JP Morgan 2000

The year 2000 was pivotal in the history of J.P. Morgan Chase & Co. – the year we created a new and dynamic financial services platform with significant long-term, competitive advantages and growth opportunities.

In wholesale banking, our strategy over the past decade has been shaped by the strong belief that the winning models will combine the best of a commercial bank with the best of an investment bank. The mergers completed over the past year provide the elements for long-term success.

Scale in terms of capital, clients and products delivered globally – JPMorgan Chase has in excess of $42 billion in equity capital. The firm has relationships with more than 5,000 primary corporate clients with a balanced footprint across North America, Europe, Asia, and Latin America. And JPMorgan Chase now has leadership positions in the full spectrum of products to serve our clients globally.

Leadership position in products – Our philosophy through the succession of mergers over the last 10 years has been that leadership positions drive growth and shareholder value. Leadership positions enable us to serve clients better, attract partners and intellectual capital, and lead to meaningful economies of scale that benefit al l stakeholders. Today, JPMorgan Chase holds top-tier positions in mergers and acquisition advisory, derivatives and risk management, investment management and private banking, private equity and operating services. We are also known as the leading provider of corporate debt products in the world driven by both our bond and loan origination and syndication capabilities.

Our public equity platform – combining the large-cap American and European franchise of JPMorgan, the entrepreneurial focus of Hambrecht & Quist and the Asian presence of Robert Fleming Holdings – has the necessary components to drive us to real leadership. We already are seeing evidence that product excellence combined with valued relationships will produce business that these firms would not have had separately. Add to this the already robust trading and equity derivatives businesses, and we have all the pieces in place globally to reach our goal of becoming one of the premier brands for equity products.

Integrated talent – Leadership positions and global scale must be managed in a way that focuses on and benefits the client. We differentiate ourselves as a firm by meeting our customers’ needs through highly integrated product and client teams.

Global scale, leadership positions and integrated talent create the foundation for winning in the marketplace and fueling growth in global wholesale banking. The opportunity to create value with and for our clients is huge. Our approach, as before, is to make sure that this is our merger, not our clients’ – meaning that the quality of service they receive never falters. Client receptivity to date has been exceptional, as clients want reliable, full-service global providers of financial services to be their long-term partners. They also want a partner that has the capacity and expertise to commit capital to that long-term relationship when circumstances require. JPMorgan Chase has a clear competitive advantage here that is the heart of being the best of a commercial bank and the best of an investment bank.

In addition to the strength and diversification in the merged wholesale business, JPMorgan Chase has a solid retail and middle market financial services franchise that is the leading bank in the New York metropolitan area, the largest US mortgage company, and a top-ranked credit card and auto finance company. These retail businesses are embarking on a path toward greater efficiency, less bureaucracy, focused investments and higher growth. Both Six Sigma and technological innovation will play a significant role in enhancing distribution, service quality and client intimacy.

The growth potential that we see at JPMorgan Chase is reflected in the performance targets that we have outlined as long-term goals:

* Annual revenue growth of 10-20%
* Average cash return on equity of 20-25%
* Cash earnings per share growth of 15%

Certainly, we did not achieve these financial targets in 2000. Revenue growth was affected by challenging markets, and our cash return on equity fell to 18%. But in 2000, we did not have the benefit of the significant synergies that we see in the new JPMorgan Chase and, in fact, were hampered by the significant expense and capital demands of building the platform.

In reasonable markets, our ability to achieve these targets will be a matter of execution. To this end, we are absolutely committed to disciplined execution on four fronts: merger integration management, expense control, risk management and capital management.

Merger integration management – We believe this merger will create pre-tax synergies of $3 billion - $2 billion of cost savings and $1 billion of incremental net revenue. Our experience in past mergers has helped us to develop a detailed process of tracking accountability for business execution. The best evidence of our success to date is the fact that we were able to close on the formation of our new firm in less than four months, an important accomplishment for both client coverage and employee retention.

Expense control – Capital investment and commitments to new capabilities in investment banking in 2000 put significant pressure on our ability to manage expenses flexibly. We are targeting cash operating expenses for 2001 to be flat with 2000 (pro forma for Robert Fleming for full-year 2000). Over the long term, we intend to use Six Sigma techniques to re-engineer both costs and quality and improve productivity. We also will call on LabMorgan, our e-finance unit, to help us do business more efficiently and in new ways to create value for the firm and our clients. LabMorgan identifies, implements, invests in and nurtures the e-finance ideas that will continue to transform JPMorgan Chase.

Risk management – Disciplined management of market, credit and operating risks is fundamental to protecting shareholder value – an intense focus on the predecessor firms over the last 10 years. We will maintain our rigorous stress testing of market risk under historical and hypothetical scenarios. Our credit portfolio will continue to be highly diversified, with a strong focus on distribution instead of retention and limits on concentration by customer, industry and geography.

Capital management – We will continue with our Shareholder Value Added (SVA) discipline that pushes right down to the individual transaction level the tradeoff between employing capital in our businesses and returning it to our shareholders. With carefully managed balance sheet growth and current capital ratios currently in excess of our long-term target, this SVA discipline should lead to earnings growth and free cash flow generation for our stockholders.

From the perspective of all of us who interact with clients and markets every day, the opportunities ahead of us are enormous. There is tangible excitement within the corridors of this new company and, while it remains a challenging environment with plenty of solid competitors, we believe that JPMorgan Chase has the best long-term platform to compete and win.

The success of the present firm is built on shoulders of those who preceded us. In the past decade, John McGillicuddy, Walter Shipley and Tom Labrecque set the standard for successful integration of large, complex firms. We mourn the untimely passing of Tom Labrecque, and we appreciate all the more his commitment to integrity and the example he set.

Our focus today is on realizing the potential of the new JPMorgan Chase. We have been through a very demanding period of integration and have achieved a degree of cultural alignment that we have found remarkable. Our style in mergers is to ask our people to manage their ongoing business and to execute the merger integration simultaneously. There is still a lot of hard work ahead of us to accomplish our goals and realize our potential, but if the performance to date is any guide, the people of JPMorgan Chase are more than up to the task.