PUNK ZIEGEL & COMPANY

FINANCIAL INSTITUTIONS RESEARCH

J.P. Morgan Chase (NYSE: JPM)

Update Report - Price $36.54

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Company description: J.P. Morgan is headquartered in New York City. It is one if the world's largest financial institutions providing a full array of banking, investment and related financial services.

Investment Rating	Market Perform		
	Current		Prior
Target Price	$44.00		
Price (March 14, 2008)			$36.54
52 Week Range			$37.66 - $53.25
Shares Outstanding			3,472 MM
Market Capitalization			$126,867 MM
Assets			$1,561,147 MM

Rev/Share

	Current	Prior	P/R
2010E	$25.47		1.61x
2009E	$23.35		1.75x
2008E	$21.47		1.88x
2007	$20.35		1.80x

EPS

	Current	Prior	P/E
2010E	$4.50		8.7x
2009E	$3.88		10.2x
2008E	$3.30		11.4x
2007	$4.37		9.2x

Book Value

	Current	P/B
Reported	$35.49	1.13x
Tangible	$20.70	1.93x

Dividend

	Current	Yield
Annualized	$1.52	3.8%

Ratios
December, 2007

Income	
Trading/Rev	0.9%
Inv Banking/Rev	9.6%
Net Int. Inc/Rev	41.5%
Operating Cost Ratio	61.7%
Provision/Loans	1.96%
Equity	
Reserves/Loans	1.78%
Common Equity/Assets	7.89%
Tangible CE/Assets	4.60%
Annual	
Past 3-Year RPS Growth	9.6%
Past 3-Year EPS Growth	17.9%
P.E./Past EPS Growth	
Proj. 3-Year EPS Growth	2.0%
Returns	
ROE	9.6%
ROA	0.76%

Deals Done in Times of Panic Raise More Questions Than Answers

- J.P. Morgan announced this evening that it had reached a deal to purchase 100% of Bear Stearns (BSC/$30.85/Market Perform). Morgan will offer 0.05473 shares of its stock for all of the shares of Bear Stearns. The total cost is estimated to be $236 million or a 93.5% discount from Bear Stearns current price.
- There is no material adverse clause in the deal so no matter what J.P. Morgan learns from this point forward about Bear Stearns, this is a done deal. The Federal Reserve and the Comptroller of the Currency have broken all of their rules, it would seem, and have approved the transaction so no further regulatory approvals seem necessary. The FDIC has not been heard from and may not be.
- If Bear Stearns stockholders approve the deal, it will be completed by the end of the second quarter. Bear Stearns shareholders options are $2 per share or nothing. Essentially, the price being offered indicates that Bear has no value. J.P. Morgan is offering the current price to avoid Bear's entering a bankruptcy plea. If this were done more than Bear's holders would walk away with nothing.
- This last statement is bolstered by the fact that as of this moment, J.P. Morgan is guaranteeing all of the trading obligations of Bear Stearns and its subsidiaries. This is proof positive that if Bear was left on its own or went into bankruptcy proceedings nothing would be left and many other firms might be forced to follow. It is unclear, though, whether Morgan is willing to guarantee any of the Bear Stearns' long-term debt. Thus, debt holders may still be forced to absorb significant losses.
- J.P. Morgan is at risk in a number of other areas in addition to the guarantees of Bear Stearns trading obligations. J.P. Morgan will be exposed to $13 billion in potential losses from Bear's mortgage related assets. It will also be exposed to $8.9 billion of Bear Stearns leveraged funded and unfunded commitments
- The Federal Reserve has also agreed to put a non-recourse lending facility in place to manage up to $30 billion of Bear Stearns illiquid assets. Apparently, $20 billion of these funds will be allocated to Bear Stearns mortgage related assets. Another portion will be available to back stop some of the $8.9 billion mentioned above.
- In theory, therefore, this merger could wind up costing J.P. Morgan and the Federal Reserve tens of billions of dollars with the Fed taking the biggest hit, or it could cost both entities nothing. It depends on how the credit markets react to the deal.

Estimated Earnings Per Share

	March	June	September	December	Year
2010	$1.06	$1.12	$1.11	$1.21	**$4.50**
2009	$0.90	$0.96	$0.98	$1.06	**$3.88**
2008	$0.75	$0.85	$0.82	$0.88	**$3.30**
2007	$1.34	$1.20	$0.97	$0.86	**$4.37**

Notes: Reported/Operating Profits

Analyst Certification and important disclosures can be found on the last page of this report.

Earnings Impact

J.P. Morgan estimates that the deal will cost $5 to $6 billion in pretax merger costs. These costs include litigation expenses, the cost of de-leveraging, and other operating issues. If the firm sticks to its earlier pronouncements of how it would handle mergers this money would come directly out of earnings and reduce J.P. Morgan's 2008 results by $1.15 per share. It will take a little less than 4 years to get this money back if Morgan is correct that the deal will be accretive by $0.30 per share starting in mid 2009.

Balance Sheet Impact

J.P. Morgan estimates that by the time the deal is consummated its Tier One Capital will be at 8.0%. For this to happen, given the fact that Bear Stearns equity is now probably zero and its assets well north of $300 billion, Bear Stearns will be forced to sell tens of billions in securities, relatively quickly. The market's acceptance of these instruments is unclear. Plus, if these securities are sold quickly the discounted price could force the value of securities held by J.P. Morgan, and a number of other banks, to be marked down and this could create a capital crisis for all.

Synergies

Morgan believes that a number of benefits will accrue to it as a result of this deal:

- It will obtain Bear Stearns prime brokerage business. This business, however, has suffered severe blows and it is questionable as to how valuable it actually is.
- J.P. Morgan will enhance its equities execution capabilities. This seems likely but not worth a great deal since Bear was cutting this activity back.
- It will add to its energy practice although Bear was almost a non-starter in this sector having fumbled the Calpine arrangement.
- J.P. Morgan will expand its mortgage capabilities at a time when this might not be the wisest operating move.
- It adds investment banking clients. Agree on this one.
- It increases the wealth management operation by adding Bear's 400 brokers. This is also a plus.
- It adds to its international presence although Bear had not built much of an operation overseas.

In sum, the company sees a number of operating benefits, many of which may be ephemeral.

Conclusion

J.P. Morgan has taken a step which critically helps the nation. Moreover, it will definitely aid the financial system at a very crucial period. For this we salute the company and its management team. The deal also gives Bear shareholders something, and it will maintain employment for some of its staff. Again, this is a plus.

What it does for J.P. Morgan is unclear. The only benefit I can see is it may have averted J.P. Morgan from taking sizable losses on its loans to Bear Stearns.

Still, if there is any man on the planet who can make this deal work it is Jamie Dimon, CEO. We also still have a great deal of faith in Alan Schwartz, Bear's CEO, despite his error in judgment in appearing on television. This team have the ability to solve monumental problems and now they must.

Important Disclosures

Risk Factors

Companies in the financial industry do not control the macro economic factors that have the greatest impact on their earnings performances and their stock prices. These include changes in the level of interest rates and the shape of the yield curve, as well as changes in economic direction which may slow or accelerate unit growth and loan losses

These companies do not provide adequate data concerning their holdings of loans and securities. In this sense they are blind pools and investors only become aware of problems after they have occurred. Managements are also prone to errors in decision making in positioning their balance sheets and in the general operation of their businesses which may impact the profits of the company.

The analyst preparing this report may also make incorrect judgments concerning interest rates and economic direction and this could cause his estimates to deviate meaningfully from actual results. Further, his assumptions concerning PE multiples may be faulty leading to faulty price targets.

Rating Definitions and Coverage Percentages

Rating	Definition	% of companies under coverage with this rating	% within rating category for which investment banking services have been provided in the last 12 months
Buy	Common stock is expected to outperform the market by 15 or more percentage points	52.54%	22.58%
Accumulate	Common stock is expected to outperform the market by five to 15 percentage points	3.39%	0.00%
Market Perform	Common stock is expected to perform with the market plus or minus five percentage points	33.90%	5.00%
Sell	Common stock is expected to under perform the market by 15 or more percentage points	10.17%	0.00%

The rating system is a guide to expected total return (price plus dividend) relative to the total return of the market on which the stock trades over the next 12 months.

Analyst Certification:

I, Richard Bove, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company and its securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation related to my views expressed or any specific recommendations that are contained in this report.

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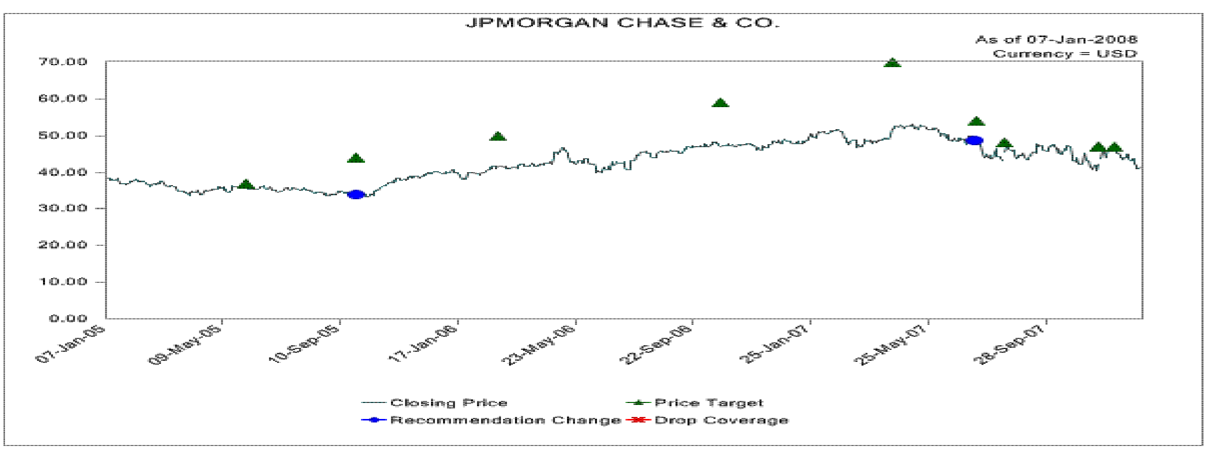
A member of the analyst's family owns a position in the common stocks of BAC, C, and JPM.



JPMORGAN CHASE & CO.

Currency = USD

Date	Closing Price	Recommendation Change
18-Jul-2007	48.88	MARKET PERFORM
27-Sep-2005	33.88	BUY

Date	Closing Price	Price Target
11-Dec-2007	45.94	47.00
27-Nov-2007	42.35	46.82
27-Nov-2007	42.35	47.00
15-Aug-2007	43.00	48.00
19-Jul-2007	48.62	54.00
18-Apr-2007	52.07	70.00
18-Oct-2006	47.21	59.00
01-Mar-2006	41.63	50.00
27-Sep-2005	33.88	44.00
01-Jun-2005	35.76	37.00