Dear Fellow Shareholders,

As I write this letter, the turbulence that began in the second half of 2007 continues to wreak havoc on the financial markets today. Given the magnitude and unprecedented nature of events as they continue to unfold, it is a year that will be written about for a long time. We do not know when this cycle will end or the extent of the damage it will cause. But we do know that no financial company operating under these conditions will emerge from them unchanged. And, while we are long-term optimists about the future of the U.S. economy and our company, we remain focused on the current crisis. In this context, I will review how we performed in 2007 and how we are preparing to weather the ongoing storm.

I would like to start by saying how gratifying it is that JPMorgan Chase was able to report record revenue and earnings for 2007 despite the intense credit and capital markets issues we faced during the second half of the year. These issues continue to confront us today, particularly in both our Investment Bank and home lending businesses. That said, we must be prepared for a severe economic downturn that could affect all of our businesses. We intend to navigate through the turbulence, protect our company and capitalize on any opportunities that present themselves. It is during these tough times that we can distinguish ourselves with our clients. As a firm, we have a history of showing leadership during times of financial crisis, and we will continue to build on that legacy.

As you read this letter, I hope you will agree that our expectations are rational, our approach is consistent and measured, and our operating philosophy is sound. I also hope you will feel as I do – that while our company still faces many risks in these challenging times, we will continue to grow our franchise, outperform many of our competitors and win where it matters most: with customers in the marketplace.

Jamie Dimon
Chairman and Chief Executive Officer

I. REVIEW OF 2007

Over the past few years, we have not only worked hard to instill management discipline, but we have also spent considerable time and resources developing a strong foundation for long-term growth. So when we measure our performance, we not only review financial results – by line of business and for the company overall – but we also look at multiple indicators of health. These measures help us gauge the progress we have made by expanding and extending our capabilities, geographic reach, client coverage, product offerings and technology and by attracting, training and retaining talented people. Meaningful progress in any of the areas mentioned above takes a considerable investment of time and money. We generate both by operating efficiently and maintaining a fortress balance sheet. So, there are three intrinsically linked imperatives that are fundamental to our success: **strong financial results**, **quality growth** and **capital strength**. I will focus on each in the following review of our 2007 results.

A. Financial Results by Line of Business

We delivered record 2007 full-year earnings of $15.4 billion on record revenue of $71.4 billion. This represented total revenue growth of 15%, most of which was organic. Earnings per share – also a record at $4.38 – were up 15% from 2006. Our return on tangible common equity was 23%. Record or near-record earnings in many of our businesses and the diversified nature of our company helped offset areas of cyclical weakness. Our results – by line of business – are reviewed below.

The Investment Bank reported net income of $3.1 billion with an ROE of 15%

The Investment Bank delivered a record first half of the year, with a return on equity (ROE) averaging about 26%. Difficult market conditions reduced our ROE to about 4% for the second half of 2007. Given the natural volatility of this business, these results are not surprising. That said, our goal remains to earn 20% ROE through a business cycle. Ideally, this means we'll produce ROE of 30% or higher in good years, 10% in tougher years and no worse than 0% in a particularly bad quarter. Our subjective assessment of how we performed in 2007 is that the 26% ROE in the beginning of the year was a solid result. However, our 4% ROE in the second half of the year could have been better, e.g., perhaps a 7%-10% ROE.

Even though we had hoped to do better, relative to the performance of most of our competitors, many of whom sustained large losses, our Investment Bank's results were rather good. Most of the adverse results in the second half were confined to the sales and trading areas of the Investment Bank. Within sales and trading, the majority of the issues were in mortgage-related trading and leveraged finance (which we will cover in a later section). Equities, rates and currencies had excellent full-year results.

We are particularly pleased to have ended the year ranked No. 1 in investment banking fees and with an increased market share in global equities and global debt. This performance is a testament to our capital raising capabilities and the quality of the coverage, support and advice we provide to corporations, institutions and investors around the world. JPMorgan is now a top-ranked player in virtually every major investment banking product. We are proud of this progress and are pleased to see it noted in several independent client surveys and reports (e.g., *Institutional Investor,* which rated JPMorgan the No. 1 Investment Bank, Greenwich Research and *Risk* magazine). We believe by working hard to earn our clients' trust, we will sustain our leadership position and build the best investment bank in the world.

Retail Financial Services (RFS) reported net income of $3 billion with an ROE of 19%

RFS, our retail bank, offers consumers and small businesses checking and savings accounts, credit cards, mortgages, home equity and business loans, and investments across our 17-state footprint from New York to Arizona. We also provide home lending products nationally through our 5,200 loan officers and our network of brokers and correspondents. Additionally, we work with more than 14,500 car dealerships to provide their customers with auto loans and with more than 5,200 colleges and universities to loan students the funds they need to complete their education. RFS had a good year and showed strong organic growth.

For example, in 2007:

- Total checking accounts grew 8% to almost 11 million accounts.
- Business banking loans grew 9% to more than $15 billion.
- Credit card and investment sales in the branches both increased 23%, while mortgage loans in the branches increased by 31%.
- Mortgage loan originations grew 34% overall (even with much tighter underwriting standards).
- Use of electronic payments rose, with more than a 20% increase in our online customer base. Nearly 6 million customers now use our electronic services to bank with us – anytime, anywhere.

Despite this progress, however, overall RFS earnings were down 6% year-over-year. This was largely a function of increased credit costs in our home equity business and in subprime home loans (which we will describe in detail later). However, unlike other lenders that are pulling back or closing down, we have not abandoned this business. To the contrary, while we have materially tightened our underwriting standards, we have also nearly doubled our home lending market share to 11% in the fourth quarter (up from 6% a year ago). We have done this because we believe it is a strong, sustainable business that continues to meet an important financial priority for many people throughout this country.

Card Services reported net income of $2.9 billion with an ROE of 21%

We are the second-largest credit card issuer in the United States, with approximately 155 million credit cards in circulation. In 2007, while growth in outstanding balances was relatively low at 4%, merchandise spending on our cards increased nicely, by 9%, particularly in our co-branded partner and small business card portfolios. We added more than 16 million new accounts and raised the level of charge volume by $15 billion. In addition, to drive growth and better serve cardmembers, the new CEO of Card Services reorganized the business into five units: the mass affluent segment, individuals of high net worth, small businesses, and co-brand and retail/private label partners. This customer-focused approach will enable us to specifically tailor products and services to meet the financial needs of these important customer groups.

While we're pleased with our 2007 performance in Card Services, we are preparing for the impact of a weakening economy on loan losses. We expect losses to increase by about 4.5%-5% of outstanding balances from about 3.7% in 2007. (In a prolonged recession, the losses could be considerably worse.)

Commercial Banking reported net income of $1.1 billion with an ROE of 17%

Commercial Banking serves more than 30,000 customers across America, including corporations, municipalities, financial institutions and not-for-profit entities. Commercial Banking produced record revenue, up 8%, and record profits, up 12%, from a year ago. Loans grew 14%, liability balances grew 19% and we added more than 2,200 new banking relationships.

Over the past few years – in addition to providing cash management products to its customers – Commercial Banking has been able to better meet our customers' needs by increasingly making investment banking products and

Earnings by Line of Business (in millions)

	2004[b]	2005	2006	2007
Investment Bank	$ 3,654	$ 3,673	$ 3,674	$ 3,139
Retail Financial Services	3,279	3,427	3,213	3,035
Card Services	1,681	1,907	3,206	2,919
Commercial Banking	992	951	1,010	1,134
Treasury & Securities Services	231	863	1,090	1,397
Asset Management	879	1,216	1,409	1,966
Corporate [a]	(4,378)	(3,783)	47	1,775
JPMorgan Chase [a]	$ 6,338	$ 8,254	$ 13,649	$ 15,365

(a) On a continuing operations basis

(b) 2004 data are pro forma combined, reflecting the merger of JPMorgan Chase and Bank One

services available to them. This includes M&A advisory and equity and debt underwriting, which are made possible by a strong collaboration between Commercial Banking and the Investment Bank. This capability is a competitive advantage for us. In 2005 – the year after the merger with Bank One – we generated about $550 million in Investment Bank-related revenue through this cross-sell opportunity. By the end of 2007, Commercial Banking had achieved record Investment Bank-related revenue of about $890 million. We also launched Chase Capital to provide equity and mezzanine debt financing to our customers to eliminate the need for them to seek such capital elsewhere. It is important to note that of the total revenue Commercial Banking generated in 2007, only 35% now relates to the lending product.

While we recognize the value of cross selling, we are also keenly aware of the risks associated with trying to drive growth in certain product areas. As such, we have resisted growth in areas where we felt inadequately compensated for that risk. For example, our real estate lending has actually shrunk over the past few years and currently represents only 12% of our total loans. Commercial Banking also increased loan loss reserves by $225 million, bringing total reserves to a very strong 2.8% of average loans at year-end.

Treasury & Securities Services (TSS) reported net income of $1.4 billion with an ROE of 47%

TSS is a business that holds, values, clears and services securities and provides cash management, corporate card and liquidity products and trade finance services to the world's leading companies and institutional investors. TSS delivered exceptional financial results, with record revenue, up 14%, and record profits, up 28%. This business has generated higher volume across all of its products, grown consistently over time, produced good margins, and maintained great global scale and long-standing client relationships. It is a business that would be extremely hard to duplicate. Notably, TSS assets under custody increased by 15% to $15.9 trillion, and average liability balances were up 21% to about $230 billion. The group grew its revenue from countries outside the U.S. by more than 26% over the past year. The ability to make significant progress on this important priority reflects the strong foundation we are building abroad. Highlights include receiving regulatory approval to connect to China's electronic clearing system, establishing a staff presence in 41 countries and branches in 25 countries worldwide, and extending our international capabilities for clients around the globe.

Asset Management reported net income of $2 billion with an ROE of 51%

Asset Management provides our institutional, high-net-worth and individual investor clients with global investment management in equities, fixed income, real estate, hedge funds, private equity and liquidity. The headline numbers for Asset Management were terrific. The business delivered strong growth in 2007, with profits up 40% and revenue up 27% – both record levels. Assets under management were up 18% (or $180 billion), driven mainly by $115 billion of new flows, and were further fueled by market growth during the year. We increased alternative assets (hedge funds, private equity, etc.) by more than 20%, to end the year with $121 billion in alternative assets under management.

As the world's largest manager of hedge funds, we grew our total hedge funds by 30% last year, including increasing assets under management in our Highbridge funds by 68% in 2007. Since late 2004, when JPMorgan acquired a majority interest in Highbridge, its assets under management have grown from $7 billion to about $28 billion in early 2008. In addition, the Private Bank and Private Client Services set a record by increasing assets under supervision for clients by $80 billion in 2007. A note of caution, however: The earnings momentum of this business has slowed in 2008 and will continue to lag rates of growth produced in prior years. Investment performance, particularly in certain fixed income and statistical arbitrage funds, was affected by the extreme conditions of the latter half of the year. Last summer, when the five-year bull market ended, we began to see a shift in our clients' portfolios from higher-yielding assets (equities and alternative assets) to lower-yielding assets (fixed income and cash). We believe it is reasonable to assume that current market conditions will impede Asset Management's ability to deliver another year of record earnings in 2008.

In Private Equity, we had an outstanding year with pre-tax gains of more than $4 billion

One Equity Partners (OEP) delivered stellar results in 2007. I hope you all join me in giving them our gratitude for this banner-year performance, in which OEP contributed two-thirds of total private equity gains. OEP has now generated a life-to-date realized internal rate of return of more than 50% on its investments. We are thrilled with this achievement and happy to report the high returns of last year, but we also appreciate that this level of performance is exceptional. As such, we do not expect it to be repeated this year.

B. Leading Indicators of Real Growth

We are committed to achieving high quality of earnings. This means consistently investing in our businesses. This does not mean increasing short-term earnings by reducing investments for the future. So even while our margins went up, we continued to invest in geographic expansion, client coverage, product extensions, technology enhancements, employee development and corporate responsibility. These are areas we believe will drive good, strong growth in our businesses for decades to come. They are discussed in more detail below.

We expanded our footprint both internationally and domestically

Internationally, our growth strategy connects the wholesale businesses of the Investment Bank, Asset Management, Commercial Banking and TSS to deliver the right products and services in the right way to our customers. Because we look at the world from the point of view of the customer, we rely upon a local presence and regional operating models to develop, bundle and provide an appropriate level of financial support to our clients. So while one line of business can bring us into a market, our growth over time is intended to cut across all of these businesses.

In Japan, Korea, India and China, we are using this strategy to develop and tailor our wholesale platform of products and services across the region. From four branch locations in China – Beijing, Shanghai, Tianjin and Shenzhen – our 260 employees provide Investment Bank, TSS and Asset Management services. Commercial Banking opened new offices in Mumbai and Singapore in 2007. Our total headcount in Asia increased by 26% to more than 19,000 employees, and our overall revenue in the region increased by 47%. Three years ago, in mainland China, Asset Management had no clients and no assets under management. Today, our joint venture is a top-10 asset manager in China, with more than 5 million customers and $13 billion in assets under management. Our first Qualified Domestic Institutional Investor product (which allowed residents in mainland China to invest overseas), launched last year, was oversubscribed by almost four times. On the first day of the initial public offering (IPO), it raised a record $15.4 billion from 1.9 million customers. We were granted licenses and launched businesses in Korea and India and ended the year there with onshore assets under management of $700 million and $600 million, respectively.

On the domestic front, Commercial Banking opened new offices in North America, extending our presence to Atlanta, Nashville, Philadelphia, Seattle and Vancouver. We also opened 127 retail bank branches and added 680 ATMs and 2,568 in-branch salespeople to help our customers.

We increased client coverage

Over the years, the Investment Bank has invested hundreds of millions of dollars in Asia and in other emerging markets to increase our client coverage, particularly in countries like China, India and Russia. We will now be supporting more than 500 companies in those three countries, which will mean more research coverage, sales and trading capability, and, we anticipate, more revenue. Outside the emerging markets, we added experienced traders to our energy business. It is an important sector that continues to be a priority in 2008. We also added more than 200 new client advisors within the Private Bank and Private Client Services, a substantial increase of staff over prior years.

We extended products and expanded services to better meet our customers' needs

TSS completed various bolt-on acquisitions to expand parts of the business, including our healthcare electronic payment services and our U.S. fund services business, which provides fund accounting and reporting to mutual funds of various sizes. As asset managers and pension funds are increasingly investing in private equity and hedge fund assets, TSS continues to build product capabilities to support the processing of these alternative investments for our clients. Over the past year, TSS has increased its alternative assets under administration by more than 80%, and we will be expanding these services internationally to support clients in Hong Kong, Australia, Luxembourg and the United Kingdom.

Card Services continues to increase its annual spending on credit card marketing and reward programs to build out its slate of innovative card products and refine the reward options (particularly on the Chase Freedom credit card). And we continue to improve our electronic systems, payments and services that offer 24/7 access. For example, we introduced Chase Mobile, a new text messaging service that gives U.S. customers easy access through their phones to account balances, payment histories and due dates.

We focused on technology to improve customer service, sales, marketing and innovation

In addition to increasing the number of new bankers, branches and salespeople and as part of our commitment to expand our products, services and international reach, we will continue to invest in technology. We believe this investment will be a key driver of growth over the next decade. Our first step was to operate from one platform. After a tremendous amount of work on our technology, systems and data centers, we can now essentially do that. This was an enormous accomplishment. Highlights this year include:

- Flawlessly completing a highly complex wholesale deposit conversion (the largest in the firm's history); in one weekend, we converted more than 250,000 corporate clients on all continents, representing $10 trillion a day in global deposit transactions, to a single deposit platform supporting both retail and wholesale clients with 19 million accounts and $393 billion in balances.
- Insourcing our credit card processing platform (another "biggest" in banking history) to improve flexibility and lower our cost structure.
- Seamlessly converting, in one weekend in the first quarter of 2007, all 339 Bank of New York branches, adding 1.2 million deposit accounts to our platform.
- Upgrading and consolidating our banking data centers over the last three years, from 109 to 67. Our goal is to continue to reduce our data centers to 39 by 2010.

Having accomplished the above, we can now refocus our technology and operational expertise and abilities to the important and complex process of improving customer service and quality.

We continued to get the most out of our model

We are a global bank with scale, diversification and collaboration across our six lines of business – all of which deliver financial services to individuals and institutions. That's our model. We have described this in detail in prior letters and will not repeat it here. But what really matters is how well we are able to leverage our collective strength to create the most value for our customers and shareholders. We invest in all of our businesses to ensure that each is a leader in its specific industry and is able to grow organically. While these businesses do well individually, we believe they all create great competitive advantage for each other, too. Over the course of 2007, we've clearly seen how each of our businesses benefits from the links across our product set and how every business gains from being a part of a strong, respected JPMorgan Chase. It is not about cross selling for the sake of cross selling. Rather, it is about focusing our resources and expertise on pursuing natural product extensions that make things easier and more cost-effective **for our customers**.

Below are a few of the tangible examples of how this approach has benefited our company and, more importantly, our clients:

- Asset Management's partnership with our other businesses reached record levels in 2007. Referrals from the Investment Bank and Commercial Banking resulted in new clients with $19 billion in assets, representing $48 million in annualized new revenue, an increase of 20% in new revenue and 46% in new assets from referrals in 2006.
- TSS continues to capitalize on the Investment Bank's IPO underwriting relationships to secure depositary receipt mandates worldwide. TSS also leverages the Investment Bank's advisory relationships to generate cash management and escrow business. On the other side of the ledger, TSS clients with sweep accounts have that money invested in money market funds with JPMorgan Asset Management (accounting for more than 20% of Asset Management's global money market fund assets).
- Our broad consumer businesses are collaboratively building our brand and investing in joint sales and marketing efforts. We launched a single new brand campaign across Retail Financial Services and Card Services under the "Chase What Matters" message. This unified message aligns our values with those of our customers – by focusing on what matters to them (e.g., access, protection, advocacy, rewards and value). Our goal is to make Chase the best brand in consumer financial services.

We advanced our ongoing efforts to recruit, train and retain top talent and enrich the diversity of our company

Our business, people and reputation are critically important assets. We are absolutely committed to attracting and retaining outstanding individuals. Today, throughout our company and at every level, you will find exceptionally talented people. This requires an ongoing commitment – not a stop-and-start approach. A strong pipeline of talent produces great managers. Over the past three years, we have been improving our recruiting efforts on campuses around the world. Our efforts are paying off. We have significantly increased the number of students who accept our full-time employment offers in the Investment Bank and have been recognized by *BusinessWeek* for the quality of our internship and training programs. Increasingly, outstanding students with considerable options agree that JPMorgan is "the place you want to be."

We have also continued to build on solid gains in 2007 to enhance the diversity of our employee base. To step up our employment efforts, we have asked one of our top executives to work directly with me and the human resources team to focus 100% of his time on recruiting and retaining outstanding minorities. And as a result, last year, our company was fortunate to hire more exceptional minority executives in senior positions than ever before. We have also increased supplier diversity spending by 32%. Last year, we did more than $700 million of business with diversely owned companies.

We intensified our corporate responsibility efforts

We believe an integral part of our growth strategy is to focus our resources where they will do the most good by supporting the organizations that can make a meaningful difference to the people who live in communities in which we operate. Our Foundation now provides more than $110 million in grants annually, more than doubling the amount from $45 million in 2000. Investments range from building affordable housing in Dallas and New Orleans to training New York City public school principals.

We are also committed to the environment. In developing our environmental footprint, we adhere to the most stringent guidelines. We also do our part to contribute innovative solutions to environmental issues. 2007 highlights include: creating several conservation programs in-house, piloting green branches, building a "LEED" platinum certificate building in London, and renovating our world headquarters in New York to meet the highest environmental standards.

We have also worked closely with the U.S. government and with a number of other institutions to create programs to help keep borrowers in their homes. Through our charitable support and in helping to develop strong public policies, we are determined to materially enhance our efforts in this area – whether it's through working with governments, not-for-profits or other community organizations. We have much more to say about the work we are doing in this area, which we will express in a detailed report on corporate responsibility over the coming months.

C. Operating Efficiency and Capital Strength

Our 2007 progress with regard to these two priorities is reviewed below.

We continued to boost efforts to increase operating efficiency and reinvest in the business

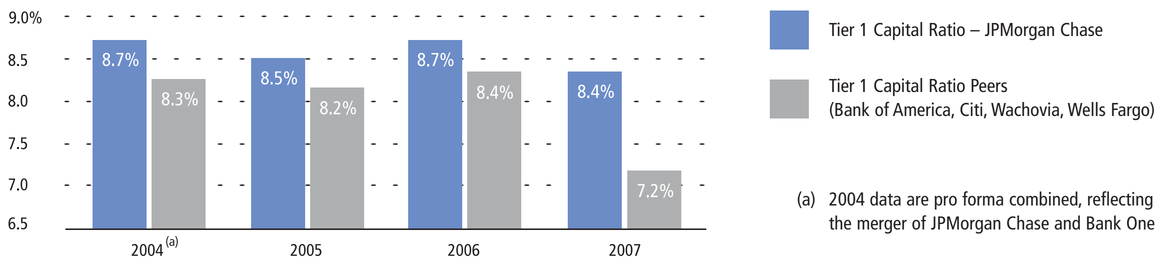
Many of the investments described in the previous section were funded by cost savings. By eliminating waste, we were not only able to run a more efficient and effective company, but we were also able to invest more where it counts most. For example, over the course of 2007, we shed 4.3 million square feet of excess real estate globally; since 2003, we have shed 13 million square feet of excess space. Eliminating this excess real estate has enabled us to become more, not less, accessible to our customers. In 2007, these redeployed savings were used to develop new branches, international presence and electronic capabilities. We will stay vigilant to reduce unnecessary expenses and invest in areas that will also make us stronger down the road.

We remained disciplined and committed to preserving a fortress balance sheet

We operate in risky businesses, and having a fortress balance sheet is a strategic imperative, not a philosophical bent. It is also a critical differentiator for us – especially in uncertain times. We achieved it through the following elements:

- Appropriately conservative accounting.
- Strong loan loss reserves.
- Diligent review of all assets and liabilities (on and off our balance sheet).
- Disciplined reporting and regular reviews across our businesses.
- A detailed and deep understanding of – and constant focus on – the margins and returns of each business (often at the product level).
- Recognition of market cyclicality and continuous analysis of our own businesses so that we deliver solid returns through the cycle – not just in good times.

Peer Comparison of Tier 1 Capital Ratios



(a) 2004 data are pro forma combined, reflecting the merger of JPMorgan Chase and Bank One

We maintained strength to operate in any environment by:

- Sustaining a strong capital ratio, whether measured by Tier 1 capital (we had 8.4%) or tangible common equity to assets (we had a ratio of 5%). Under the new Basel II capital rules, we expect our Tier 1 capital ratio would be even stronger than we report today.
- Capitalizing on favorable market conditions early in 2007 to pre-fund a substantial amount of our company's need for capital and long-term debt. This gave us flexibility when evaluating financing alternatives during the second half of the year.
- Maintaining (and continuing to maintain) extremely high liquidity. This means that your company currently has on average a range of $20 billion to $50 billion in overnight investments. This has served us well under the current market conditions.
- Increasing our dividend by 12% from the previous year – for the first time in six years. We believe that paying out 30%-40% of earnings as dividends is generally the appropriate amount.
- Repurchasing approximately $8 billion of our stock because we believe it is a good investment and is consistent with our capital needs. To give us more flexibility as we entered a turbulent time, however, we essentially stopped buying back stock in the third and fourth quarters of last year.

We avoided seeking expensive capital from outside sources

We continually stress test our capital and liquidity needs. To simplify, what we essentially try to do is stay properly capitalized, at current levels, even if called to fund up to $100 billion of cash needs for our clients or for the corporation. We think these are conservative (if not worst-case) assumptions, but if the environment trends more negative, we think our Tier 1 ratio would remain very strong (particularly relative to our peers in this type of scenario). Our goal is to continue serving our clients and building our business without being pressured to seek expensive equity or debt capital elsewhere.

We used our strong foundation to further our objectives

Not only did our strong balance sheet and liquidity allow us to sleep better at night, but it also made it possible for us to:

- Support our clients by fulfilling their capital requirements prudently with credit – especially as the markets began to deteriorate in the latter half of 2007.
- Build our business. For example, we took advantage of what we believed was an opportune time to strengthen our presence in the mortgage business.
- Prepare ourselves to take advantage of emerging opportunities, which could include buying good assets at a reasonable price or evaluating other strategic acquisitions that make sense for our shareholders.

II. KEY ISSUES AND LESSONS OF 2007

In the fall of 2007, my daughter called and asked me, "Dad, what is a financial crisis?" I answered her by saying, without intending to be funny, "It's something that happens every five to 10 years." She then asked, "So why is everyone so surprised?"

The United States and the world have, in fact, had various financial crises every five to seven years, probably for as long as financial history has been recorded. In recent times, there was the recession of 1982; the stock market crash of 1987; the savings-and-loan and commercial real estate crisis of 1990-1991; the market panic of 1997-1998, brought about by the Long Term Capital Management and emerging-market crises. Finally, in 2001, the Internet bubble burst, knocking the stock market down 40%.

Looking at all of these crises, some attributes were different, but many were the same. The triggering event in 2007 was the bursting of the housing bubble and the related bad mortgage underwriting standards. In the 10 years from 1995-2005, housing prices in the U.S. rose

135%, far exceeding normal home price increases and outstripping traditional measures of affordability. While some thought the gains were justifiable, it is clear now that they were not. As of today, housing prices nationally are down on average almost 10% since the end of 2006, and it looks as if they will continue to deteriorate. It is also clear, in hindsight, that increasingly poor underwriting standards (e.g., loan-to-value ratios up to 100%, lax verification of income and inflated appraisals) added fuel to the speculation and froth in the markets. Many of these poor mortgage products were also repackaged and dispersed widely through various securities, thus distributing the problems more broadly.

As Warren Buffett says, "When the tide goes out, you can see who's swimming naked." In this crisis, as the tide went out, we saw subprime concerns first, then mortgage-related collateralized debt obligations (CDOs), structured investment vehicles (SIVs), Alt-A mortgages, mortgage real estate investment trusts (REITs), the impact on monolines and, finally, very unfortunately for us, home equity loans. And the tide is still going out.

As this chapter of history continues to be written, we cannot have the full benefit of hindsight. However, there are some lessons we have already learned and others we can draw upon from past crises. In the context of today's crisis, they are worth revisiting.

A. Issues and Insights Specific to the 2007 Financial Crisis

We generally avoided many – but not all – of the issues associated with the storm of 2007. Let's talk about some of them in detail.

SIVs served no business purpose

We deliberately steered clear of most SIVs because we viewed them as arbitrage vehicles with plenty of risk, a limited business purpose and a flawed design (we sold a small SIV back in 2005). We also minimized our financing to SIVs for the same reasons. SIVs will probably disappear – except for the few that demonstrate a sustainable business purpose – and the world will not miss them. That said, there were two things related to SIVs that did catch us by surprise:

- *Their growth and its impact.* SIVs had grown to a very large size as an industry segment – to approximately $500 billion. And they owned a substantial amount of mortgage securities, CDOs and bank securities.
- *Their propensity to fund long-dated and sometimes illiquid assets with short-term commercial paper.* When people started questioning the viability of SIVs, the markets became unwilling to refinance their commercial paper, and, therefore, many of the SIVs were forced to liquidate their assets. The banks and money market funds that were holding SIVs' commercial paper began to experience stress of their own. Fortunately, our Investment Bank was not directly affected by this issue because we provided almost no backup credit facilities to SIVs, and our Asset Management group contained its exposure to SIVs by limiting its investment to only the few high-quality, well-structured SIVs.

Subprime mortgages and subprime CDOs were more dangerous than we thought

In 2006, we thought we focused early on the subprime issue – and, in fact, we addressed the subject at length in last year's Shareholder letter. We became increasingly vigilant in our underwriting and avoided underwriting loans we were not comfortable holding to maturity. Even so, we still found ourselves having to tighten our underwriting of subprime mortgage loans six times through the end of 2007. (Yes, this means our standards were not tough enough the first five times.) In last year's letter, we thought our losses could increase substantially from 2006 levels. In fact, we saw them go up from $47 million in 2006 to $157 million in 2007. And we think they could significantly elevate in 2008 if economic conditions worsen.

Within our Investment Bank, we avoided large exposure to subprime loans, mostly by reducing our positions or actively hedging them. We also chose not to become a major player in subprime-related CDOs. Even so, we did lose substantially more than we expected: $1.4 billion on subprime mortgage and subprime-related CDOs. Although we generally treat off-balance sheet obligations like on-balance sheet obligations, a large share of our losses came in certain off-balance sheet transactions. We will redouble our efforts to ensure that this does not happen again.

Keeping the above in mind, we still believe that subprime mortgages are a good product. When subprime loans are properly underwritten, they serve a meaningful purpose. They can make a real difference to young families, to those who experienced financial problems earlier in life, to immigrants with little credit history and to the self-employed. These loans have helped many people achieve the American dream by buying homes they can afford. While tighter underwriting standards have now materially reduced our production of subprime mortgage loans, we will continue to find a prudent way to be in this business.

Home equity deteriorated dramatically

Home equity is important to our company. We retain all of our home equity production on our balance sheet, and, at the end of 2007, we had about $95 billion in our home equity portfolio. The losses in this portfolio are increasing rapidly and rising at a higher rate than we ever could have expected, even in a severe recession. In 2007, our net charge-offs were $564 million, and we added $1.0 billion to reserves. In 2008, we think charge-offs in the first quarter could reach $450 million and possibly double by the fourth quarter (as a function of the level of home price depreciation). Since loan loss reserves reflect expected losses, this will require us to significantly increase these reserves.

There will undoubtedly be more lessons to come as the deterioration of the home equity business continues, but there are three lessons we have already learned the hard way:

- *We underestimated the size of the housing bubble and the rapid rate of depreciation.* While we recognized the existence of a housing bubble, the rate and severity of the housing price depreciation surprised us. We also missed the impact of increasingly aggressive underwriting standards on housing price appreciation and increased speculation and froth in the market. Finally, we did not see that the ever rising housing prices over the 10-year period were masking potential losses. When these losses came into clear view, as a result of the increasingly aggressive underwriting standards, much of the damage had already been done.
- *We misjudged the impact of more aggressive underwriting standards.* Over many years, loan-to-value (LTV) ratios had increased from 80% to 85% to 90%, etc.; income verification became a less important part of the process; and appraisals became overly optimistic. These trends led to far more aggressive underwriting. While each individual change seemed reasonable at the time and losses seemed to be contained, we now know that was a mirage. Multiple changes occurring over many years have essentially altered the nature of the product.

  We should have acted sooner and more substantially to reduce the LTV rates at which we lent, given the increased risk of falling prices in a market of highly inflated housing values. We also should have tightened all other standards (e.g., income verification) in response to growing speculation in the market and the increasing propensity of people to respond to aggressive lending standards by buying houses they could barely afford.
- *We would have been better off had we imposed tighter controls on the outside mortgage broker business.* We used the same underwriting guidelines for outside mortgage brokers as we did for our own mortgage bankers. In hindsight, this was a mistake. We wish we had applied tighter standards to outside brokers. Losses attributable to outside brokers have always been two to three times greater than losses on mortgages we produce internally. That is the reason we closed the broker business at Bank One. We have now materially tightened standards across the board, and our standards for outside brokers are even tighter. Although home equity production through the broker channel decreased by as much as 60% by the fourth quarter of 2007, we believe the quality of underwriting has improved significantly.

The home equity business seems to have fundamentally changed from the way it was meant to be: a means of conservatively giving people access to cash from equity in their house. It has since evolved into a business that has allowed people to take leveraged bets on the assumption that the value of their home will increase. When home equity returns to its original purpose and practice, it will be a very good business again. For that reason, we intend not only to stay in it but to become the best in the business.

Leveraged lending had a tough year, but it will continue to be part of our core business

In 2007, we continued to hold the No. 1 market position in global syndicated finance and high-yield debt, and we intend to maintain these top rankings. Leveraged lending is an activity that has long been – and will continue to be – a critically important way for us to serve our clients. In total, over the last five years, our syndicated leveraged finance business has generated average annual revenue of $1.2 billion. In 2007, after taking losses of $1.3 billion, net of fees (which makes us very unhappy), this business still generated $475 million in revenue. We made some mistakes this past year, and we've learned the following:

- *We should have been more diligent when negotiating and structuring commitment letters.* A few years ago, commitments to fund future transactions were not reflected on our balance sheet until the details were finalized and the final, binding letter was signed. In the event of a material change in market conditions, this practice provided lenders with the ability to make important amendments to the letter and/or to the price at which it could be sold. Over time, however, this flexibility disappeared, but we were still held to the original terms of the commitment letters. This meant that when the market deteriorated, we still had to fund the transaction. Upon funding, instead of making an average fee of 2% to 3%, we lost 5%. These commitment letters had essentially become puts on the market. That is, if the markets were strong, things were fine, but if the markets collapsed (as they did), we would be stuck with the original price and could lose a substantial amount of money. This is a one-sided bet and one that subjects us to losses every time the markets crash – an occurrence that is as inevitable as it is painful. Now, having recognized the value of these puts, we fully acknowledge the risks we are taking when we sign these letters.

- *We cannot allow ourselves to be pushed into positions that are too risky.* We simply cannot follow the market like lemmings or allow ourselves to succumb to demands or pressures that compromise our credit standards and lead to bad decisions. In every deal we do, we must insist on fair treatment and adequate compensation for the risk we are asked to assume. A lot of people with whom we do business in leveraged finance are among the most sophisticated, creative and tough businesspeople we know. But true long-term partners understand that a healthy business relationship is a two-way street that must work for both parties over a long period of time. Bad financial practices, like equity bridges or excessive leverage, are not good for us or, ultimately, for our partners.

B. Lessons Learned: Some Old, Some New

Different triggering events ignite each financial crisis. Once under way, however, these crises have much in common. As they say, history may not repeat, but it rhymes. Hard lessons learned from past crises have relevance for us today. Let's revisit a number of them as follows:

Markets can get very volatile

For years, the financial industry had been the beneficiary of relatively stable financial conditions. From 2001 through the first half of 2007, markets were fairly benign, making it easier to get lulled into a false sense of security and to lose sight of how risky the financial environment can be. We must always remind ourselves that markets can become volatile very quickly and when least expected. For those traders who began their careers after the crisis of 1998, it was especially hard to accept that spreads and prices could widen by 250 basis points in a matter of days. Our responsibility as managers is to ensure, at every level of trading, there exists a consistency in our approach and a deep respect for unpredictability of markets.

There is no substitute for good judgment and strong oversight

Risk models are valuable tools, but they have limitations. Because they are backward-looking by design, they tend to miss certain factors. The value of stress testing is also a function of time frame. For example, scenarios may be compromised because the data may not go back far enough. We use value-at-risk (VAR) and stress testing, but they are only part of what we consider good risk management. Good, sound, old-fashioned human judgment is critical. Strong risk management entails constant reporting and review, exposure by exposure, and the ability to size up exposures instantly with the right systems. Managers must know the tough questions to ask – especially with regard to stress-test loss scenarios – and have the ability to stay on top of all the important issues. Intense oversight by and information-sharing with managers is absolutely key, as is access to the expertise of independent pricing and valuation groups. Finally, assumptions need to be tested constantly. That said, we all know even when everything is done right, there still will be volatile results and mistakes. But if things are not done correctly, then the outcomes can be disastrous.

When markets get volatile, almost all risky assets reprice

This is not a surprise – it has happened almost every time markets get volatile.

In difficult market conditions, liquid assets become illiquid

What happened to jumbo mortgages, commercial mortgage-backed securities, leveraged loans and CDOs are examples of this phenomenon. And because financial companies have assets that are no longer easily sold, they are less willing to take additional risk in the marketplace. This not only compounds the problem, but it also creates a new problem: skepticism about whether or not a company with illiquid assets can meet its short-term obligations.

Problems occur when there is too much short-term financing funding long-term assets

There is one financial commandment that cannot be violated: Do not borrow short to invest long – particularly against illiquid, long-term assets. As it turns out, some hedge funds, REITs, SIVs, CDOs and certain financial institutions did exactly that. In these kinds of markets, when the value of short-term investments is questioned, such as money market funds or commercial paper, a crisis can easily ensue. Individuals, acting rationally to protect their own interests, race to sell securities; but, in aggregate, this process by market participants can easily take on a life of its own and escalate into a panic.

A fortress balance sheet protects the franchise

As I mentioned earlier, a fortress balance sheet is a strategic imperative – especially in turbulent market conditions like these. No matter what conditions are, we always want to have the capital, liquidity, reserves and overall strength to be there for our clients and to continue investing wisely in the business.

Irrational expectations impede quality growth

Sometimes there's so much pressure on companies to expand their businesses that they end up pushing their own people to grow, grow, grow. Often people feel this pressure most when market conditions are good. But it is when markets turn bad that such pressure can lead to dangerous outcomes for all businesses – and especially for volatile businesses like investment banking that take risks. Standards are reduced, too many compromises are made and there's a lack of focus on what is in the best interest of clients. It is easy to grow a business when taking on additional risk – but that is often the worst thing to do. Growth expectations need to be rational. We know there are times when we should not strive to grow certain areas of the business. This is an operating philosophy that protects us from the costly consequences of bad growth.

Risk models that rationalize a lower level of capital contribute to poor judgment

To maximize the size of a potential risk position, models are often designed to justify *as little capital* as possible. For example, numerous triple-A, super-senior CDOs drew little regulatory capital and, therefore, looked safe with good returns. That safety and those returns turned out to be an illusion. This is why it is important for us to understand our risks inside and out and to maintain sufficient economic capital against that risk. We measure risk by how bad things could be – not how good they are.

Financial turmoil increases the chance of recession – and the specter of recession weighs heavily on the market

It is important to note that the turbulence we've experienced occurred in a good economy. And while financial conditions have a serious impact on the global economy, they do not – in and of themselves – necessarily cause a recession. In fact, many severe financial crises have not resulted in recessions. That said, the weaker the economy gets, the greater the impact could be across all our lines of business. Tight financial conditions (e.g., the reduction of credit, the outright removal of credit in certain markets and the higher costs of credit) make it harder and more costly for individuals and companies to borrow money and, therefore, weaken the economy.

As these conditions worsen, the possibility of a deep recession increases. As the specter of a recession weighs more heavily on the normal functioning of capital markets, so too does the fear about the possibility of a recession. Why take additional risk when we might be in a recession? Investors decide they don't want to take the risk so they may remove money from banks, commercial paper and money market funds in order to buy treasuries. Such a reaction isn't necessarily unwise or inappropriate, but it does help to create a self-fulfilling prophesy.

III. ON TO 2008 (AND LOOKING FORWARD TO 2009)

In the summer of 2007, we began to prepare for a downturn in the market. While we have successfully weathered the storm thus far, we face new uncertainties every day. Despite the continued turmoil, we are encouraged to see many of the problems resolving at a fairly decent pace. Yet, while we hope the remaining issues will be sorted out expeditiously and a lengthy recession will be averted, we cannot count on this being the case. We need to confront the possibility that today's upheaval could result in serious market deterioration that the U.S. has not experienced since 1982. To prepare for this possibility, we need to have a clear sense of our risks.

A. Key Potential Risks

What follows is a discussion of the risks that concern us most and some of our thoughts about how to address them.

There is still substantial risk on our balance sheet

We are generally comfortable with the values, the hedging and the loan reserves on our balance sheet. But we also recognize that many of our positions, while somewhat hedged, are still quite risky. Hedges, by their very nature, are imperfect. We focus on this risk by viewing our assets on a gross basis. Relying solely upon a net basis implies that it is not possible to lose money on both sides of a complex trade. We know, however, that this is quite possible.

Some of our largest exposures in the Investment Bank as of year-end are listed below:

- $26.4 billion in funded and unfunded leveraged loans: We have written these loans down by more than 6% but acknowledge that they could easily deteriorate more in value. However, at current levels, we believe they represent a good long-term value. So, in early 2008, we decided to add $4.9 billion to the $3.2 billion of leveraged loans we were already holding as long-term investments.
- $15.5 billion in commercial mortgage-backed exposure: The majority of this exposure is securities and loans, actively credit-hedged and risk-managed; 64% is triple-A rated.
- $2.7 billion in subprime mortgage and subprime CDO-related exposure: Approximately $200 million of this exposure is subprime CDO; the remainder is comprised of subprime loans, residuals and bonds.
- $5.5 billion in CDO warehouse and unsold positions: 92% are corporate loan underlying; subprime is negligible.
- $6.4 billion in Alt-A mortgage exposure: Most are triple-A securities and first-lien mortgages.

Most of these exposures are marked-to-market daily. While they can fluctuate considerably in value on a single day and can dramatically affect any one quarter's results, we believe many of them now have decent long-term value. It is also worth noting that our gross exposures are, in general, lower than those of most of our competitors.

I have already discussed our subprime and home equity exposures. With regard to our Commercial Bank, an exposure worth bringing to your attention is the $16.5 billion in commercial real estate exposure. This position is well-diversified and represents only 12% of our total Commercial Bank credit portfolio. We have been very conservative in growing this exposure in recent years. On a percentage and absolute basis, it represents less than half the average exposure of our Commercial Bank peers.

The financial stability of some monoline bond insurers remains an issue

Some market analysts believe there could be a downgrading of the monoline bond insurers – from their triple-A rating status to double-A status or worse – and possibly one or more defaults. Our gross exposures to monolines are significant and cut across multiple product lines and businesses. However, in spite of the market talk around this issue, we do not regard a downgrade to double-A as a major event. While no one could know all of the ramifications of a worst-case default scenario, we believe the impact – while costly for JPMorgan Chase – would be manageable.

New products often will have problems

We need to keep a close eye on the design, trading and operational aspects of new financial products. Almost all new products go through periods of stress and market-testing, which, in turn, causes problems of one sort or another. At one time, even basic equity trading nearly brought Wall Street to its knees when the volume of trades exceeded the systems' processing capacity. There have been similar problems with exotic mortgage products, options, foreign exchange, high-yield bonds, hybrid derivatives and so on. In many cases, these issues were eventually resolved through the creation of standardized contracts and standard industry exchanges and clearinghouses. These, in turn, facilitated more efficiency in the clearing and netting of risk, provided better regulatory controls and led to stronger management oversight.

Many market participants expected derivatives to be at the heart of the next financial crisis. So far, most derivatives markets have averted the storm, and derivatives have served as an essential tool for some companies to use in shedding or hedging risk That said, there are some legitimate concerns. A severe economic downturn could put extreme pressure on the settlement and clearance functions in some of the derivatives markets. With this and other concerns in mind, we can assure you that we are paying close attention to our derivatives positions and exposure. In addition, we are strongly in favor of regulatory and industry efforts to coordinate and improve the control environment.

A recession will have a significant impact on credit

Our business is cyclical, and one of the largest risks we face is the impact of a recession on credit in general. In last year's letter, we addressed the recession and credit issue, and what we said then bears repeating now:

> *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.*
>
> *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 likely be mitigating factors to lift our earnings (e.g., compensation pools would probably go down, some customer fees and spreads would probably go up, and funding costs could decrease).*
>
> *It's important to share these scenarios 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 in a recessionary environment. But if we are prepared, we can both minimize the damage to our company and capitalize on opportunities in the marketplace.*
> (Shareholder letter, 2006)

Because of the extreme drop in home equity and subprime loan value, the losses I referred to last year could be even greater in 2008. However, we believe our strong capital and the increase of our loan loss reserves have put us in good shape. In 2007, we added $2 billion to loan loss reserves, and we expect to continue adding to those reserves in 2008. Our reserve positions across all of our businesses are among the best in the industry.

Managing in a downturn requires a different strategy

The impact of a downturn – and its effect on earnings – varies considerably by line of business. Therefore, it requires each of our businesses to develop its own strategy for dealing with the unique set of risks and mitigating factors it could face. In some cases, returns could actually increase (because of higher spreads), while in other cases they could decrease (because of lower volumes). In any case, however, we will remain committed to building the business. As such, we will not sacrifice long-term value and meaningful customer service to get better quarterly earnings. In fact, in certain situations, we may actually trade off near-term earnings to gain customers and build market share in businesses that are financially viable and of strategic importance. In those instances, we are also confident that healthy earnings will return. We believe the only time to sacrifice good growth is to protect the financial standing of the company. Fortunately, we are not in that position.

B. Looking Forward

We believe the mortgage business will rebound

In spite of all the difficulties in the mortgage markets, we remain committed to building the country's best mortgage company. The mortgage product is, and will continue to be, the largest and arguably one of the single most important financial products in the world. With our brand, scale, systems, retail branches and our ability to trade, hedge and underwrite mortgages (which include prime, subprime, Alt-A, jumbo and home equity loans), we have what it takes to be a winner in this business. During the latter part of 2007, we set out to increase our home lending market share and have, so far, succeeded. By the end of the fourth quarter of 2007, our share had grown to 11% from 6% a year earlier. As a result of our liquidity and capital strength, we were able to underwrite these loans when others could not. Although we may pay for probably starting this expansion a little too early, we remain committed to the goal.

The risks and rewards of highly structured products will be re-evaluated and changed, but "securitization" will remain viable

JPMorgan is a large participant in the asset-backed securities market (which includes CDOs), and we try to focus on products we believe are transparent and offer reasonable risks and rewards to investors. We deliberately chose to avoid the more structured CDO products because we believed the inherent risks were too high. Additionally, our knowledge of the subprime business informed our decision to remain very cautious about any subprime CDOs, where the bulk of the problems has occurred. We think there's a place for structured CDOs but not in their most complicated forms, such as "CDO-squared." Standards will be materially enhanced (in terms of accounting, operations and ratings guidelines), and many overly complex products will go the way of the dinosaur.

We also believe that while there will likely be changes to the securitization markets, securitization of assets will not go away. Securitization is a highly effective way to finance assets. In fact, many securitized products, like credit cards, have been tested through the market cycle and have not had significant problems. Securitization of subprime assets will probably reopen, too – but the standards will be more conservative, and there will be far more clarity (e.g., better underwriting standards, more capital, etc.). Market discipline, in some form, will also come to bear at each stage of the production chain – from the originator to the packager to the seller – and require each to have the right amount of skin in the game. We are not sure how it will change, but, between regulation and the market, we know it will – and probably for the better.

Accounting can be abused and misused

There's been a lot of discussion about the pros and cons of the mark-to-model versus the mark-to-market approach. We believe it is critically important to trust the value of the assets and liabilities on (and off) one's balance sheet. Regardless of the method one uses (mark-to-market, mark-to-model, etc.), accounting can be abused. This letter is not the right place in which to carry on this debate, but suffice it to say, accounting has become increasingly complex. Much of this complexity is unnecessary and leads to questionable results, adds to earnings volatility and creates **more** room for shenanigans, not less. More work needs to be done to fix this.

Many of our accounting and regulatory capital requirements are pro-cyclical

Many of the methods we use to calculate capital and loan loss reserves are pro-cyclical. In fact, loan loss reserves and capital are often at their lowest levels at precisely the point at which a cyclical downturn begins. In addition, I would argue that fair value accounting rules, margining requirements, rating agencies and regulatory rules add to pro-cyclical behavior. Thoughtful policy changes could provide a substantial cushion to the pro-cyclical forces that make a financial crisis worse. A comprehensive effort between all parties involved (regulators, government and financial institutions) is needed to develop and drive forward these important policy changes.

More assets on the books of banks or financial companies are illiquid (or can quickly become illiquid)

Given this trend, regulators and rating agencies will probably insist that the rise of illiquid assets requires higher levels of capital and proper funding with longer-term debt.

There will be a recovery

We simply cannot know how long this slowdown (or recession) will last or the extent of the damage it will cause. Today's most brilliant economists have various strong, well-argued current views on the subject – they just don't all agree. In any case, our goal is to be prepared.

In reality, our financial system has fairly rapidly and successfully, if not painfully, been dealing with most of the issues I've discussed in this letter. Losses have been taken, substantial capital has been raised and massive deleveraging has already taken place in hedge funds, SIVs, financial companies, REITs, collateralized loan obligations (CLOs) and CDOs. While all losses may not be recognized yet, our sense is that a lot have been (at least for U.S. companies). Importantly, the creation of new potential-problem assets (leveraged loans, subprime assets, CLOs, CDOs and commercial mortgage-backed securities) has virtually ceased.

So, demand will eventually catch up with an ever-diminishing supply of increasingly attractively priced assets. It is unlikely that the pace of deleveraging will intensify. Therefore, it is probable that the financial crisis will mitigate by year-end. In addition, fairly large fiscal and monetary stimulation and the new mortgage rules for Fannie Mae, Freddie Mac and the Federal Housing Authority (which will bring more capital to the mortgage market) could have a positive effect on the markets overall.

Yet, even if financial conditions improve, the economy could continue to erode, causing us to remain in a recessionary environment for a while. And it may sound peculiar (if, in fact, we are going into a recession) that we are also preparing for interest rates that may trend a lot higher over the next several years (we won't go into the reasons now).

We would also like to assure you, all of our shareholders, that while we are preparing for an extended financial crisis, we will never lose sight of our primary purpose to build a strong company and great franchise for the long term.

IV. IN CLOSING

Finally, I would like to make a few comments about your management team. You don't get to see these professionals in action as I do, but if you did, you would be extremely proud of them. Not only are they ethical, disciplined and thoughtful, but the tougher conditions became, the more they stepped up to support the firm. People canceled time off and worked or flew through the night to quickly respond to the extraordinary circumstances of the past year. Everyone shared information, offered to help and actively demonstrated how much they care about the work they do and the customers they serve. I am privileged to be part of this great team.

Our senior managers are all shareholders – they retain 75% of any restricted stock and options they receive as compensation. In this and countless other ways, the management team sets a stellar example for all employees of what it means to be invested in the company's long-term success. Currently, 140,000 out of 180,000 employees own stock in the company.

All of us are dedicated to building a great company of which you, our shareholders, our customers and all of our employees can be proud … and we are well on our way.

Jamie Dimon
Chairman and Chief Executive Officer

March 10, 2008