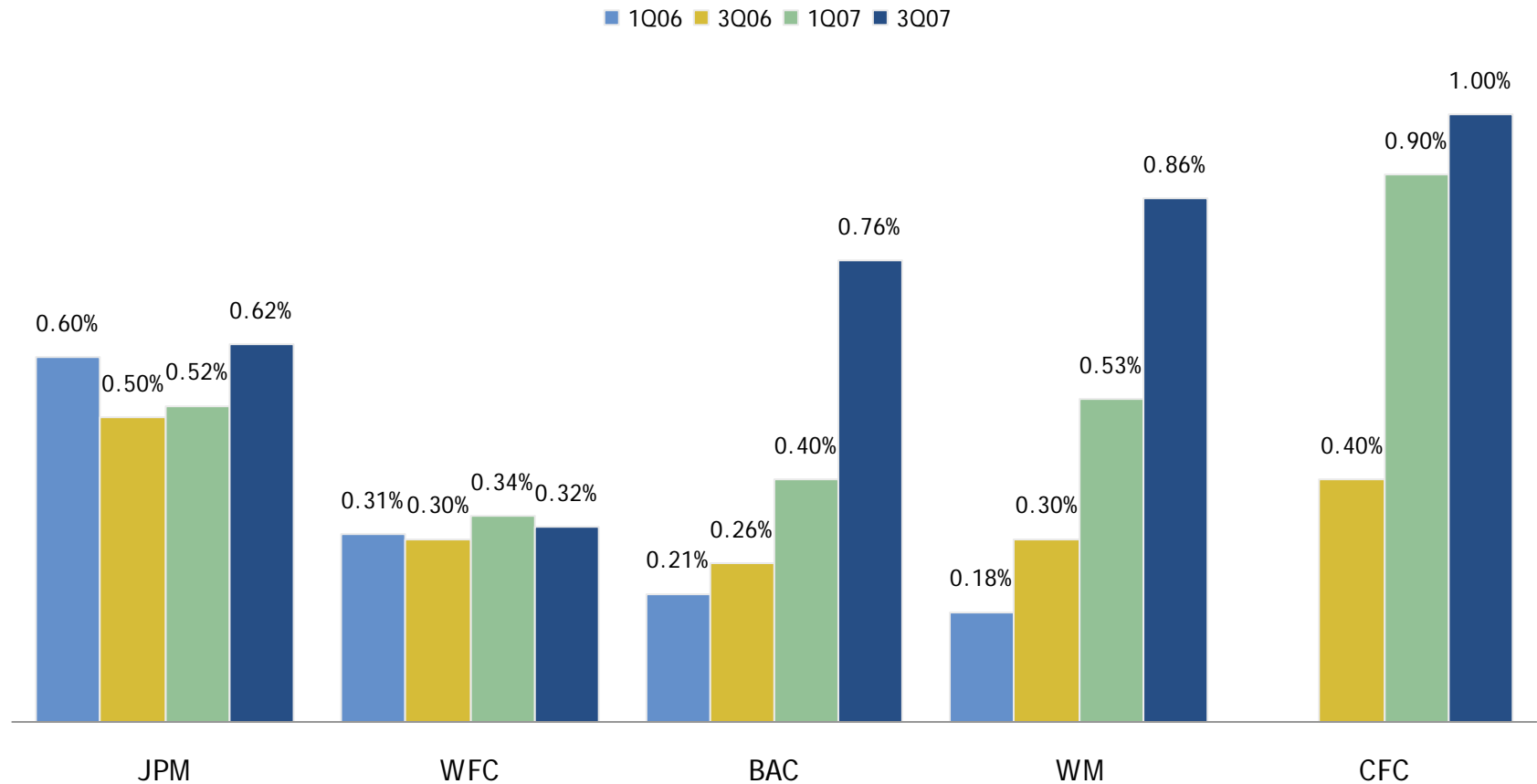
## Peer trend comparison



Source: Company reports; home equity as defined by each company

# Home Equity nonperforming loan trends

## Peer trend comparison



Source: Company reports; home equity and NPL as defined by each company

# Home Equity - credit issues

- Housing price decline
- Historically relied on FICO and underlying property value
- Risk layering
  - High CLTV, especially purchase loans
  - Stated income vs. full documentation
  - Direct vs. indirect channels
  - Owner-occupied vs. investor

# Prime Home Equity - credit issues

## Losses by CLTV

CLTV %	2004	2005	2006	1Q07	2Q07	3Q07
≤ 80	0.05%	0.04%	0.05%	0.08%	0.10%	0.13%
80 – 90	0.12%	0.12%	0.18%	0.32%	0.33%	0.60%
90 – 95	0.20%	0.17%	0.29%	0.40%	0.60%	1.23%
≥ 95	0.92%	0.71%	0.79%	1.14%	1.54%	2.08%
Total	0.16%	0.13%	0.17%	0.27%	0.35%	0.53%

- Losses up across all CLTVs but not necessarily above expected levels

Note: CLTV at origination

# Prime Home Equity - credit issues

## Loss rates for key markets

	9/06-9/07 House Price Change <sup>1</sup>	2005	2006	YTD 3Q07
Texas	5.1%	0.09%	0.09%	0.14%
Illinois	2.4%	0.09%	0.13%	0.16%
Indiana	2.3%	0.47%	0.51%	0.53%
New Jersey	-0.2%	0.02%	0.05%	0.16%
New York	-0.2%	0.01%	0.04%	0.11%
Ohio	-0.9%	0.43%	0.58%	0.69%
Florida	-2.6%	0.00%	0.04%	0.68%
Michigan	-3.2%	0.32%	0.59%	1.13%
Arizona	-3.6%	0.04%	0.00%	0.21%
California	-3.7%	0.01%	0.06%	0.62%

<sup>1</sup> House price change is based on OFHEO HPI between September 2006 and September 2007

- Declining housing prices are a key determinant of loss rates

# Prime Home Equity - origination profile

## Banking Center Channel<sup>1</sup>

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	YTD <u>3Q07</u>
Origination (\$B)	\$14.3	\$16.4	\$17.5	\$15.2	\$12.8
Weighted Avg FICO	736	733	737	745	748
Weighted Avg CLTV	67%	68%	68%	68%	68%
% CLTV >90	10%	10%	8%	6%	4%
% CA and FL	0.4%	0.6%	0.8%	0.7%	0.7%

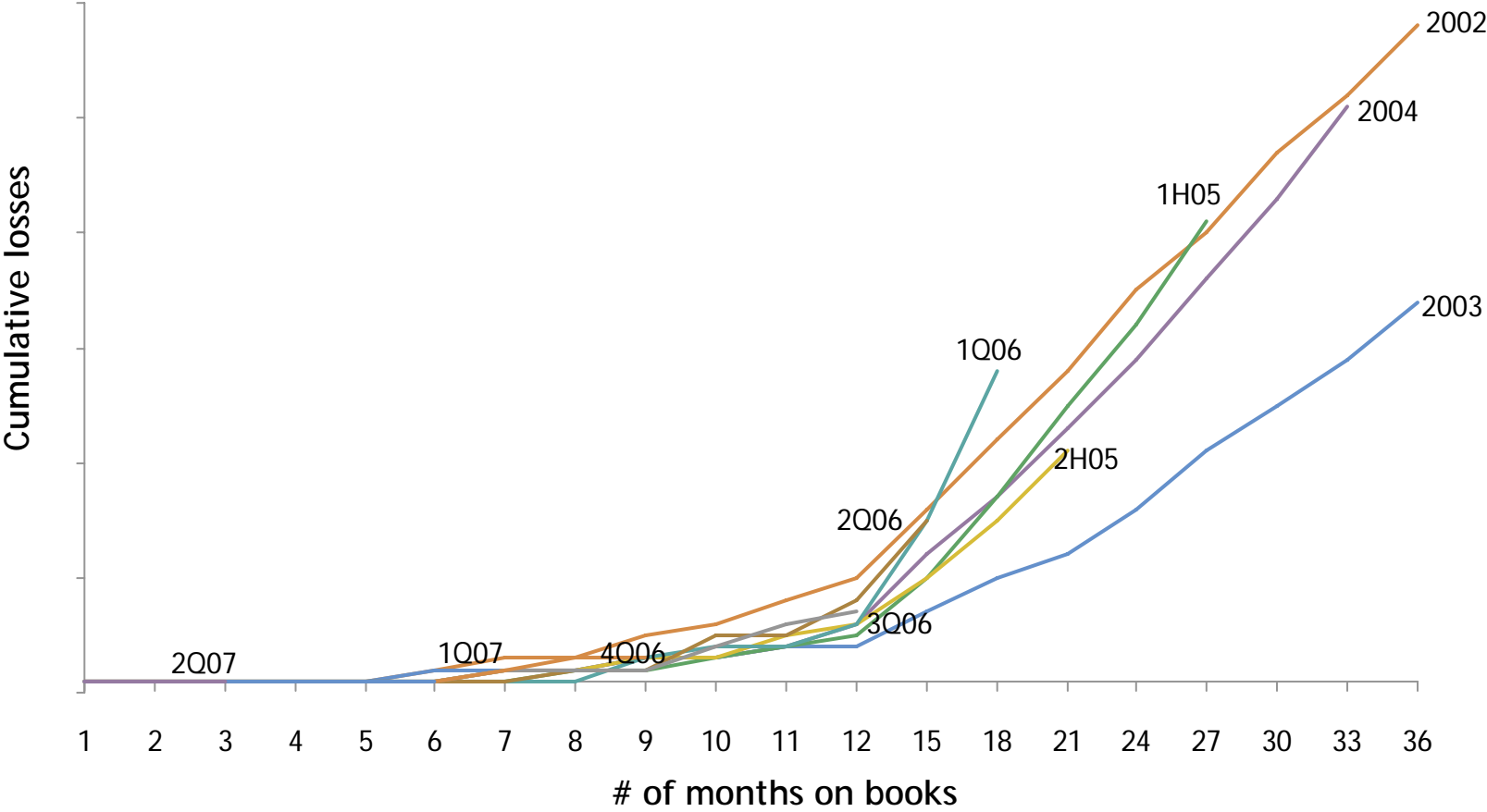
## Broker Channel<sup>1</sup>

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	YTD <u>3Q07</u>
Origination (\$B)	\$8.5	\$14.6	\$15.9	\$13.7	\$9.7
Weighted Avg FICO	733	735	739	742	746
Weighted Avg CLTV	78%	78%	80%	81%	82%
% CLTV >90	11%	16%	20%	27%	31%
% CA and FL	51%	50%	45%	44%	44%

<sup>1</sup> CLTV and FICO at origination

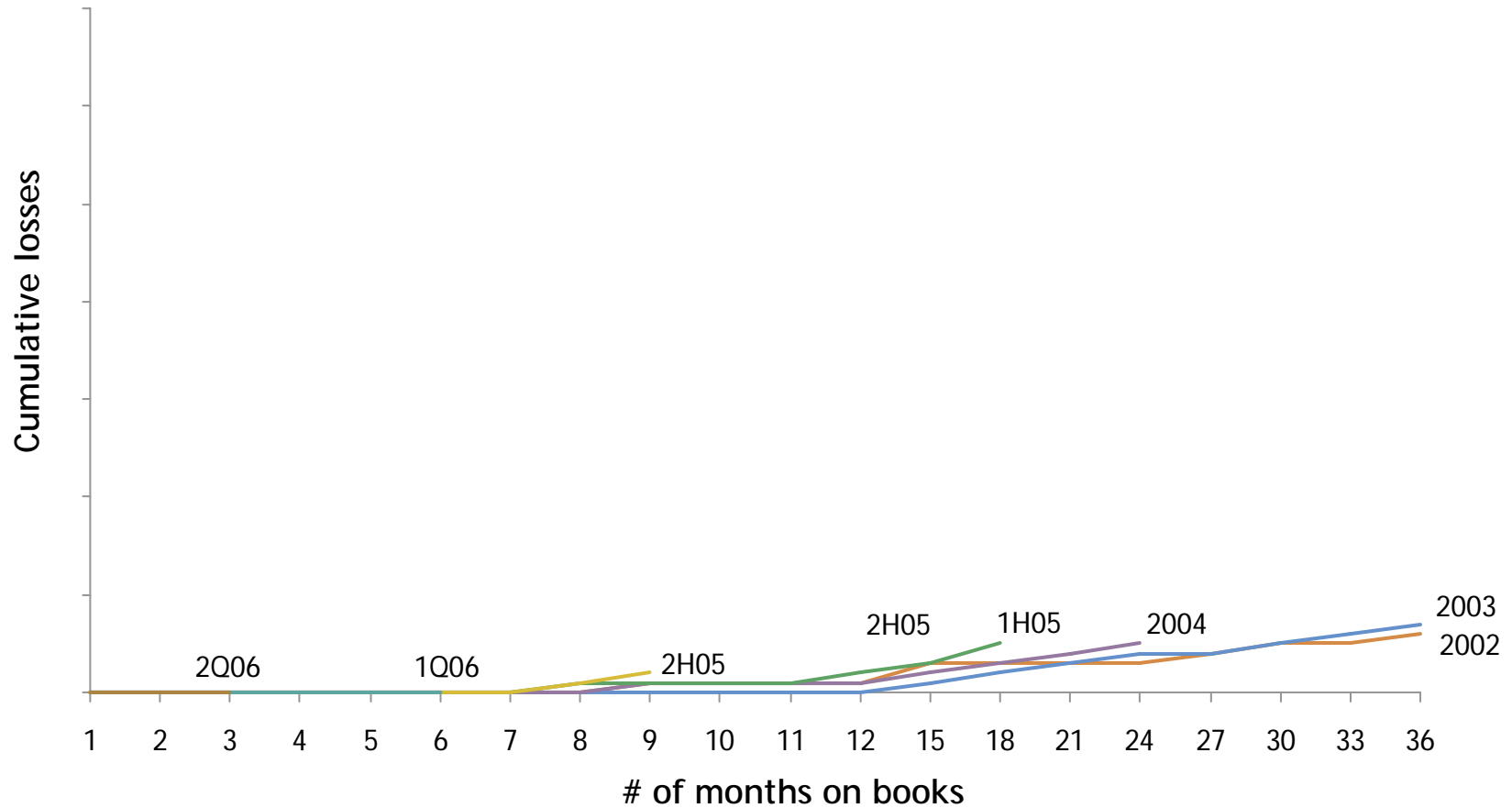
# Prime Home Equity - Banking Center Channel

Cumulative loss rates by months on books as of 9/30/2007



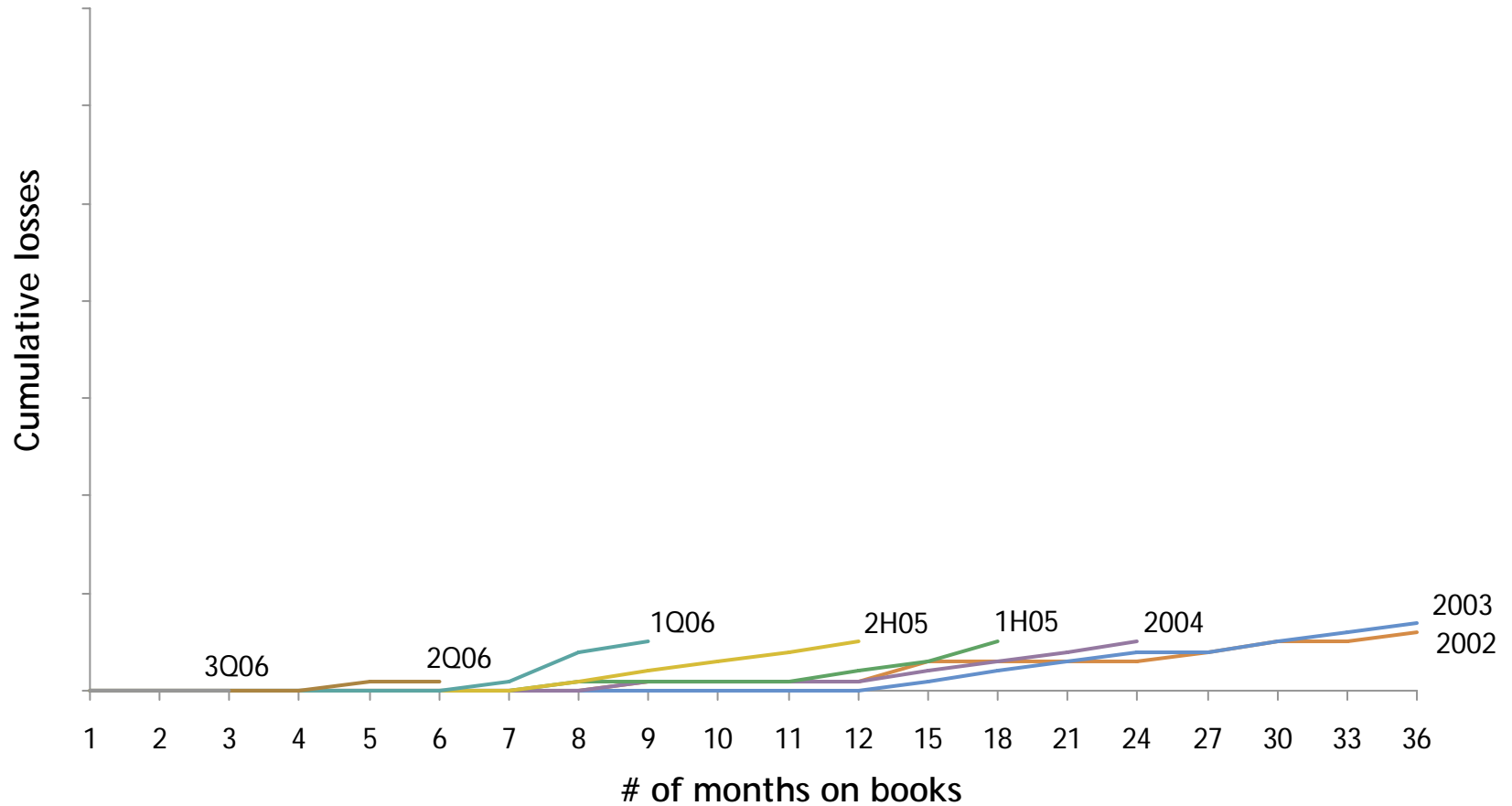
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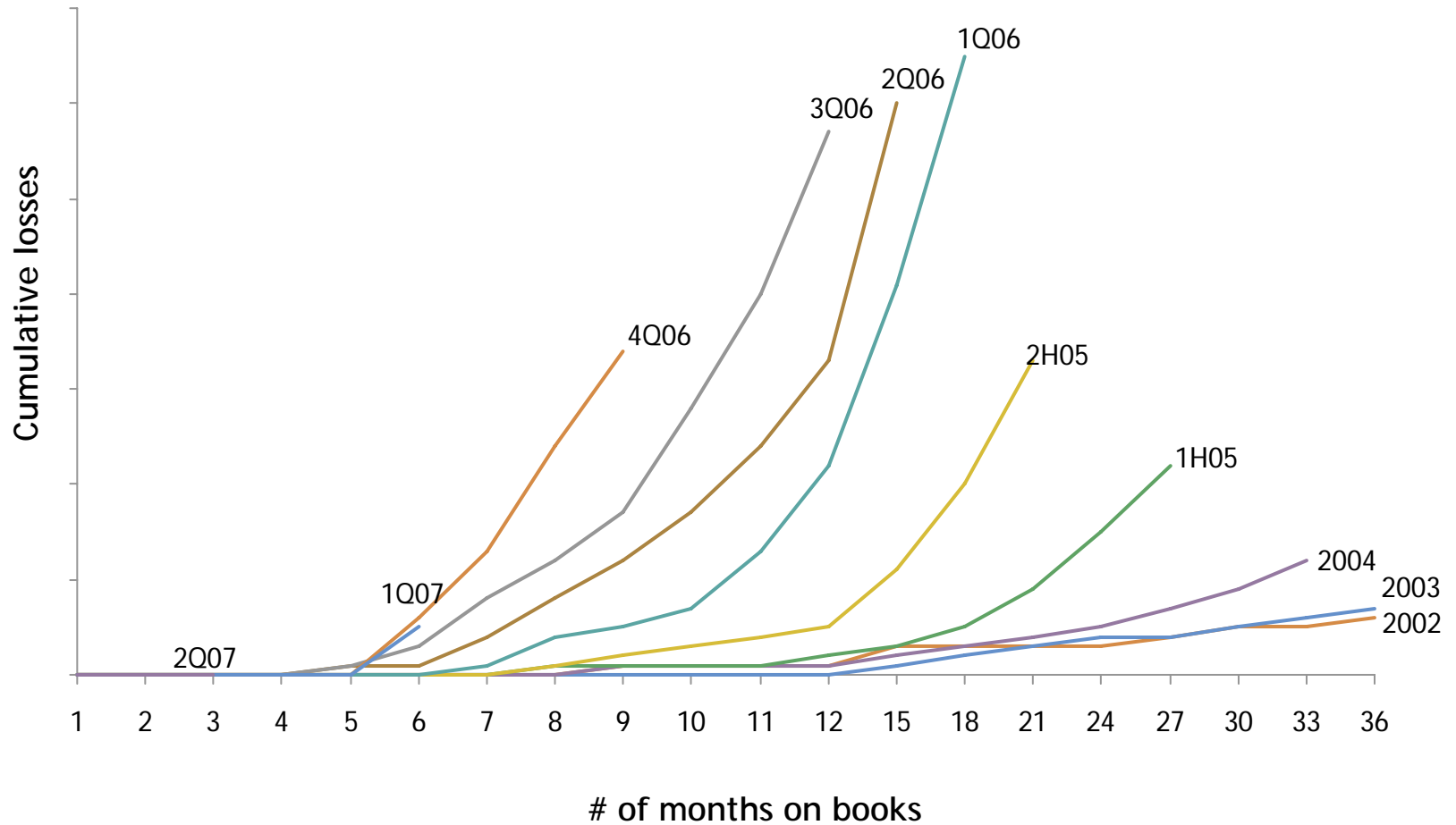
# Prime Home Equity - Broker Channel

Cumulative loss rates by months on books as of 12/31/2006



# Prime Home Equity - Broker Channel

Cumulative loss rates by months on books as of 9/30/2007



# Home Equity credit underwriting

## Changes and impacts

- Changed maximum CLTV to 90% in broker channel
    - Less than 90% CLTV in certain states
  - Eliminated stated income across wholesale channel
  - Eliminated stated income with debt-to-income over 50% across all channels
  - Investor/second homes CLTV capped at 80%
  - Significantly strengthened underwriting process relating to appraisal, income/cash flow assessment and owner occupancy
  - Stopped originating subprime home equity
- Estimate underwriting changes would have eliminated:
    - Approximately 30% of 2006 originations
    - Approximately 85% of 2006 vintage losses in 2007

# HOME LENDING OPPORTUNITY

# Home lending opportunity

## Market share - production

	3Q06			3Q07			YoY Change
	\$ Amt	Rank	% Share	\$ Amt	Rank	% Share	
CFC	116.6	1	15.4%	94.6	1	16.6%	(19)%
WFC	77.3	2	10.2%	68.1	2	12.0%	(12)%
JPM	42.7	5	5.7%	51.1	3	9.0%	20%
BAC	42.4	6	5.6%	48.0	4	8.4%	13%
C	48.8	3	6.5%	45.2	5	7.9%	(7)%
All others in top 10	136.0		18.0%	103.6		18.2%	(24)%
Total Top 10	463.8		61.4%	410.6		72%	(11)%
Total Market	755.0			570.0			(25)%

## Expanded distribution capability

Salesforce	3Q06	3Q07	O/(U)
Retail	3,145	3,947	802
Wholesale	622	851	229
Direct to Consumer	495	479	(16)
Home Equity	287	291	4
Total Salesforce	4,549	5,568	1,019

- JPM increased market share to 9.0% and has become the #3 originator
- JPM volume and market share up in a contracting market due to expanded distribution

Source: Inside Mortgage Finance

## BRANCH BANKING UPDATE

# Branch Banking profitability and growth drivers

## Net Income (\$mm)

	<u>3Q06</u>	<u>4Q06</u>	<u>1Q07</u>	<u>2Q07</u>	<u>3Q07</u>
Consumer & Business Banking	\$498	\$490	\$506	\$585	\$591
Loan Portfolio/Other	246	129	184	44	20
Total	\$744	\$619	\$690	\$629	\$611

## 3Q07 Key statistics<sup>1</sup>

- Average deposits of \$205B, up 10%
- 3,096 branches, up by 419; 8,943 ATMs, up by 1,118
- Average mortgage loans owned of \$10B vs \$48B<sup>2,3</sup>
- Average home equity loans owned of \$92B, up 16%

<sup>1</sup> Growth rates are YoY

<sup>2</sup> Does not include held-for-sale loans

<sup>3</sup> Reflects primarily subprime mortgage loans owned. \$19.4B of prime mortgage loans were transferred to Corporate on 1/1/07

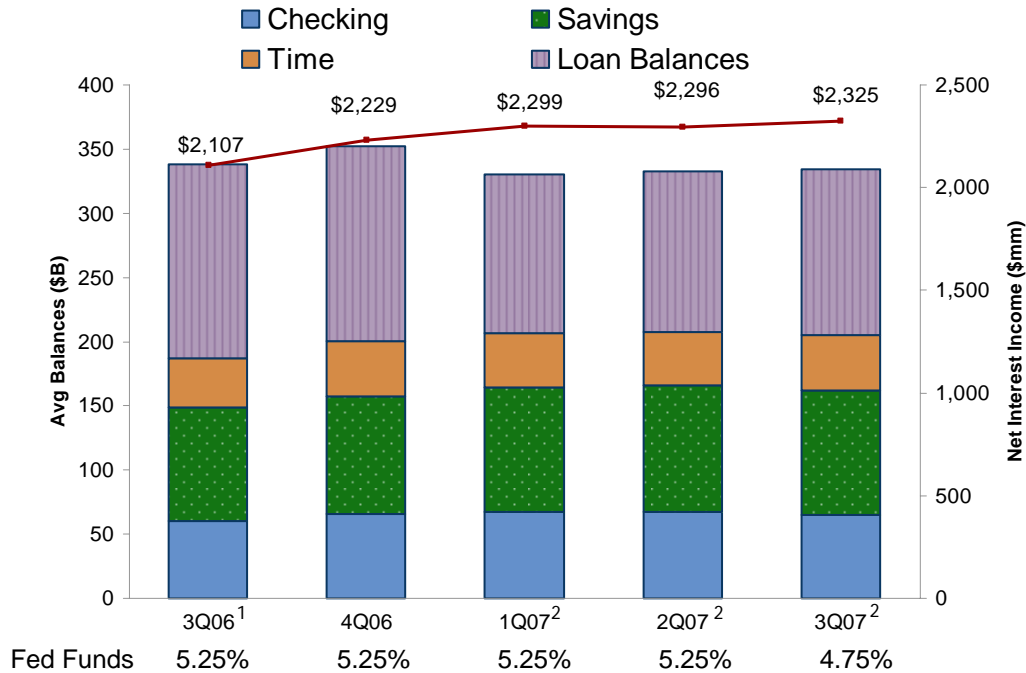
# Branch Banking

## Priorities

- Managing margin through the cycle
- Continue to grow branch presence
- Growth in salesforce
- Growth in production and sales
- Bank of New York update

# Regional Banking: managing margin through the cycle

## Balance sheet mix and margin (\$mm)



## Balance sheet mix and margin

3Q06 Margin (\$B) \$2,107

### Deposits

Account Growth (#)	173
Avg. Account Balance	(48)
Migration/Spreads	11
Subtotal - Deposits	<u>\$135</u>

### Lending

Total Variance	<u>\$218</u>
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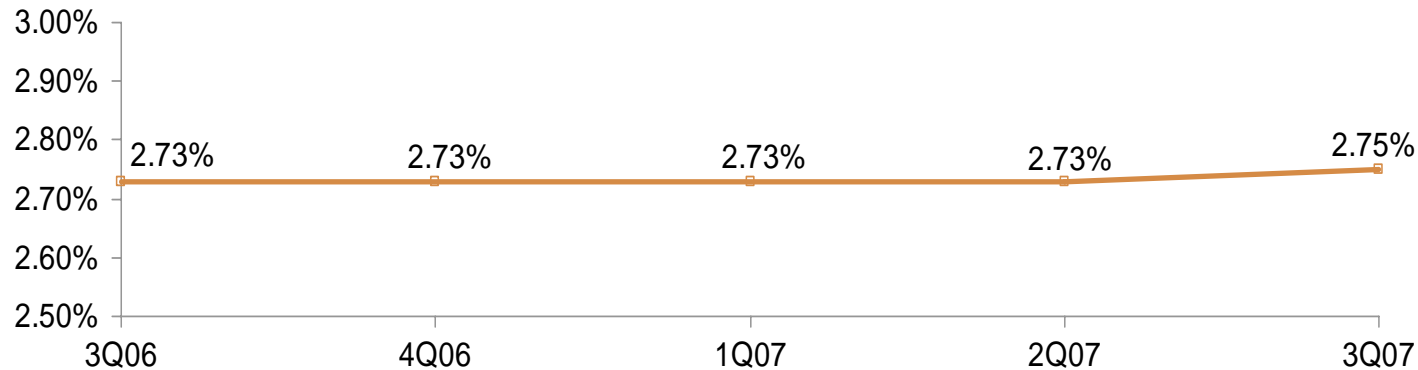
3Q07 Margin \$2,325

<sup>1</sup> 3Q06 does not include BNY

<sup>2</sup> Held-for-investment prime mortgage loans were transferred from RFS to the Corporate segment for risk management and reporting purposes

# Managing deposit margin

## Retail Banking deposit margin



- Manage customer dollars in total to optimize economics as dollars shift between investment alternatives
  - Actively introduce new products to meet changing customer needs
  - CD-only households and balances are consistent with prior year levels
- Narrower product spreads are creating ongoing pressure
  - Pricing by region
  - Competitive in markets where appropriate

# New build investment

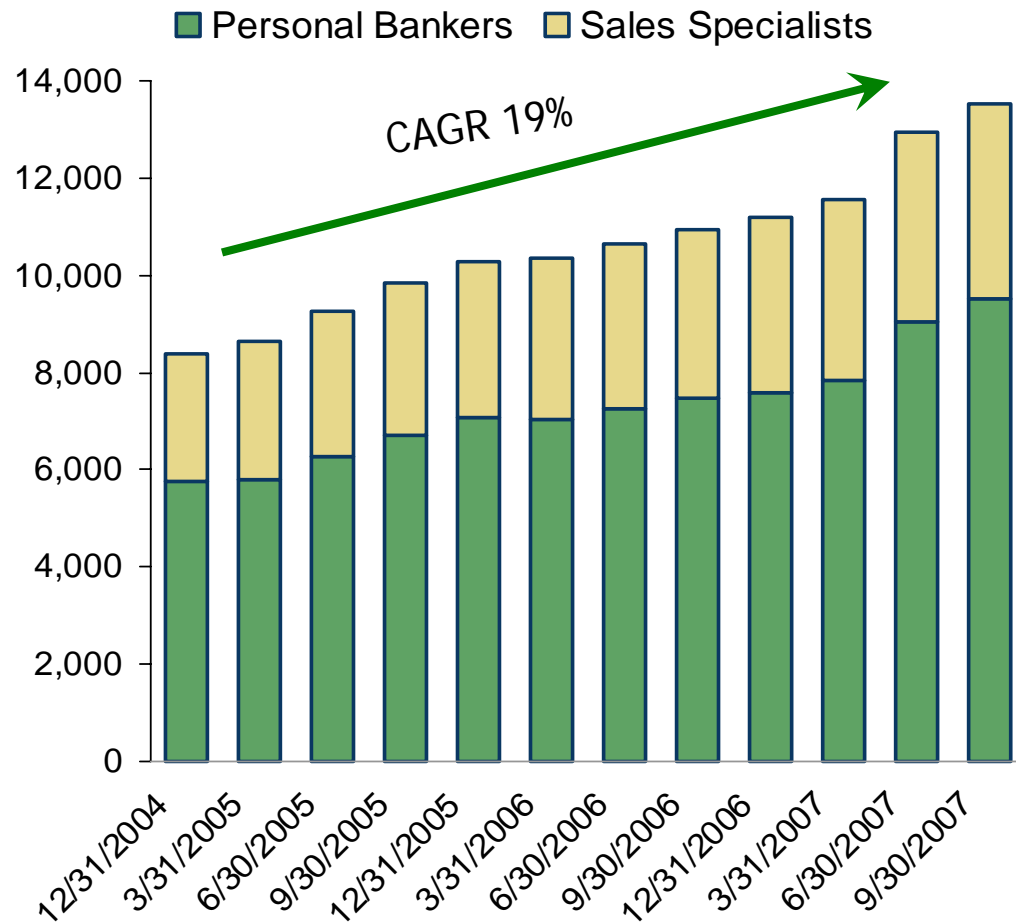
## New branches

	2003	2004	2005	2006	YTD 3Q07	Total
Metro NY	—	13	51	22	9	95
Chicago	20	54	25	15	10	124
Arizona	7	10	19	11	8	55
Texas	17	30	26	22	15	110
Michigan	2	3	10	35	5	55
Colorado	5	2	6	12	4	29
Other	8	12	9	8	5	42
<b>Total</b>	<b>59</b>	<b>124</b>	<b>146</b>	<b>125</b>	<b>56</b>	<b>510</b>

- Targeting 130-140 new branches in 2007; 125-150 branches annually
- Focused on expansion in major footprint markets

# Salesforce growth

## Quarterly trend

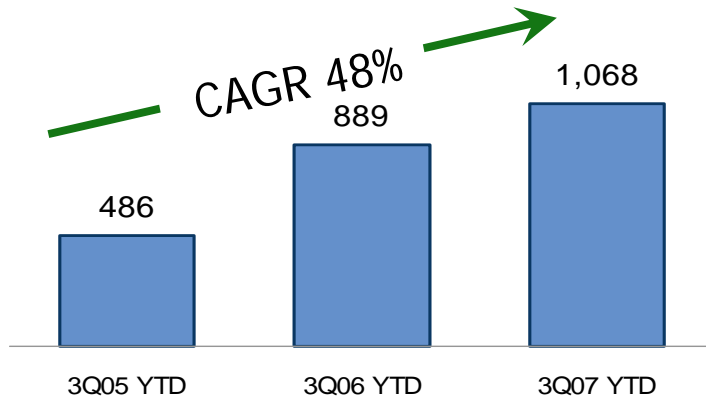


## Highlights

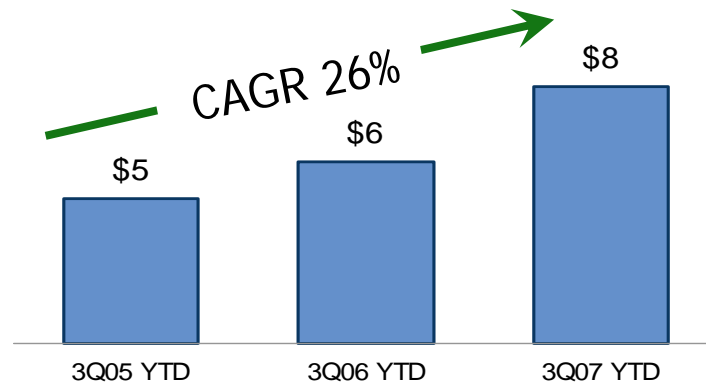
- Adding sales specialists and bankers
  - Loan officers
  - Investment sales reps
  - Business banking relationship managers
- Optimizing support staff in the branches
  - Reduction in same-store tellers from 4.9 to 4.3 tellers per branch since 12/31/04
  - The personal banker to teller ratio expected to reach 1:1 by end of 2008

# Growth in cross-sell

## Credit cards (# units in 000s)



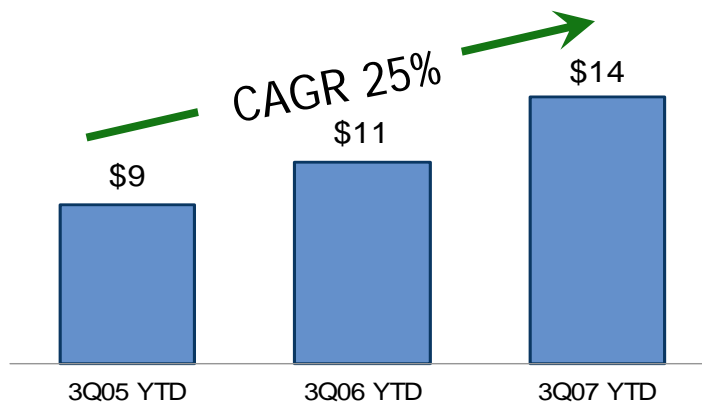
## Mortgage sales (\$B)



## Highlights

- Deepening customer relationships
- Same store production (3Q07 vs 3Q06):
  - Credit card sales up 61%
  - Mortgage originations up 18%
  - Investment sales up 21%

## Investment sales (\$B)



Note: 3Q05 YTD and 3Q06 YTD exclude BNY

# Developing and deepening customer relationships

## New retail customers after 90 days

	Jan 2006	June 2007
	<u>Vintage</u>	<u>Vintage</u>
Multi Product (Core)	45%	49%
Single Product (Core)	55%	51%
Checking Only	45%	44%
Checking Households	89%	92%
With Credit Card	16%	21%
With Online Banking	31%	56%
With Online Billpay	9%	14%

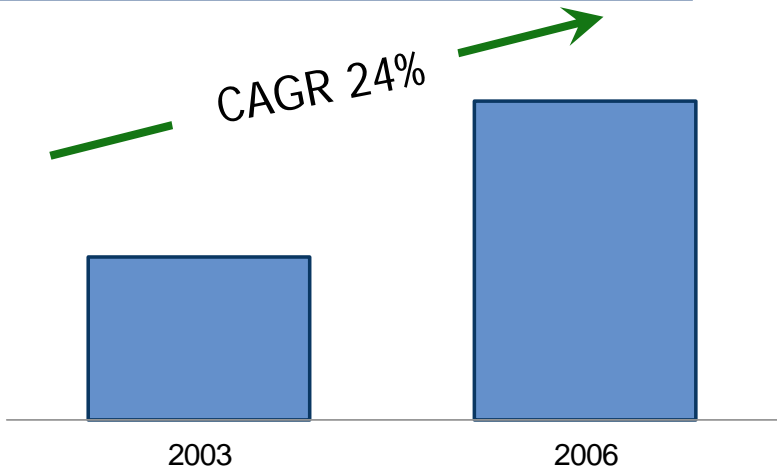
## Total core retail households<sup>1</sup>

	<u>Jan 2006</u>	<u>Sep 2007</u>
Total Households	8,829,843	10,223,126
Checking Households	81%	83%
With Credit Card	48%	53%
With Online Banking	42%	57%
With Online Billpay	14%	27%

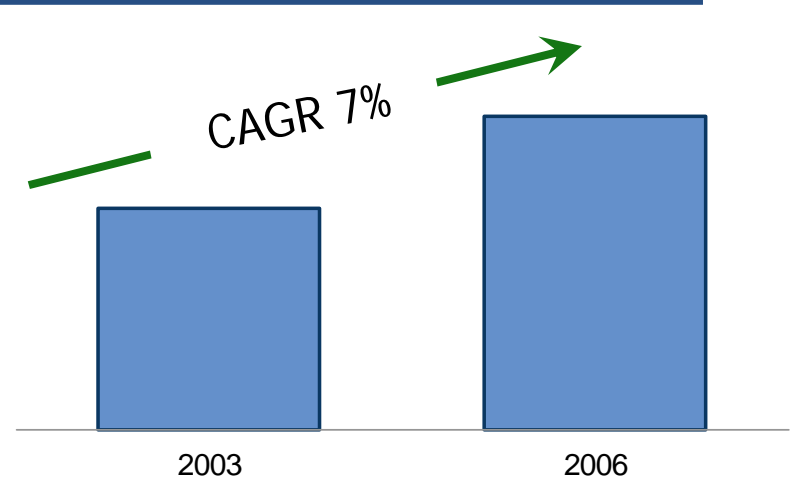
<sup>1</sup> Branch based households (i.e., no credit card only or out of footprint lending)

# Sales through inbound call center

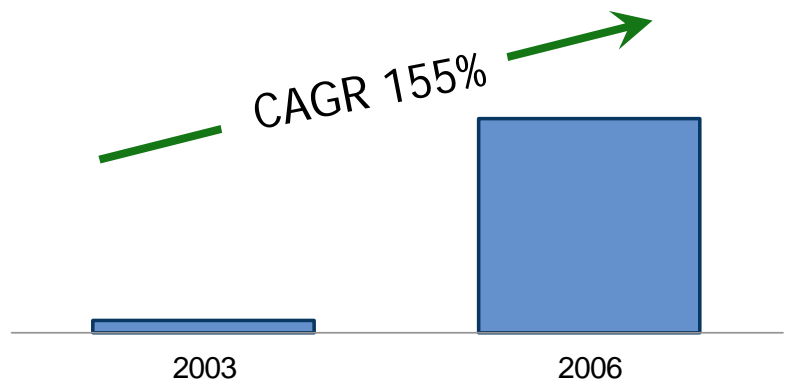
## Sales per 1,000 calls



## Online banking



## Credit cards



Note: 2003 data includes ONE only

# Bank of New York branch update

- 339 branches purchased
  - All branches have been rebranded
  - 100% of interior renovation work complete
- 18 consolidations completed through 10/5/07
- 27 branch consolidations remaining for 2007 and 2008
- Showing progress

# BNY - before and after

Before



After



# BNY - before and after

Before



After



# Bank of New York - integration timeline

## 1Q07

- Extend branch hours
- Training
- System conversions
- Sales campaigns
- Facility and equipment upgrade

## 2Q07

- Job family mapping
- Salesforce growth
- Sales management process
- Rebranding
- Credit card/debit card reissue
- Chase incentive program implemented
- Branch consolidations begin

## 3Q07

- Branch P&L roll-out
- 50% of Personal Bankers trained and licensed

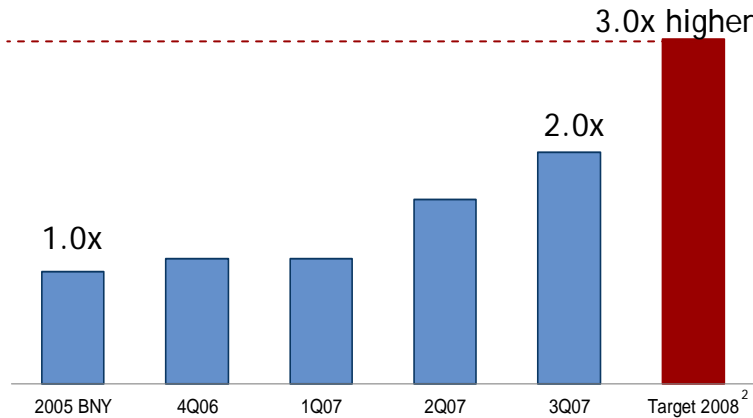
## 4Q07

- Salesforce fully trained
- Branch consolidations on track as planned; 50% complete

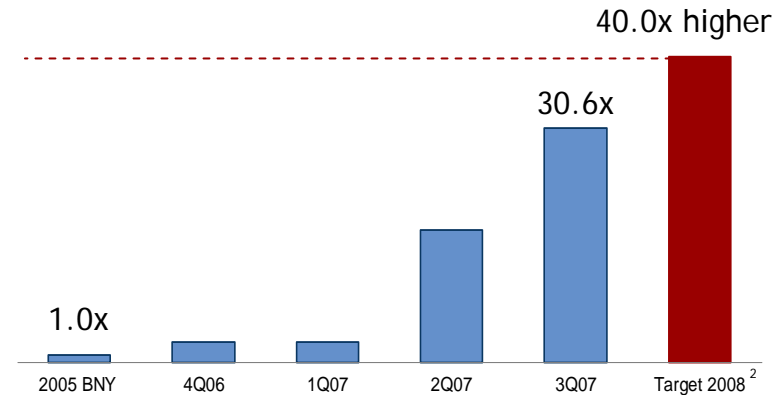
# Growth in BNY cross-sell

*Sales per branch; per month*

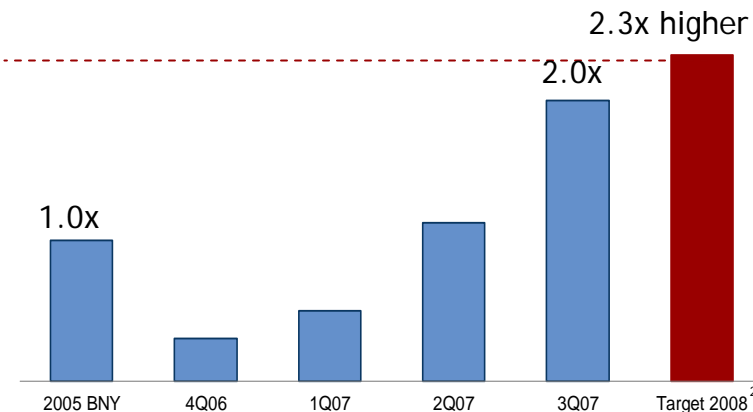
## New Checking Accounts<sup>1</sup>



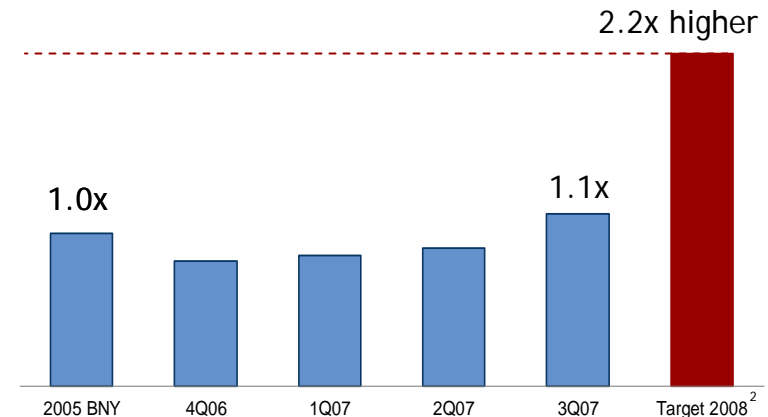
## Credit Cards<sup>1</sup> (# units)



## Mortgage and Home Equity<sup>1</sup> (\$mm)



## Investment Sales<sup>1</sup> (\$mm)



<sup>1</sup> Based on average of comparable deposit size Chase branches in NY, NJ, CT

<sup>2</sup> Target exit rate at end of 2008

# Summary

- Cautious about housing market and effect on Home Equity portfolio losses
- Actively building businesses
  - Chase branch build-out and Bank of New York branches
    - Enhanced distribution capabilities leading to increased production and sales
  - Home Lending opportunity
    - Gaining share in mortgage market
    - Well-positioned for further share consolidation

# Forward-looking statements

*This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based upon the current beliefs and expectations of JPMorgan Chase's management and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. Factors that could cause JPMorgan Chase's results to differ materially from those described in the forward-looking statements can be found in the firm's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 and in the Annual Report on Form 10-K for the year ended December 31, 2006 (as amended), filed with the Securities and Exchange Commission and available at the Securities and Exchange Commission's Internet site (<http://www.sec.gov>).*