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: .

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 ultrahigh-

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 productby-

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.

I I . 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 ultrahigh-

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.

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