As of year-end 2005, I stepped down as CEO of

JPMorgan Chase – turning the leadership of the firm over

to my partner, Jamie Dimon, who I believe will prove to be

one of the outstanding CEOs the financial services industry

has had in a long time.

As Chairman, I look forward to contributing to our growth

by leveraging my global relationships and contacts and by

helping to further develop strategy.

As I look back on my 38 years in the industry, all with the

same organization, I realize how fortunate I have been and

what an exciting journey I have been on. When I left a

small town in North Carolina to join Chemical Bank in

1967, my goal was to spend two years in New York and

then return to North Carolina. Little did I know I would

be part of an industry and a career that were as challenging

and rewarding as these have been.

I step down as CEO believing that:

• JPMorgan Chase is very well positioned strategically to be

one of the great financial institutions in the world.

• Size does matter in our industry – provided that size

translates into operating and scale efficiencies, increased

profit margins, stronger earnings and leadership

positions. And the benefits of size can only be realized

within a culture that values teamwork, partnership

and execution.

• One should be a leader – not a follower – as our industry

irreversibly consolidates in a globalizing world.

• A diversified model will prove to have competitive

advantage in terms of creating shareholder value

over time.

• Managements and boards have to manage with a

longer-term outlook and resist the pressures of the

quarter-to-quarter mindset of the market.

• Building the best performance culture in the industry

will ensure that all of the inherent potential of size is

harvested and maximized.

• Relationships matter – with clients and with each other

internally – and without them, a firm will never reach

its potential and be its best.

• Companies with the highest ethical values, which start at

the top and cascade all the way down, will be the great

companies – and we must keep raising the bar on how we

achieve this in a large, complex corporation.

• Surrounding yourself with people who are smarter and

better than you are is critical because your talent pool

will be a key determinant of success.

• I have been one of the most fortunate people in the

world to have had the experience and the success I have

had, and there is not one day that goes by that I don’t

think about this.

So from a small town to a big city – from a small bank to a

big bank, I learned much along the way – that you, in fact,

never stop learning. You should always commit to be the

best you can be, you should think big and dream big, and

you should think about how you can win and what your

strategic platform should be to create sustainable shareholder

value. And you should do this by always, always

having the right set of values and living by them.

You learn that the peaks and valleys, the successes and failures

of your job and life need to be viewed with the proper

perspective and balance, and only with that balance and

perspective can you find true north.

You learn how important your family and friends are in

enabling you to maintain the passion and commitment to

be the CEO of a firm like JPMorgan Chase and how privileged

you’ve been to have been the leader.

Thus, while my JPMorgan Chase career is nearing an end, a

new chapter in our company’s long history is beginning. It is

time to pass the baton to a new group of leaders, led by

Jamie Dimon, who will take this firm to the next level of

performance, harvesting its vast potential and maximizing

shareholder value through great execution.

Let me close with a profound thanks to our shareholders

who have had the faith to believe in the potential of this

firm. Thanks to our outstanding Board of Directors for

their support and wisdom, and I want to express my

special gratitude to retiring directors Larry Bossidy and

Hans Becherer whose advice and counsel over many years

have been invaluable. Thanks to all of our clients and customers

around the world for the opportunity to serve them.

And thanks – 168,000 thanks – to our talented and dedicated

employees around the world for what they stand for and

for what they contribute every day.

I could not be more excited and confident about our future.

Sincerely,

William B. Harrison, Jr.

This is my first letter to you as the CEO of JP Morgan

Chase. From a personal standpoint, I want to share with

you some feelings and thoughts. I feel a tremendous mix of

emotions: excitement about our potential, and a great sense

of obligation and responsibility both to you, our shareholder,

and to those who have built our company over the

years. They have given us an exceptional opportunity – and

we owe them not only our gratitude, but also our commitment

to deliver on our company’s potential and make them

proud of what they have helped to build.

We have accomplished a great deal over the last year, and

we are excited about our progress in 2005 and our plans for

2006. The foundation for everything we are doing rests on

a set of business principles that we believe, when executed

properly, create great companies. These principles are

described on our Web site: www.jpmorganchase.com. In

essence, we strive to:

• Share with you the truth and offer honest assessments

of our businesses and our prospects.

• Act with integrity and honor.

• Do the right thing, not necessarily the easy or

expedient thing.

• Work hard and with fierce resolve to make this a

company of which our shareholders, employees,

customers and communities can be proud.

• Focus relentlessly on the execution of our business

principles.

There are some specific issues that are integral to the success

of our company. I would like to address them by

answering the following questions:

I. Are we in the right businesses?

II. Can we achieve outstanding performance?

III. Are we properly managing our risks?

IV. Do we have the right people and the right

compensation strategy?

V. Are we a good corporate citizen?

**I. Are we in the right businesses?**

Let me unequivocally answer this question with a resounding

“yes,” for three reasons: each business is already well

positioned – in terms of size and scope – within its specific

industry; there is exceptional value in the linkages among

our businesses; and the company’s size, scale and brands are

a competitive strength.

**Each business is already well positioned within its**

**specific industry**

Our six major lines of business – Investment Banking,

Commercial Banking, Retail Financial Services, Card

Services, Asset & Wealth Management, and Treasury &

Securities Services – all compete in consolidating industries.

Businesses consolidate when the vast economies of scale that

can be achieved (in systems, operations, distribution, brand

and R&D, to name a few) will benefit the customer.

We cannot underestimate the power of these economic

forces. Nor can we ignore the inevitable impact they have

on our businesses. But change is hard – and many who

attempt it fail. The winners will be those who can provide

their customers with more access to better financial products

and services at a lower price. In this environment,

size, scale and staying power matter, and all of our core

businesses *already have* what it takes to succeed; but as I

discuss later, we must continue to improve our execution

skills to distinguish our company in the marketplace. Our

businesses do not and will not want for capital or investment.

They are well equipped to survive in good and bad

times, and our customers will continually benefit from

their stability and efficiency, as well as the investments we

are able to make in technology and innovation.

**Our businesses belong together, and there is**

**exceptional value in the linkages among them**

As separate entities, our businesses are currently well positioned;

together they are even stronger. Putting our businesses

together makes sense only if doing so creates value

for customers and, ultimately, shareholders. It does not

work because we want it to – it only works because it gives

the customer more for less, sooner rather than later. We

have no interest in selling our customers products that they

do not want or need.

In this context, the term “cross-sell” can be misleading.

“Cross-selling” often carries negative connotations – as if it

is a forced and unnatural act. In fact, it should be described

more appropriately as “natural product-line extensions,”

which businesses have been doing successfully for hundreds

of years. Wal-Mart has continually expanded the types of

products it sells. Twenty years ago, who would have

thought that it would sell lettuce and tomatoes? These

product-line extensions are true also for Home Depot, commercial

banks, investment banks, stockbrokers and even

manufacturers. GE Aircraft Engines now finances and services

what it manufactures. The essence of what makes this

successful is that the customer is the winner.

By extending our product lines, we are able to leverage the

substantial investments we have made to build our distribution

system (e.g., branches, technology and sales people),

strengthen our brand and earn the trust of our customers.

For example, today our branches, which are our retail

stores, not only accept deposits and provide access to cash,

but also sell investments, mortgages, home equity loans,

debit and credit cards, and online bill paying services, as

well as small business loans, international funds transfers,

payroll services, annuities, etc.

Our clear “natural product” set is financial services, which

is what individuals and businesses want and expect from us.

Where the products are “manufactured” is of little interest

to them. What is important to them and to us is our

ability to provide a better product, or package of products,

at a lower cost. Our challenge is to view this from their

perspective and ensure that our collective resources are

focused accordingly.

In addition to providing substantial potential for growth,

our mix of businesses presents us with fertile ground for

innovation. Here are a few examples of how our businesses

are working together:

*Retail and Card Services*. The competitive advantage is

formidable when our retail bank – which serves almost

10 million households – joins forces with our credit card

company, with its 110 million cardholders. This collaboration

should result in excellent new products that address

specific consumer needs. For example, we may be able to

make life much simpler for our customers by linking credit

and debit cards and by offering them other products. The

results of recent efforts are promising: credit card sales in

our retail branches are up nearly 100% from two years ago.

*Commercial Banking and Retail*. A strong connection

already exists between our Commercial Bank and our retail

branches. In fact, there are few successful commercial banks

in America that do not have a retail bank – and for good

reason. A large share of retail business comes from small

businesses and mid-sized companies. Many use branches as

their financial back offices for cash, payroll processing and

wire transfer services. This interdependency is cost effective

for us and beneficial to our customers. In addition, business

accounts often lead to new personal accounts and vice versa.

*Investment Banking and Commercial Banking.* A natural connection

exists between an investment bank, which essentially

serves large public companies, and a commercial

bank, which essentially serves mid-sized to small public

and non-public companies. Our Commercial Bank already

generates hundreds of millions of dollars in revenues from

offering its clients traditional investment banking services

(e.g., advisory, debt and equity underwriting). Over the

next few years, we believe that we can double Commercial

Banking’s revenues from these activities. In cities like

Indianapolis, Austin, Denver and Tucson – where our

Investment Bank does not have a physical presence – local

businesses have strong relationships with our commercial

bankers. These bankers know when their clients are contemplating

transactions and need access to investment

banking expertise. The connection is valuable for clients

and beneficial to us. It enables our Investment Bank to

generate revenues from its product expertise that it could

not have previously produced without the client relationship.

And it enables the Commercial Bank to better serve

its clients by providing them with the additional products

that they need.

*Treasury & Securities Services; Asset & Wealth Management.*

Another important connection exists between Treasury &

Securities Services and our other businesses. Many of our

major customers (institutional, middle market, small business

and retail) use TSS for activities such as cash, checks,

ACH payments, wire transfer and custody. TSS generates

approximately $9 billion of annual revenue by serving these

customers. Asset & Wealth Management also benefits from

working with other businesses, including managing assets

for corporate clients, helping them meet their complex pension

and investment needs, and offering products from

across the company to individual clients.

Plenty of other examples exist, but the critical point

remains: while each business should do well on its own, it

should also be able to capitalize on our company’s extensive

and unique set of products and services to more fully and

profitably meet customer needs. There is certainly no reason

why they should do worse because they are part of this

institution. The key, of course, is that the customers must

be the winners.

**The size and scale of the company are a competitive**

**strength**

The size, scale and scope of JPMorgan Chase also offer huge

advantages: economies of scale in operations and systems;

diversification of capital, risk and earnings; a great global

brand; and the capability to make large investments at a

lower cost of capital. In particular, the benefits of size and

scale in operations and systems are vast, and they are real.

Our diversified earning streams lower our risk, increase our

credit ratings and reduce the cost of our capital. And since

one of our major costs is the cost of money, the ability to

raise funds cheaper, better, faster and more effectively around

the world than other companies is a major advantage.

But size alone is not enough to win. In fact, if not properly

managed, it can bring many negatives. Huge companies

operating in complex, consolidating and fiercely competitive

industries like ours can only achieve and sustain their

success by competing where the “rubber hits the road” – at

the level of the store, the product and the banker – not at

corporate headquarters. We must equip those employees on

the front lines to be responsive and responsible. The way

we manage our size will reflect how much we recognize and

respect this imperative. Bureaucracy and waste are lethal.

To remain healthy and vibrant, we must constantly and

consistently minimize bureaucracy, eliminate waste and

insist upon excellent execution.

**II. Can we achieve outstanding performance?**

“Yes,” but we are not there yet. Good positioning does not

assure great performance. Creating great performance is not

mystical; it takes consistent effort, focus, hard work and

discipline.

The starting point for us is to admit where we are. Any

way one analyzes our businesses, for the most part our costs

are too high, our returns on capital are too low and our

growth is not what it could be.

We are underperforming financially in many areas. We

need to understand the reasons and focus our energy on

making improvements, not excuses. We cannot afford to

waste time justifying mediocrity. Each line of business

now assesses its performance in a rigorous and very detailed

way. Each compares results to targets in a variety of areas,

including sales force productivity, customer service and

systems development.

It is not enough for the overall business to make its profit

targets. It would be unacceptable to achieve good financial

returns by reducing expenses that are critical investments

for the future or by compromising the *quality* of business

that we do. The best way to reach and sustain a higher level

of performance is to get every part of the business to step

up its game. For example, we have some businesses that, in

general, achieve adequate returns. These results are often

produced when a few exceptional business segments do the

heavy lifting for the rest. We cannot use our strengths in

one part of our business to subsidize our weaknesses in

another part.

We spend a lot of time on capital and return on capital.

How we allocate capital should reflect our understanding of

how changes in the economy – and the likely length and

intensity of the cycles they cause – will affect specific parts

of our business. Where will the risks and growth opportunities

be? For example, there *will* be another recession; we

just do not know when. What we do know, however, is that

when it happens, our annual credit costs will increase substantially.

Therefore, when we talk about return on capital,

we must look at it through the cycle, not just during the

best parts of the cycle.

Many companies that compete in our businesses have been

well managed and able to produce excellent results for

decades. We have every reason to be among them. Time

will tell if we are. We have made progress, but not enough.

To get outstanding performance, we must instill the following

disciplines deep into the fiber of our company.

**Become lean and efficient**

This is an imperative. One cannot achieve great performance

in fiercely competitive industries without being

lean and efficient. It is irresponsible to waste our critical

resources on expenditures that have nothing to do with

better serving our clients and building a great company.

We need to use our resources to grow, innovate, market,

hire productive people and build systems. It is not just

about cutting costs. A company cannot become great just

by cutting costs. It is about building better systems to better

serve our customers. It is about paying our people not

only fairly, but effectively, to help create the right behavior.

It is about how we run meetings. It is about designing the

right products that are also profitable. (Many companies

design products that lose money, and they do not even

know it.) It is about constantly improving productivity.

We must continually ask ourselves: Can the same investment

in the same area be better spent? Does every business

strive to get the most out of its resources? The Investment

Bank, for example, has many businesses, depending upon

how you measure it. Does each business spend its money

efficiently and wisely? Are we spending the right amount

in the right way and expecting the right results? Last year,

we spent over $1 billion in marketing to get 11 million new

credit card accounts. Can we spend more and get even better

results? We probably can. This year, we want to both

spend more and get more from every dollar we spend.

When we determine that we can and are spending money

wisely, we will want to spend *more, not less*.

Since the merger, we have realized $1.9 billion in merger

savings. However, much more is needed to achieve what we

would consider to be *real* efficiency. This past year, we

launched and completed major projects aimed at increasing

our efficiency and improving our customer service over the

long run. They include:

• Completing the largest credit card conversion in history.

This effort combined over 30 million heritage Chase and

Bank One accounts onto a single platform and provided

us with a single best-in-class system to better serve our

customers (and at a lower cost).

• Integrating and upgrading all of our businesses in

Texas – in terms of products, brand, systems and

operations – where we have 20,000 employees serving

2 million customers.

• Converting all U.S. dollar clearing to one platform globally,

an operation that processes an average of $3.2 trillion

daily for 200,000 clients worldwide.

• Executing the largest merger of mutual fund families in

U.S. history, affecting 1.1 million fund shareholders.

• Completing the first and second construction phases of

our new Global Services Center in Bangalore, India, and

hiring 8,700 employees to meet increased demand and

deliver more services from India.

• Migrating much of the company’s production, disaster

recovery, and development and test systems into a new

data center. The move increases our data storage capability,

enhances our resiliency, reduces infrastructure points

of failure and lowers overall cost to the firm.

Over this next year, we will continue to massively

upgrade and streamline our systems and operations.

Highlights include:

• Converting and upgrading all of our operations in the

New York tri-state market, beginning in the second

quarter. This will be one of the most visible bank conversions

in our industry and will have an impact on all

of our businesses – specifically, 4.8 million deposit

accounts representing over $190 billion, and involves

more than 400 heritage Chase branches and over 3,000

teller workstations.

• Providing our retail and wholesale customers with uniform

Internet platforms, upgrading loan origination systems

and implementing a new mortgage servicing system.

• Substantially improving infrastructure, including data

centers, networks and financial management systems.

We cannot build a great company unless we are unrelenting

in our efforts to be a lean and efficient company. This must

become a permanent part of our mindset.

**Remove barriers to success**

As I mentioned before, excessive bureaucracy is lethal. It

slows us down, distracts us from our clients and demoralizes

good employees. We must act with more openness, passion

and urgency. The process of busting bureaucracy never ends,

but what is different now is that our employees are engaged

in challenging the system and solving the problems.

We continue to attack bureaucracy and improve all aspects

of our management practices, including:

• *Accountability and decision making:* Central to the changes

we have undertaken is the realignment of corporate staff.

Now embedded in the businesses are many of the staff

functions – like finance and systems – that used to be

concentrated at the corporate level. The realignment gives

our businesses greater ability to manage their support

functions. For staff, better access to the businesses they

support provides them with more knowledge and control.

The restructuring will lead to better accountability,

transparency and reporting, which in turn will *improve*

execution and overall corporate risk management.

• *Management information and discipline:* It is hard to act

on the truth if you do not know what it is. We want

managers to have the tools and information to run their

businesses as if they owned them. With this goal in

mind, we now produce thousands of increasingly accurate

reports that provide managers with specific information

on their performance. In addition, we give them

tools to proactively eliminate waste and manage their

resources. Better reporting has dramatically improved

the effectiveness of our business review meetings.

Without this information, these meetings are often a

waste of time. They now are convened at many levels of

the company and focus on where we are and need to be,

relative to our own benchmarks and the best performers in each business.

As a result of these discussions, we are

able to establish real targets for our businesses in terms

of growth, margins, returns, market share, etc.

• *People practices:* We have rationalized human resource

processes by eliminating several unnecessary procedures

and personnel to place accountability for managing people

squarely where it belongs – with line managers. For

example, performance reviews have been revamped and

simplified, training has been streamlined and executive

coaches have been eliminated. (We think coaching is the

manager’s job.) Performance reviews should facilitate,

not prevent, meaningful, honest and comprehensive

results-oriented exchanges between managers and their

direct reports. Yet over time, the process grew to take on

a life of its own and became a hindrance. Now the barriers

are being removed. In addition, we have created a

forum for discussion of our talent and made people management

generally, and diversity in particular, part of the

agenda of senior manager meetings across the company.

We remain devoted to our people and their development,

but we will use management accountability, not

bureaucratic processes, to prove it. We want our people

to communicate openly, easily and constructively.

**Focus resources where we can succeed and win**

We have sold or liquidated several businesses that either

did not fit our strategy or did not contribute significantly

to our long-term success. For these reasons, we sold

BrownCo, and businesses in manufactured housing and

recreational vehicles. We also announced the sale of our

insurance business and have dramatically reduced the size of

our auto leasing business.

By discontinuing or reducing our commitment to ancillary

businesses, we availed ourselves of billions of dollars in capital.

We redeployed this capital in businesses where we can

win. For example, we invested in JPMorgan Cazenove, an

investment banking joint venture in the United Kingdom

(which already shows promising results); expanded our

global trade management operations with the purchase of

Vastera; and acquired the Sears Canada private-label credit

card portfolio. In addition, we have recently completed

the purchase of a consumer educational loan business,

Collegiate Funding Services, that both processes and

underwrites loans. These are all transactions that position

us for real growth.

We have also freed up and redirected our capital to support

innovation. We want to make innovation part of our DNA.

This does not mean spending hundreds of millions of

dollars on failed ideas. It does mean, however, that we

will take calculated risks, knowing that some will fail.

Progressive thinking should be reflected in every conversation,

every analysis, and every product and service we

provide. We have many new products coming out this year

that we think will fill this bill.

**The ultimate goal: create organic growth**

Profitable, sustainable, properly underwritten growth is

not a vision. It is the result of excellent management

discipline, an unrelenting focus on execution, consistent

management of risk, a competitive product set and

outstanding customer service.

The level of effort and expense associated with merger

activities and systems consolidation has been predictably

huge. So the fact that we were able to absorb the impact –

and still cut costs *and materially increase* investment spending

– is a source of pride to all of us. What is even more

gratifying, however, is to see evidence of real growth in

most businesses, something that is often a casualty in

merger consolidations.

In 2005, real growth – albeit not always great growth –

took place across the board. Retail increased its deposits,

checking accounts and credit cards. Commercial Banking

achieved growth in leasing, middle market lending and liability

balances. Treasury & Securities Services produced

more custody business and had growth in liability balances.

Asset & Wealth Management increased the level of assets

under management. Card Services had growth in new customers,

partners, card receivables and spending. Revenues

in the Investment Bank increased in M&A, asset-backed

securities, high-yield bonds and energy trading.

Equally important, we materially increased investment

in areas that will drive *future* growth. Specifics include:

spending hundreds of millions of dollars to open 150 new

branches (this will drive growth in 2007 and beyond);

adding more retail loan officers; hiring additional private

bankers; funding the build-out of our energy and mortgage

trading capabilities in the Investment Bank; and investing

in state-of-the-art “blink” credit card technology (which

enables customers to use credit cards for small payments

without having to sign anything). Now being piloted in

six cities, blink is an investment that has put us at the forefront

of changes in payment systems and card innovation.

In addition to making across-the-board investments to

build our businesses, we are making investments in our

infrastructure that anticipate growth and prepare us to

successfully manage it for years to come. In 2005, we

invested over $1 billion in platform conversions, including

those for Texas and Card Services.

By consolidating and improving platforms, we are eliminating

the inefficiencies and competitive disadvantages

associated with multiple operating platforms. In the process,

we will create best-in-class platforms in many areas, such as

global cash clearing, credit card, retail branches and some of

our trading business. We believe that long-term success is

not possible without great systems and operations. They will

drive efficiency, innovation and speed to market. Much of

this will be accomplished by the end of 2006.

**III. Are we properly managing our risks?**

Almost all of our businesses are risk-taking businesses –

and we spend a great deal of time thinking about all

aspects and types of risk inherent in them, including:

• Consumer and wholesale credit risk

• Market and trading risk

• Interest rate and liquidity risk

• Reputation and legal risk

• Operational and catastrophic risk

The notable fact about the first three risk areas is that they

are cyclical, and all of them have elements of unpredictability.

This requires us to be prepared for inevitable cycles. A

company that properly manages itself in bad times is often

the winner. For us, sustaining our strength is a strategic

imperative. If we are strong during tough times – when

others are weak – then the opportunities can be limitless.

Protecting the company is paramount. I will highlight the

types of risks we focus on to give you a sense of the threat

they pose and how we plan for it.

**Consumer and wholesale credit risk**

Over the years, our company has substantially reduced its

wholesale credit exposure by using a disciplined process for

extending credit and maximizing return on shareholder

capital. In the consumer market, we have controlled our

risk by limiting the amount of low-prime and sub-prime

credit we issue in our card and other consumer businesses.

In addition, we have decided, at the expense of losing some

volume, not to offer higher-risk, less-tested loan products,

such as negatively amortizing Option ARMs.

While we are taking the right steps, we estimate that in

a recession, consumer and wholesale credit costs could

possibly get worse by more than $5 billion. This daunting

reality requires us to be prepared and well protected.

Protection #1 is having larger and more durable profits to

absorb the losses. We are accomplishing this by increasing

our margins virtually across the board. Protection #2 is

maintaining a fortress balance sheet. We try to understand

and manage every asset and every liability and make sure

that someone is accountable for each one. It also means

maintaining, as much as possible, strong loan loss reserves.

Finally, having a well-capitalized firm is critical. With

Tier 1 capital at 8.5% and total capital at 12%, we believe we

are there. The important point is that we need to manage

the business, the balance sheet and the investments to earn

adequate returns through the cycles and to be prepared for

surprises. We do not want to realize high returns at the top,

only to give them all back at the worst part of the cycle.

**Market and trading risk, and interest rate and**

**liquidity risk**

We need to manage our risk–return payoff better in 2006.

In 2005, our trading volatilities were unacceptably high.

The $6 billion in trading revenues (not a bad result on its

own) was the result of two great quarters and two quarters

where we underperformed. We think that is too much

volatility, and reducing it is one of our priorities. I believe

we can accomplish this by continuing to diversify our trading

business, by being more disciplined and precise in the

execution of our risk management practices, and by hiring

and retaining the best talent. We intend to deliver better,

more consistent results over time, while maintaining our

aggregate risk-taking appetite.

The good news is that we *have aggressively invested* to generate

more diversified and consistent returns. For example, we

have added energy trading, and increased our activities in

mortgage- and asset-backed securities, and principal investing.

We have leadership positions in credit markets and in

our derivatives franchises, and we will continue to invest in

order to sustain them. And while in the short run, some of

this has actually increased volatility, we are convinced that

our efforts – consistently applied – will succeed. However,

we caution our shareholders not to expect immediate results.

Interest rate exposure is another area in which financial

services companies can assume excess risk – often at great

peril. As with underwriting credit, good analysis of interest

rate exposure is rooted in facts and evaluations that are

based upon a variety of realistic assumptions and scenarios.

We devote substantial resources to understanding how

interest rate changes will affect our performance. This

analysis should be – and will be – an ongoing process. We

believe that our company has carefully managed its interest

rate risk so that even dramatic moves in rates of several percentage

points cannot alone damage the company.

A healthy liquidity profile is essential to the ongoing viability

of any company, financial or otherwise. We use a variety

of tools to maintain a strong liquidity position at the

parent and subsidiary companies, including stress scenarios,

collateral management and a conservative debt structure for

the company overall. We engage in a continual dialogue

with major rating agencies, and we are focused on maintaining

and improving our strong credit ratings.

**Reputation and legal risk**

The litigation costs in business are well known. We are

intensely focused on ways to safeguard the firm’s reputation

and exposure. They include:

• Senior management endorsement of a code of conduct

that all employees must sign and adhere to, as well as a

commitment to provide appropriate training.

• A strong and independent compliance program that

encourages employees to assist in surfacing compliance

and ethical issues, and identifying money laundering and

terrorist financing activities.

• A more robust due diligence process focused on securities

underwriting transactions, where we have established

centralized oversight of our processes and standards.

• A disciplined governance process to address conflicts and

review transactions that may present conflicts that could

harm the firm now or in the future.

• A productive and open dialogue with our regulators and

an ongoing emphasis on staying alert to changes in regulatory

standards.

We believe that these actions will mitigate our exposure,

but we recognize, unfortunately, that they will not eliminate

it. We have also implemented a disciplined process to

continually review our liabilities and establish appropriate

litigation reserves. While we make every effort to properly

manage the company to reduce litigation and legal costs,

we believe that our shareholders should assume that high

legal costs will continue for the foreseeable future. They

should be viewed, unfortunately, as simply a higher, permanent

cost of doing business than in the past.

**Operational and catastrophic risk**

This year, we also made progress in strengthening our operational

risk management programs. We have a consistent

approach across all businesses for defining and aggregating

our exposure to potential operational loss. This approach

helps us determine whether we will be adequately capitalized

in the event of such a loss. In addition to carefully

managing operational risk, we need to be prepared for

unforeseen disasters. Catastrophic risk can take a variety of

forms and significantly impair the performance and the

operations of the company. We have formal disaster recovery

and contingency plans in place. They worked well during

Hurricane Katrina and the bombings in London, but

we must continue to refine them as new risks appear.

Whatever the type of risk, the key point is that we try to

have a comprehensive approach to managing it. This

requires that the right people be in the right jobs and that

there be clear accountability in each business for managing

risk in addition to rigorous corporate oversight.

**IV. Do we have the right people and the right**

**compensation strategy?**

At the end of the day, it all comes down to people. We have

great people in this company. As I travel across the United

States and around the world, I have become increasingly

impressed with the talent and potential of our employees.

Rarely can a company assemble this level of creative firepower

and professional competence.

To maximize the collective strength of our people, we will

need to work better as a team. Great teams are not great

because they have star athletes. Great teams are great

because the players have learned how to work together and

focus their collective energy and talent on winning. We are

in the early stages of building a great team.

The compensation cycle was difficult but productive this

year. We are getting better at relating pay to performance.

But there is still room for improvement. Increasingly, we

also must orient ourselves to *absolute performance* against best-in-

class targets, not simply improvement in performance.

We want to be clear and truthful when we rate ourselves,

and fair as well as effective when evaluating performance.

Good performance goes beyond individual productivity to

include group, unit and company performance. Compensation

is not an entitlement; it should reflect an individual’s and a

team’s contribution to helping make this a great company.

We want to be one of the best-paying companies – but only

when we are one of the best-performing companies.

We also want our employees to feel and act like owners,

which is why stock is an important part of our compensation

plans. Today more than 120,000 employees own, or

have an option to own, approximately 14% of shares in the

company. Executive Committee members are required to

retain 75% of their stock awards as long as they are with

the company. And in general, stock options are awarded on

a limited basis.

We continually review our benefits programs to assure that

they are of value to employees and cost effective. For example,

the company has excellent medical benefits programs,

but we subsidize them more for lower-paid employees than

we do for higher-paid employees. (I hope that this instills a

sense of pride in our managers.)

In addition, we no longer match highly paid employees

in their 401(k); they have adequate pensions. We do not

offer perks to executives like club memberships, financial

planning and leased cars. We are reducing excessive executive

severance plans. But more importantly, we are paying

our employees more. Our thinking is simple – less compensation

through entitlements, more from performance.

We *want* to pay more and let our employees spend what

they earn as they see fit.

We need to constantly remind ourselves that the most

important thing we can do for employees is to build a

healthy, vibrant company that treats people with respect

and creates opportunity. Morale is not based upon perks;

morale builds from respect, growth, innovation and success;

from establishing a true meritocracy; from the stock performing

well; from customers liking to do business with us.

A great company will provide people with competitive

compensation, the opportunity to benefit as the company

grows and a rewarding career path.

**V. Are we a good corporate citizen?**

JPMorgan Chase has been – and will continue to be –

a good corporate citizen. It is vitally important and

enormously gratifying to all of us. Our commitment to

our communities is deep, broad and multifaceted. We

strive to be a great place to work and do business, and our

success allows us to give back to the neighborhoods and

cities we serve.

In one sense, we view ourselves as a small business. If we

were the neighborhood store, we would give kids summer

jobs, sponsor local sports teams and support community-based

organizations. We operate this way in many of our

communities around the world, striving to be as supportive

as we can in all the communities we serve.

We add value by focusing on issues that are universally

important, including education and community development.

We dedicate resources to develop signature programs

that help communities overcome the challenges they face in

these areas. We are morally, programmatically and institutionally

committed to inclusiveness and diversity.

JPMorgan Chase contributes more than $100 million annually

to support local, national and international initiatives.

Examples include:

• **Chase Early Emergent Leaders** in Arizona, where

we are funding a leadership and training program, and

providing technological assistance and training in

literacy skills.

• **Corporation for Supportive Housing** in Ohio, where

we are helping the homeless as well as individuals recovering

from drug and alcohol addiction by giving them

access to 300 units of affordable housing and providing

them with the support they need to live independent,

responsible and healthy lives.

• **South Bank Centre** in London, where we are supporting

music and technology education that will help bring

artistic programs to thousands of young people.

• **DonorsChoose** in Chicago, where we are participating

in an effort that uses the Internet to connect donors

nationwide with underserved classrooms. We are helping

to expand this program for public schools in states

affected by Hurricane Katrina.

• **StreetSquash** in New York City’s Harlem neighborhood,

where we are funding a community youth facility

that will serve over 1,000 students through academic and

athletic programs.

• **Wilmington Housing Partnership** in Delaware, where

our support is helping develop over 300 affordable housing

units in our local communities.

Our commitment to community involvement goes well

beyond philanthropy. Across the country and around the

world, we bring this commitment to life through a broad

range of initiatives:

• **Community reinvestment.** We have received outstanding

ratings under the Community Reinvestment Act. In

the past two years, we have fulfilled $140 billion of an

$800 billion, 10-year commitment in the United States

to provide community-development loans and investments,

small business loans and consumer mortgages for

lower-income and minority households.

• **Community schools.** We support community schools,

which cost-effectively provide students in low-income

communities with access to a broad range of services,

including academic, health and extracurricular activities.

In Chicago, we are partnering with the civic community,

nonprofit groups and the Chicago Public School system

to bring this model to scale. To date, 120 schools (20%)

have been converted into community schools.

• **Youth opportunity.** We provide scholarships and

internships to the underprivileged through our

Smart Start program in New York City, and intend to

expand the program to Louisiana in 2006. In both the

United States and the United Kingdom, we work to

place outstanding students of color in summer intern

positions through Sponsors for Educational Opportunity.

We are also a significant contributor to UNCF.

**Volunteerism.** Around the globe, employees build

homes for people in need, work with children living in

homeless shelters, collect food and gifts at holiday time,

offer companionship to seniors, maintain our parks and

provide relief to victims of disasters.

• **Workforce development.** We help homeless people,

welfare recipients, individuals with disabilities, and

low-wage workers move toward economic and family

stability by supporting organizations like Project Match

and the hiring of individuals through the Chicago-based

Cara program.

• **Hurricane relief.** When Katrina struck the U.S. Gulf

Coast, we tracked down our employees, guaranteed

their jobs and provided funds to help them rebuild their

lives. We offered programs and services to customers

and communities, and let our competitors operate out of

our branches.

• **Supporting employees serving in the military.** We

recognize the hardships employees face when called to

active duty. We are doing whatever we can to support

them by providing paid military leave, continuing most

benefits and ensuring their jobs are waiting for them

when they come home. We do not want to add financial

hardship to their great sacrifice.

• **Protecting the environment.** We have adopted a comprehensive

policy that makes environmental awareness

part of our business model. We have tackled environmental

risk management and taken a leadership role to

reduce greenhouse gas emissions. We are looking for

ways to make our facilities more energy efficient and

reduce the amount of paper we use.

Of all these worthwhile efforts, the ones I find most personally

inspiring come from our employees. All over the world,

JPMorgan Chase employees of every nationality, race and

socioeconomic background give their time and put their

resources where their hearts are. They consistently stand

ready to support disaster relief around the world, whether

for victims of hurricanes in Louisiana, earthquakes in

Pakistan, floods in Mumbai or bombings in London.

We take our role as global corporate citizen seriously and

personally, and I hope that all of our employees are proud

of the work we collectively do around the world.

In closing, our progress would not have been possible without

tremendous dedication and talent at every level. Firstly,

I want to thank Bill Harrison for his vision, leadership and

great partnership. It has been an honor to work with him

throughout this complex merger. The experience has been

a rewarding one for me personally. Bill’s openness, honesty,

maturity and experience are a great inspiration to me.

I look forward to his counsel and support in the future.

In addition, I thank our Board. Like this merger, our Board

has come together in a very effective way, and has provided

great advice and guidance to me and the management team.

Finally, I thank the employees of JPMorgan Chase for their

amazing efforts in 2005. We have come a long way and

are well on the road to realizing the vast potential of this

company. An enormous amount of work remains, but I am

confident that by working together, we will build the best

financial services company in the world.

James Dimon

Chief Executive Officer

March 8, 2006