DEAR FELLOW SHAREHOLDER,

JPMorgan Chase made very good progress in 2006. We earned $13.6 billion from continuing operations, up significantly from the year before; we grew our major businesses – and the growth was high quality; and we positioned ourselves extremely well for 2007 and beyond.

In this letter, I will review and assess our 2006 performance and describe key initiatives and issues we are focusing on this year and in the future to make our company even better. I hope, after reading this letter, that you will share my enthusiasm about the emerging power and enormous potential of the JPMorgan Chase franchise.

First, let's look at 2006:

I. OUR PERFORMANCE IN 2006: PROGRESS AND RENEWED FOCUS

At JPMorgan Chase, we analyze our performance against a broad spectrum of measures, including growth, quality, risk management, marketing, collaboration, operations, controls and compliance. We continue to make significant progress on all these fronts. Although our absolute performance is not yet where it should be, the pace and level of improvement are extremely good and make us more confident than ever about our future.

Starting with "financial performance," we believe there are six key aspects of our overall 2006 performance that illustrate the progress we have made.

Strengthened financial performance

Our earnings from continuing operations for the year were **$13.6 billion**, up from **$8.3 billion** in 2005. Return on equity (excluding goodwill) was 20% versus 13%. Revenue growth – almost all organic – was 14%. These results, produced with the support of a still-favorable credit environment, are good, but not excellent. And in some cases, we still trail our major competitors.

While we're not yet top-tier in financial performance, we feel particularly good about a number of major issues. We essentially completed a huge, complex merger while staying focused on business and pursuing growth; we dramatically cut expenses and waste; and we increased investment spending. Integration risk – the potential to suffer major setbacks because of merger-related issues – is always a big challenge and source of concern. But superb execution throughout 2005 and 2006 has enabled us to put that risk mostly behind us.

Increased management discipline and collaboration

Ultimately, we will succeed or fail based upon the talent, dedication and diligence of our management team and the people who work with them. On this measure, you, our shareholders, should be extremely pleased. Your management team regularly reviews all aspects of our business in an open and honest way, assessing our strengths and weaknesses, and our opportunities and risks. The level of collaboration among business units is higher than ever and still getting better. Our top managers work well together, respect each other and take pride in each other's successes. As I have stressed in prior shareholder letters, getting people to work together across all business units is critical to our success.

Here are some examples of what we can achieve by working well together. In all of these cases, the management team came together – to review facts and critically analyze and reanalyze issues – in order to find the right answers for our clients and our company. We developed and executed a game plan without the destructive politics, silly game-playing and selfish arguments about revenue-sharing that can destroy healthy collaboration and undermine progress.

Establishing the Corporate Bank

Previously, our investment bankers played the lead role in managing our firm's relationships with large clients, even when a client might require non-investment-banking products and services, such as cash management, custody, asset management, certain credit and derivatives products, and others. The product salespeople outside our Investment Bank operated somewhat independently from the investment bankers. As a result, we were not managing our relationships with many of our largest clients in an integrated and coordinated way. Too many people were selling their own products without feeling accountable for JPMorgan Chase's overall relationship with the client.

Now, we have addressed this issue with dedicated corporate bankers who cover the treasurer's offices of our largest, longest-standing and most important clients. These corporate bankers, in partnership with our investment bankers, are focused on developing our entire relationship with our clients – orchestrating the coverage effort with regular account planning, client reviews and coordinated calling. This effort ultimately should add hundreds of millions of dollars to revenue and create happier clients.

Building the mortgage business – in Home Lending and the Investment Bank

Home Lending is one of the largest originators and servicers of mortgages in the United States. Separately, our Investment Bank has been working hard to build out its mortgage capabilities as the mortgage business overall has been undergoing fundamental change, i.e., mortgages are increasingly being packaged and sold to institutional investors rather than being held by the company that originates them.

Historically, our two businesses, Home Lending and the Investment Bank, barely worked together. In 2004, almost no Home Lending mortgages were sold through our Investment Bank. This past year, however, our Investment Bank sold 95% of the non-agency mortgages (approximately $25 billion worth) originated by Home Lending. As a result, Home Lending materially increased its product breadth and volume because it could distribute and price more competitively. This arrangement obviously helped our sales efforts, and the Investment Bank was able to build a better business with a clear, competitive advantage. In 2006, our Investment Bank moved up several places in the league-table rankings for mortgages. (Importantly, Home Lending maintained its high underwriting standards; more on this later.) We believe that we now have the opportunity to become one of America's best mortgage companies.

Growing credit card sales through retail branches

In 2006, we opened more than one million credit card accounts through our retail branches, up 74% over 2005. Retail and Card Services teams drove this progress by working together and analyzing every facet of the business, including product design, marketing, credit reporting, systems and staffing. It started slowly, but as we've learned together and innovated, we've been able to add increasingly more profitable new accounts. We have the ability to provide – almost instantaneously – preapproved credit to customers while they are opening other banking accounts with us. And, while respecting customer privacy, we now can offer better pricing because we can underwrite using both credit card and retail customer information. Over time, this competitive advantage will enable us to add more value and produce better results for customers and for JPMorgan Chase.

Approaching Asia holistically

Our Operating Committee members traveled to Asia late last year and reviewed how we were doing, country-by-country. The reviews spanned all lines of business. This process shed new light on our businesses, sharpened our focus on ways we could work together to improve performance and strengthened our resolve to execute aggressively. This year, the business plans in each country are not only appropriately more ambitious, but also better coordinated and fully supported by the rest of the company. As this effort is replicated in other parts of the world, we are confident it will strengthen our operations and opportunities.

Working better together

There are plenty of other examples where good collaboration has made us better. Our Commercial Banking clients last year generated over $700 million of investment banking revenue, up 30% from 2005. The merger made this possible by bringing top-tier Investment Bank products to an extensive Commercial Banking customer base. In addition, our Treasury & Securities Services group does a significant amount of business with our Commercial Banking client base. Our Asset Management group calls on Commercial Banking and Investment Bank customers, and works with investment bankers to identify clients who can benefit from our private banking services. Clients across all of our businesses use our branches. We can use this kind of disciplined and collaborative approach across our businesses to continue to build on the distinctive strength of our extensive capabilities and relationships.

Achieved quality growth, driving future growth

It's easy to grow short-term earnings: just stop investing in your company's future and compromise your standards on accepting new clients and business. We won't do that.

Virtually all of our businesses achieved real, healthy growth. You can see this described more fully in the pages ahead, so I'll just reflect on a few key items.

- Our goal is to accomplish real, sustainable growth, but not growth at any cost. In the financial services world, it is easy to stretch for growth by reducing underwriting standards or taking on increasingly higher levels of risk. But such an approach is foolish longer term. For example, last year we declined to underwrite negative amortization mortgage loans and option adjustable-rate mortgages. That may have hurt our 2006 earnings a bit, but we believe it was the right decision for the company.
- We're growing our earnings, but not at the expense of smart, longer-term investments. We continue to invest in the areas that drive future growth, such as 125 new retail branches last year, 900 additional salespeople in branches, 65 new private bankers to serve our ultra-high-net-worth clients and stronger trading businesses in mortgages, energy and other commodities.
- Where it made sense, we went outside our company and acquired great assets and businesses, such as the swap of our Corporate Trust business for 339 Bank of New York retail branches and the bank's commercial banking business. We also did smaller deals to supplement our student loan, hedge fund processing, asset management, trading and credit card businesses.
- These investments are not confined to the front office. We've invested hundreds of millions of dollars in new and improved systems, which I will discuss next. While there's a short-term cost for these investments, there's a long-term benefit of increased efficiency and improved quality.

Materially improved infrastructure and cost structure

We continued a massive investment plan in our systems and operating infrastructure while simultaneously reducing expenses.

- We completed major consolidations and mergers of our platforms: retail (deposit and teller), wholesale loan and Internet.

- We have built or are building six new data centers, and are upgrading and consolidating the more than 20 centers that we had three years ago. Through this effort, we're significantly enhancing our data networks storage and information technology risk capabilities.
- Virtually all of our businesses improved their margins while investing for the future. The single-most salient cost reduction came in our Corporate line. You may recall that in 2004 we said we would maintain at Corporate all of what we deemed to be "inefficient costs," i.e., costs borne by the businesses without receiving commensurate benefits and costs that were dramatically higher than they should have been. Examples included vacant real estate, outdated data centers, information technology costs that were sometimes two to three times what they should have been, or staff support costs that were simply too high.

  We moved these costs to Corporate so we could: a) see what the businesses were really earning; b) bring into sharp relief these Corporate expenses and put pressure on ourselves to reduce them; and c) hold the businesses accountable for clearly defined costs that they could control.

  Well, it worked. "Unallocated Corporate Overhead" was $2.4 billion in 2005, was $750 million in 2006 and is expected to be $200 million to $400 million in 2007.

Improved risk management

To be a great company, we must excel at risk management across all of our businesses – consumer, commercial and wholesale. We understand that some risks, or correlations of risks, are often unknowable, or when knowable, unpredictable as to timing. Later, I will talk about some of these risks we face going forward, but here I will simply review 2006. We think we did a fairly good job overall, though there are some areas – especially related to mortgage servicing rights – where we are working to do significantly better.

- Both consumer and wholesale credit performed well. More important, we stuck to certain disciplines that now are serving us well. We made judgment calls that reduced revenue and often appeared very conservative. And where we chose to underwrite subprime mortgages, we adhered to strict underwriting standards. We sold almost all of our 2006 subprime mortgage originations, but retained our capacity to hold such mortgages when we believe that it is more financially prudent to do so.
- Our Private Equity investments are now about $6 billion, a very comfortable 9% of tangible equity, down from more than 20% in 2003. We think our teams in this business are doing an outstanding job and believe we have many good opportunities to grow our Private Equity business.
- We successfully managed the interest-rate cycle to minimize its impact on results. We took action based upon constant analysis and back-testing of interest-rate moves in each and every product. More important, we have tried (and continue to try) to balance our exposures so that extreme rate moves (which didn't happen in 2006) don't hurt us significantly. So while flat or slightly inverted yield curves may squeeze margins for us (as they do for our competitors), we are not that concerned about it. Our big concern is to protect our company from major rate changes.
- We materially improved the quality, consistency and level of our trading results – a major focus in 2006. And we specifically mean results versus trading volatility. We want to earn a better average return on capital with growing revenue. We will accept more volatility, but we must be paid for the risk we're taking through increased revenue. In 2006 we did a bit of both. Volatility was down while trading revenue was up substantially, by almost $3 billion.

Our Investment Bank management team accomplished this improved risk management by: a) successfully building out new trading capabilities, such as mortgage and energy, which helped diversify trading risk; b) regular reporting and reviews, particularly of large risk positions; c) increasing focus and accountability on specific trading risk; and d) more actively managing overall exposures.

- We clearly can do better on Mortgage Servicing Rights (MSRs) than we did in 2006. MSRs are the present value of net revenue estimated to be received for servicing mortgages, i.e., billing and collecting. We service over $525 billion of mortgages, and our MSR is valued on our balance sheet at about $7.5 billion. It is a volatile, assumption-based asset that can swing in value from quarter to quarter, even when fully hedged.

  As we previously reported, our MSR asset and related hedges posted losses of almost $400 million in 2006, which is unacceptable. As a result, we've spent a lot of time improving our models to make them far more sophisticated and drilling down to examine repayment issues and other factors – state-by-state and product-by-product. We've worked closely with our Investment Bank to incorporate the best from all the models.

  It is essential we get this right, and we've made good progress. We think we're about 80% there. How we value and manage this asset will be either a competitive strength or weakness. Our degree of success is a key economic variable that can help us originate and distribute loans more inexpensively. Companies that manage MSRs incorrectly will give back a lot of previously booked profits. But companies that get it right – and we intend to be one of them – will have a huge competitive advantage in an extremely price-competitive business.

Picked up the pace

All in all, we feel that we've made about as much progress as we could have in 2006. As we move toward our final major merger-related integration – the conversion of our New York wholesale platform later this year – we are declaring the merger of JPMorgan Chase and Bank One to be essentially complete. So we are – in the best sense of the phrase – back to business as usual. And that is where you want us to be.

Back to business as usual means we are moving beyond working on major, one-off integration projects, and we are looking more and more to the future. We'll continue to focus on all the basics, like people and systems and compliance and audit, as well as waste-cutting and bureaucracy-busting. But we can also look clearly to the future and focus on initiatives that will set us apart by accelerating growth and helping us achieve excellent financial results. Our confidence is strong in our ability to do this because the teams that have already accomplished so much are simply updating their mission.

We are striving for sustained financial performance, including revenue growth, better margins and returns on capital that compare favorably with the best of our competitors.

Finally, back to business as usual means that while we are running our businesses better and generating good organic growth, we are also receptive to the mergers and acquisitions that make sense for shareholders. To be viable, these opportunities must clear three important hurdles: the price must be right, the business logic must be compelling and our ability to execute must be strong. It is on this last point that many deals fail, and it is on this last point that we now have confidence, earned by what we have already accomplished.

The ability to execute a merger is a key strength that we do not want to squander on a bad transaction. We do not intend to do anything that is not in our shareholders' interest. We are patient, our internal opportunities abound and our prospects are good without any acquisitions.

II. LOOKING AHEAD: KEY INITIATIVES AND ISSUES

There are six important initiatives or issues we are tackling to help us become what we truly want to be – a consistently high-performing, highly respected financial services company.

Improving quality and service

Now that our merger work and consolidations are mainly done, we are turning more attention to improving quality and service – from front to back. We mean this in an all-encompassing way, whether it's a customer's experience with a teller, straight-through processing, improved operations, call center performance, better automated cross-selling or dozens of other areas. This applies to anything that affects the customer – and anything that makes it easier or better for our people servicing the customer. It includes cutting down on errors, which cost our company money, slow us down and annoy the customer.

The outcome, we are convinced, will be happier customers and lower attrition, more cross-selling and lower costs associated with more automation and fewer problems. The good news is that we have the focus, the will and the people to do this. They're the same ones who already have delivered so much throughout our merger work and consolidations.

Raising productivity

While over the past few years we have devoted significant attention to waste-cutting and cost reduction, we are now focusing more broadly on productivity overall. An example would be how we assess the effectiveness of a sales force. A sales force might have the right number of salespeople and the right products, but productivity could still be enhanced in multiple ways: more sales per salesperson; more sales from new products or old products; same sales but higher profitability per sale; or same sales and same profits, but deeper relationships with customers.

To achieve consistently high margins and returns relative to the competition, we need to achieve high levels of productivity everywhere and every step of the way – at every business unit, in every branch, with every sales force, in all of our systems programming units and across all our product marketing. Any company, including ours, can lose focus or be sloppy in managing productivity at these levels. Here are a few examples of how we have improved productivity:

- *Investment Bank:* We determined that our bankers in the United States were covering too many clients, and it is expensive simply to cover a client. While revenue per banker was adequate, our product penetration per client was too low. So we reduced the number of clients each banker covers, and the results should be very positive: the client should end up getting more attention, the banker should do more business with the client, and our revenue should go up. Since we already had a complete product set for bankers to sell, and because there are increasingly more companies that need our services, it was a no-brainer to add bankers.

  The Investment Bank this year is also intensifying its focus on reducing middle-office and back-office support costs. Our non-compensation expenses are too high, and as the Investment Bank has developed better financial management tools, we're better equipped to attack these excessive support costs. We believe that these excess costs could be as much as $500 million.

- *Credit card marketing:* Last year we did a good job reducing our costs of attracting, opening and servicing new credit card accounts. But to maximize opportunities, we need to become better at matching products to customers; differentiating between the profitability of new branch-generated accounts versus those generated across other channels, such as the Internet; determining what other business we should be doing with the new card holder; and ensuring that our current card holders have the right products and rewards programs. We already have made good strides: Cards with rewards programs are now 53% of our card outstandings, up from 32% in 2003. And accounts generated from direct-mail solicitations, which often come with low introductory rates (and higher attrition rates), are down to 32% from 55% in 2003. We have much more work to do to continue this progress.

- *Commercial Banking sales force management:* Now Commercial Banking rigorously tracks results and profitability by banker and by client. We have our bankers work with their clients to ensure that all clients are profitable to the firm and that all clients benefit from their relationship with the firm.
- *New products in Commercial Banking:* This past year Commercial Banking continued to expand its product offering. It added subordinated debt, mezzanine financing and even equity investing. We already had the clients. They just were going elsewhere for these products.
- *Private Bank:* We're making it easier for qualified individuals to do business with us, beginning with how they open new Private Bank accounts. In the past, they had to review at least six different documents and sign multiple times just to start working with us. Now, a new customer usually fills out only a one-page form and signs it only once. Everyone's happier, and we save some trees.

Increasing marketing creativity and focus

Our company needs to become better at marketing. And by marketing we don't mean more television ads or direct mail solicitations. We mean taking a sophisticated approach to identifying a group of customers, figuring out what they need and then delivering it to them better than anyone else. The opportunities are significant. We have multiple efforts under way, and we want to give you a few examples of them.

Develop a better offering for affluent clients

We believe we do a very good job serving our ultra-high-net-worth clients – those with more than $25 million of investable assets. But we can do a lot more for the hundreds of thousands of affluent households that fall below that ultra-high threshold.

Whether through our retail branches, our card business or our Private Client Services unit, we interact with tens of thousands of very wealthy individuals every day. But in many cases, we haven't identified them as affluent, or we haven't focused on providing them with the right set of products that is tailored to meet their unique needs. In 2007, we intend to do a comprehensive analysis of this affluent market, and then develop and begin to execute a game plan. The likely result will be better identification of affluent clients, solutions and rewards programs that cut across multiple products, more tailored products, and specialized marketing and servicing.

Use customer knowledge to refine products, upgrade service

Our customers trust us and give us a lot of information so we can know them better. While respecting a customer's privacy, we can use this information to make better-informed decisions about what to offer customers and how to evaluate them.

We've already mentioned how we can instantaneously offer an approved credit card to customers while they are opening a checking account. We can also underwrite the credit better, i.e., offer more competitive pricing based upon our proprietary knowledge of the customer. We're working on many other similar initiatives where our knowledge of the customer pre-emptively positions us in businesses such as home equity, mortgage, auto, credit card, retail branches and small business.

Coordinate outreach to specific groups

There are many different subsets of customers we serve who would appreciate and benefit from a coordinated approach to their specific needs.

One clear example involves universities. Surprisingly, we had not coordinated our outreach to this lucrative market. Retail opened student checking accounts; Education Finance made student loans; Card Services issued credit cards to students and alumni; Commercial Banking financed schools and serviced cash management needs; and our Asset Management group managed university funds. We're fixing this by working on a synchronized effort where a specialized sales team can offer a fully coordinated package more effectively and more efficiently.

Expanding to serve consumers outside the United States

International consumer expansion is not without risk. So one of our first objectives has been to add senior individuals to our talent pool who are knowledgeable and experienced in the international consumer area. In addition, we are now analyzing and developing country-specific strategies so that we can focus our efforts on the most important opportunities. We are fortunate to have developed strong relationships and partnerships over the years, so we have people and companies we trust and can rely upon for advice and access to investment opportunities around the world.

There are some essential principles supporting this effort that we want our shareholders to understand.

- Because restrictions on acquisitions – and other laws and regulations – differ by country, our approach must differ by country. In some areas, we may acquire partial interests or controlling stakes in companies, while in others we may start de novo.

- We will not stretch excessively to make investments. We believe that in many parts of the world, it is not necessary to feel desperate, as if the opportunities will exist only for a fleeting moment. We believe that as JPMorgan Chase grows and strengthens, its opportunities will increase. We also believe that in five to 10 years, as some countries develop and change, new and exciting opportunities will emerge. For example, to the extent that we would consider a merger or acquisition in Europe, there are likely to be many more pan-European banks to choose from in the future. In China or India, we might be allowed to buy a controlling interest in a bank. The set of options available to my successor will be dramatically different from and possibly superior to the current set of options. With that in mind, the best thing I can do for her or him is pass on a strong JPMorgan Chase.

Managing critical risks

The first half of this letter mentions that we were fairly pleased with how we managed risk in 2006. But managing risk is a constant challenge. We never stop worrying about it. Before discussing some specific risk issues, we believe you should be able to take some comfort from these key facts:

- Our profit margins have increased substantially, creating our best cushion for risk.

- Our balance sheet is strong and getting stronger. Tier I Capital at the end of 2006 was 8.7%, and even with stock buybacks, it should stay strong because of our improving capital generation.

- Our loan loss reserves are strong, at 1.7% for both consumer and wholesale at the end of 2006.

Here are some specific risk issues:

Challenges in the credit world

We continuously analyze and measure our risk. In fact, during budget planning, we ask our management teams to prepare – on all levels – for difficult operating environments. While the risk comes in many forms, such as recession, market turmoil and geopolitical turbulence, one of our largest risks is still the credit cycle. Credit losses, both consumer and wholesale, have been extremely low, perhaps among the best we'll see in our lifetimes. We must be prepared for a return to the norm in the credit cycle.

The chart below shows a rough estimate of what could happen to credit costs over the business cycle – provided we do a good and disciplined job underwriting credit.

Annual potential net charge-off rates by business

	ACTUAL 2006	ESTIMATED THROUGH CYCLE
Investment Bank	(0.05%)	1.00%
Commercial Banking	0.05%	0.50%
Card Services	3.33%	5.00%
Retail Financial Services		
Home Equity	0.18%	0.30%
Home Lending	0.12%	0.42%
Prime Mortgage	0.04%	0.08%
Subprime Mortgage	0.31%	1.00%
Auto Finance	0.56%	0.75%
Business Banking	0.69%	1.30%

In a tougher credit environment, credit losses could rise significantly, by as much as $5 billion over time, which may require increases in loan loss reserves. Investment Bank revenue could drop, and the yield curve could sharply invert. This could have a significant negative effect on JPMorgan Chase's earnings. That said, these events generally do not occur simultaneously, and there would be normal mitigating factors for our earnings (e.g., compensation pools likely would go down, some customer fees and spreads would probably go up, and funding costs could decrease).

It's important to share these numbers with you, not to worry you, but to be as transparent as possible about the potential impact of these negative scenarios and to let you know how we are preparing for them. We do not know exactly what will occur or when, but we do know that bad things happen. There is no question that our company's earnings could go down substantially. But if we are prepared, we can both minimize the damage to our company and capitalize on opportunities in the marketplace.

Subprime mortgages: the good, the bad and possibly the ugly

THE GOOD

We did a lot of things right:

- We did not originate option ARMs or other negative amortization loans.
- We applied the same underwriting standards to all of our subprime loans, whether originated by us or purchased from third parties.
- We sold substantially all of our 2006 subprime originations. (We underwrite all of our subprime loans to be held; in fact, we prefer to hold and service these mortgages, but prices at the time of sale were too good to pass up.)
- We were very careful in certain parts of the United States and were especially careful to seek accurate property appraisals.

THE BAD

- Default rates were still higher than we had predicted.
- In hindsight, when underwriting subprime, we could have been even more conservative and less sensitive to market and competitor practices. We've now materially tightened certain underwriting standards on subprime mortgages.
- We don't expect that losses on our subprime loans would go up by more than about $150 million – not so bad, but we prefer it weren't so.

POSSIBLY THE UGLY

We do not yet know the ultimate impact of recent industry excesses and mismanagement in the subprime market. Bad underwriting practices probably extended into many mortgage categories. As government officials investigate the market and losses mount, the industry is tightening underwriting standards by reducing loan-to-value ratios and using more conservative property values. There will be more due diligence on incomes and credit quality. More rigid standards increase foreclosures and make it more difficult to buy homes. This will lead to a lower number of sales and a reduction in home values.

The good news is this is happening in a healthy job environment, which is still the most important determinant of good consumer credit. The subprime business is a great example of what happens when something good (the ability to help a lot more people buy homes) is taken to excess. Even so, we still believe that subprime mortgages could be a very good business, and that when it all sorts out, we will be well-positioned.

Enhancing our corporate social responsibility standards

Last year we wrote to you about how our company is a caring and generous institution. We try to help all of the communities in which we operate. We do this in multiple ways, ranging from charitable giving and diversity initiatives to the promotion of economic opportunity and development. This year, we are working to make these efforts more meaningful and to become more socially responsible in a variety of ways, including several described below:

We strive to be fair and ethical in our business practices

- A strong set of principles guides our actions and informs our decisions. We demand that our executives behave in accordance with these principles.
- We are dedicated to high-quality, responsibly marketed products and services.
- We continually innovate and work to improve the quality of life for our clients and communities.

We are helping to protect the environment

Last year, we took a number of important steps in this critical area:

- We raised $1.5 billion of equity for the wind power market, with approximately $650 million allocated to our own portfolio. Since its inception in 2003, our renewable energy portfolio has invested in 26 wind farms, now totaling approximately $1 billion.
- We published a series of corporate research reports concerning business and environmental linkages, including legal and regulatory risks related to climate change, and issues and opportunities in biofuels and the ethanol market.
- We trained more than 100 bankers globally to better implement our environmental and social risk policy.
- We completed our U.S. greenhouse gas emissions baseline, increased our investments in energy-efficient projects, and purchased renewable energy credits (green energy).
- We began building several green bank branches and are seeking Leadership in Energy and Environmental Design certification for the renovation of our world headquarters.

We plan to continue the momentum with the following steps:

- We are strengthening our team to better manage the environmental and social risks within our deal flow.
- We are increasing our investments in energy-efficient projects as part of our commitment to reduce our greenhouse gas emissions.
- We are strengthening our efforts to offer clients products and services that help them reduce their greenhouse gas emissions.
- We are continuing to advance the public policy debate on the environmental effectiveness and economic efficiency of greenhouse gas emission reductions.

We are deepening our community involvement

- We intend to work more closely with government officials, regulators, communities and responsible third parties to improve both public policy and our company.
- Our philanthropic investment program is strategically focused on enhancing life in the communities we serve. In 2006, JPMorgan Chase invested more than $110 million in nearly 500 cities across 33 nations. In addition, we reinvigorated our strategic focus toward funding organizations and programs that are addressing the most pressing needs in our communities.
- In 2007, the JPMorgan Chase Foundation is taking a disciplined approach to helping our customers, employees, shareholders and neighbors in three critical need areas we call Live, Learn, and Thrive. In "Live," we focus on basic needs, such as housing, job training, financial literacy and social inclusion. The area we call "Learn" focuses on helping young people succeed in the education process, from birth through higher education, especially in impoverished areas. To help our communities "Thrive," we support vital environmental, arts and cultural institutions and initiatives. This year, we are launching our "Community Renaissance Initiative" in eight key U.S. markets, dedicating a large percentage of our philanthropic funding, energy and expertise to substantially strengthen high-need neighborhoods.

III. A FEW CLOSING COMMENTS

Corporate governance: Board of Directors

I believe your Board is functioning extremely well. Its members are totally engaged in and dedicated to setting – and meeting – the highest standards of governance. Discussions about our people, our strategies, our opportunities, our priorities and our obligations are open and substantive. The quality and productivity of these conversations should be even better as we reduce the size of the Board to about 12 members.

Compensation and ownership

While our Proxy Statement describes our philosophy in detail, I'd like to note here the key underpinnings of our compensation system: a) we believe a substantial portion of compensation should be tied to *performance*, particularly for senior employees; b) an ownership stake in the firm best *aligns our employees' and shareholders' interests*; c) compensation should be *market-based*; and d) we strive for *long-term orientation* both in the way we assess performance and in the way we structure compensation.

In addition, it's important to note some specifics:

- Your senior executive team received 50% of their incentive compensation in restricted stock units that vest over time.
- Your senior management team must keep 75% of all the stock they acquire from restricted stock units and option exercises until they leave the firm. I have held all of my stock compensation and plan to continue doing so.

- We have minimized personal perquisites, and have been particularly vigilant when it comes to club dues, car allowances and financial planning services.
- We believe pay should relate to building a company with sustained good performance. There is no magic in a single quarter or year, and we try to recognize when a friendly market, rather than excellent performance, lifts results.
- We provide senior managers limited pension and deferred-compensation programs. Also, we do not match the 401(k) plan contributions of our highest-paid employees, while we provide that benefit for most other U.S. employees.
- To recognize their hard work and to make them owners of the company, we made a special contribution worth $400 in stock to the 401(k) accounts of eligible lower-paid employees (and a comparable cash grant to similar employees outside the United States). This grant created about 12,100 new 401(k) participants and about 17,400 new JPMorgan Chase shareholders. I hope they will become regular 401(k) contributors and long-term investors. In all, more than 115,000 of our colleagues are now JPMorgan Chase shareholders.

A fond farewell to our dedicated directors and Bill Harrison

I would like to thank retiring Board members John Biggs, Jack Kessler and Richard Manoogian for their long and distinguished service to our company.

And finally, I would like to thank Bill Harrison, my friend and partner, who retired as Chairman last year. We – and I – were blessed to have such a great, thoughtful leader. To Bill and his many great predecessors, we owe thanks for bequeathing to us this extraordinary opportunity.

One last, optimistic thought

We have an outstanding strategic position, a great brand, strong character, fantastic employees and a remarkable future. I am privileged to lead this company. I don't think we know yet how good we can be.

James Dimon
Chairman and Chief Executive Officer

March 12, 2007