It was a challenging year for most companies, including our

own. The economy, already weak at the outset of the year, fell

into a full-fledged recession in the spring. Then came the tragedy

of September 11. This tested the strength and resilience of the

international financial system. While financial institutions,

including our firm, passed the test with flying colors, subsequent

events, including the collapse of Enron, undermined confidence

in financial markets and raised serious questions about the

integrity of accounting practices.

Despite these challenges, over the course of 2001, we

continued to build and enhance the competitiveness of the newly

created JPMorgan Chase. I am pleased to report that:

• We moved with great speed and purpose in executing a

massive and complex merger, melding two great organizations

into one. Our employee polls show a tremendous level

of internal support for the new firm.

• In the midst of a massive merger integration effort, we

gained share in most of our client and product activities,

including global mergers and acquisitions, the origination of

bond issues, loan syndications and derivatives. In doing so,

we demonstrated the value of our expanded franchise to

clients in the face of difficult and volatile market conditions.

• We aggressively reduced expenses and increased our goal

for merger-related cost savings from $2.0 billion to

$3.8 billion. By the end of 2001, we had captured more

than three-quarters of our expected savings.

Nevertheless, our 2001 results were disappointing. Combined

with declining stock markets and a sharp reduction in the volume

of mergers and acquisitions and initial public offerings, the

recession made for a weak revenue environment for our investment

banking, asset management and custody businesses.

In addition, we had substantial losses in JPMorgan Partners, our

private equity business. Lastly, there was an overall decline in

credit quality in 2001, affecting both commercial and consumer

credit. All of these factors weighed heavily on our results in 2001

and will most likely extend into 2002.

We are dealing with all the issues in front of us, and we

are doing so from a position of considerable strength. Our cash

operating return on equity in 2001 was 10% — well below our

target. Excluding the losses in JPMorgan Partners, historically a

very profitable business, our cash operating return on equity was

a more respectable 15%. Our Tier 1 capital ratio at year-end was

8.3% — well above the Federal Reserve’s standard for a “well-capitalized”

institution. Finally, the credit performance of our

loan portfolio, both commercial and consumer, held up

better than industry averages. At year-end, nonperforming assets

represented about 10% of equity, better than most of our peers.

By contrast, the comparable ratio for certain of our predecessor institutions in the early 1990s,

the last recession in the U.S.,

was more than 100%. In addition, commercial loan charge-offs

against loans outstanding were 87 basis points in 2001,

compared with 101 basis points for our peer group.

As we move beyond the current difficult credit cycle, there

is much opportunity for improvement. Continuing progress in

reducing costs and increasing productivity will result in a higher

proportion of revenues flowing to the bottom line. We expect

our private equity business, which historically has generated

outstanding returns, to return to profitability. We have realigned

this business to reduce and diversify our risk by creating new

private equity funds that enable us to invest our capital alongside

our clients.

Our firm brings together an extraordinary breadth of

capabilities — in investment banking, operating services, private banking,

asset management, private equity, and retail and

middle market financial services. There is no question we have a

tremendous strategic platform. It is combined with a strong

commitment to financial discipline and rigorous risk management

across all of our businesses.

Even though we are going through one of the most difficult

environments in recent times, I have never been more confident

in the future of the firm.

**Vision and strategy**

By delivering our broad, deep and integrated global

capabilities in a timely, efficient and creative manner, we expect

to create exceptional value for our shareholders, clients and

employees. We see three strategic requirements to succeed:

scale, leadership positions, and integrated talent and product delivery.

We also believe that our diversified business model,

combining wholesale and consumer financial services, will give us

more growth opportunity and earnings stability over time.

Let me begin with our global investment banking business,

which accounts for nearly half of our total revenues, because the

strategic landscape in this area could not be any clearer. The

number of full-service firms in this field has been declining, and

those that remain are becoming more and more capable.

A handful of major global firms are emerging as the leaders in

this sector, and we are among them.

The “must-haves” to be a leader in the wholesale space are

clear. Scale in terms of capital, clients and products is the first

must-have. JPMorgan Chase has all of those attributes. We are

one of the largest banks in the world in terms of revenues, total

assets, income and market capitalization.

In addition, nearly half of our revenues and income in wholesale

banking comes from our activities outside the U.S. With a

strong presence in Europe, Asia and Latin America, we have the

size and the reach to act as an integrated, full-service provider to

corporations, governments and other institutions on a global basis.

But size alone is not enough. The second must-have is leadership

positions across a wide range of products and services,

from syndicating loans, to underwriting bond and equity issues,

to trading securities and advising clients on mergers and acquisitions

and other complex business transactions. Our model

enables us to provide creative and integrated solutions to globally

oriented clients. As a result of our many leadership positions and

our deep relations with clients, we are able to act on their behalf

in taking advantage of windows of opportunity that may open

in one area just as they are slamming shut in another. That happened

in 2001 in a sudden shift from equities to bonds as the preferred method of raising capital for many companies. We

have essentially all of the pieces. Now we must prove that we

can provide seamless and superb execution.

The ideal firm — the firm we have visualized in our mind’s

eye as the new model for success — combines the breadth and

clout of a big firm with the creativity and agility of a high-quality

niche player. From a full gamut of leadership positions, with the

insight that comes from a close working relationship with the

client and as a result of the ability to act truly as “one team,”

our people should be able to propose and deliver the exact right

combination of products and services in any market, in any

economic conditions, anywhere in the world. That is the essence

of the third must-have: integrated talent and product delivery.

As part of this integrated delivery, the capability to use

our balance sheet intelligently to help our clients will, I believe,

become an increasingly important differentiation in gaining

market share against our competitors that do not have this

capability.

During 2001, we completed a number of complex transactions

for clients that illustrate the power and potential of such

a model. To cite one example, we were the lead arranger on a

$1 billion-plus financing package that enabled a major Japanese

automobile company to build a new assembly plant in the U.S.

By combining investor coverage between JPMorgan teams in

New York and Tokyo, our firm was able to provide 24-hour

support and close an extremely complex transaction with several

interlocking components (a syndicated loan, sale/leaseback and

commercial paper) within a very tight time frame. At the same

time, this was a transaction that depended from the start upon a

close, top-level and long-established relationship between our

firm and the client.

There are abundant opportunities for synergy across many

of our businesses and multiple avenues for creating additional

value for existing and new clients. Our clients can benefit from

our unique capabilities in investment banking, investment management

and private banking, treasury and securities services,

and private equity investing. And our global client base of corporations,

governments and high net worth individuals is second

to none.

But that is not all there is to JPMorgan Chase. We also have

a powerful and multi-faceted retail financial services franchise.

While our wholesale businesses are known globally as JPMorgan,

our retail businesses market themselves under the Chase name.

Like our wholesale businesses, our retail businesses maintain

leadership positions in key products and activities, have broad

scale and demonstrate a real commitment to delivering the

greatest value to the customer. In retail, as in wholesale, we are

known for technological excellence — both in the quality of

back-office infrastructure and in the knowledge and expertise of

our people.

Chase ranks among the leaders in the U.S. marketplace in

credit cards, mortgage lending and auto finance. We have more than 27 million credit card accounts across the U.S., are the

number one originator of auto loans (excluding the finance

operations of the auto companies themselves) and are one of the

leading originators of mortgages. Chase is a broad-scale and

extremely efficient provider of these important personal financial

services.

At a regional level, we have strong branch networks in the

tri-state area of New York, New Jersey and Connecticut as well

as in Texas. In the tri-state area, we are number one in deposit

share and number one in middle market and small business

lending and finance.

Finally, through Brown & Company, we have a profitable

online brokerage operation geared to high net worth individuals.

Though small, Brown & Company operates on a national level

and represents a vehicle for potential future growth.

While the market for financial services is far more fragmented

on the retail side than it is in wholesale, certain fundamentals

apply in both worlds. One is the importance of flawless execution.

That is why we are using the Six Sigma approach to drive

improvements in quality and efficiency throughout JPMorgan

Chase. Whether the product is a $50,000 mortgage or a multibillion-

dollar underwriting, we aim to get everything right the

first time. Similarly, in all of our businesses, we have invested

heavily — not just in systems but in the education of our people

— in making the best and most creative use of technology.

In wholesale and retail financial services alike, our simple

goal is to provide best-in-class products and integrated solutions

that meet the complete financial needs of all of our clients and

customers. Certainly, that is the way all of us at JPMorgan Chase

felt in the days and weeks following September 11. The response

of our people throughout the firm in tending to clients of every

description was nothing short of extraordinary. They did everything

from opening a business recovery center, to speeding the

refinancing of a major airline, to working double shifts in London

and Tokyo to keep the world’s foreign exchange and payments

system working.

**One firm — one team**

Formally concluded on the last day of 2000, the merger of

J.P. Morgan and Chase Manhattan brought together two of the

greatest names in banking — with a combined history spanning

hundreds of years.

Not only was ours one of the most complex mergers in the

history of financial services, but it also has been the most swiftly

and fully executed of mergers. We did not wait to break down

boundaries and build new teams and organizations from the

ground up: We entered into this merger with a mindset of equality

and inclusiveness. It helps, I believe, that we had a decade’s

worth of prior experience in putting together large mergers and

acquisitions. Our attitude is simply this: Pick the best people. Pick

the best systems. Pick the best strategy. And do not wait to make

the tough decisions that have to be made to cut costs and

capitalize on opportunities for top-line growth.

We also have put a huge emphasis on communications

— on creating a common culture and aligning all our people

around the vision and strategy. People want to be part of a

team, and they especially want to be part of a winning team. At

JPMorgan Chase, the vast majority of our employees responding

to internal polls have signaled strong satisfaction with and commitment

to the new firm. Clearly, most can see we are building a

winning platform, and they are excited to be part of it.

We have launched a broad range of leadership initiatives

across the firm, including LeadershipMorganChase, our own

version of a leadership and cultural learning center. Jack Welch,

former chairman of General Electric — who is both a great

leader and a great teacher — is acting as an advisor to us in

this and other endeavors involving leadership development.

LeadershipMorganChase will be an important tool in creating a

strong common culture that capitalizes on opportunities for

synergy across our firm and enables us to achieve true leadership

in global financial services.

**In conclusion**

This past year also witnessed significant change in our

senior management, as Sandy Warner retired as Chairman of the

Board. His leadership and dedication helped create a smooth

transition as two firms became one. I want to thank him for his

invaluable partnership and for helping to create a foundation

upon which our team will build. In addition, Marina Whitman,

professor of business administration and public policy at the

University of Michigan, will retire from our Board of Directors on

the eve of the 2002 Annual Meeting of Stockholders. I deeply

appreciate the counsel and guidance she has provided for the

past 29 years.

JPMorgan Chase is entering a new era. No longer are we

consumed with the task of putting together the different pieces

needed to achieve our vision of a richly diversified firm that will

be one of the true leaders in global banking. We essentially have

all of those capabilities in-house. We have built a tremendous

platform. So now our task is to deliver — to perform. I am very

confident of our ability to do just that.

**William B. Harrison, Jr.**

Chairman and Chief Executive Officer

March 1, 2002