JPMorganChase

leadership

2001 Annual Report

at a glance >>

Our proposition is simple and powerful: J.P. Morgan Chase & Co. has unparalleled client reach, global scope and leadership across a wide range of product capabilities. This will enable us to participate in the long-term growth of the global financial markets in a way few firms can. Our goal is to create sustainable growth in earnings and shareholder value from this unique market position. We intend to do this by deploying the knowledge and skills of our people, harnessing the power of technology, leveraging the strength of our brands, and remaining disciplined financial and risk managers.

The merger of The Chase Manhattan Corporation and J.P. Morgan & Co. Incorporated was completed in December 2000, combining one of the world's largest commercial banks with one of the most respected and influential investment banking institutions. Additionally, the merger united two powerful financial institutions with remarkable histories reaching back over 200 years. Both firms have played formative roles in the development of New York City, the growth of the modern American economy and global finance. Our mission today is to create exceptional value for our clients, shareholders and employees by delivering our deep, broad and integrated global capabilities.

Investment Bank

In millions (except ratios)	2001	2000
Operating revenue	**$14,899**	$15,963
Cash operating earnings	**2,945**	3,486
Cash overhead ratio	**60%**	63%

Business focus

JPMorgan is one of the world's premier investment banks as measured by client franchise, product breadth, geographic reach and size. At the center of its business model are its extensive client relationships with corporations, financial institutions, governments and institutional investors.

The firm provides clients with a full range of investment banking and commercial banking products: offering advice on corporate strategy and structure, raising and placing capital, making markets in financial instruments and offering sophisticated risk management services.

The Investment Bank is global in scope with offices in more than 60 countries and derives approximately 45% of its revenues from outside the U.S. Such breadth enables the firm to offer clients truly individualized solutions synthesizing industry knowledge, product proficiency and geographic expertise.

Leadership positions

- Awarded "Bank of the Year."
- Named "Loan House of the Year."
- Named "Emerging Market Bond House of the Year."
- No. 1 in global syndicated loans.
- Named "European Equity-Linked House of the Year."
- No. 1 in Latin American debt.
- No. 1 in European cross-border M&A, No. 2 European M&A, No. 2 Germany M&A and No. 1 Spain M&A (completed advisory).
- No. 2 in global bonds, global investment grade bonds, U.S. domestic bonds and Yankee bonds.
- Awarded "World's Best Debt House."
- Awarded "Derivatives House of the Year."
- Named "Best overall foreign currency provider."
- Top foreign exchange bank (market share pro forma).
- No. 5 in global M&A (announced advisory).
- No. 2 Asia/Pacific advisory (announced and completed).
- 15 *Institutional Investor*-ranked "All America" equity research analysts.
- No. 3 in European convertible securities.

Treasury & Securities Services

In millions (except ratios)	2001	2000
Operating revenue	**$3,632**	$3,564
Cash operating earnings	**693**	693
Cash overhead ratio	**71%**	70%

Business focus

JPMorgan Treasury & Securities Services is a global leader in delivering financial information and transaction processing services to corporations, financial institutions and government entities around the world. JPMorgan has top rankings in all major products: cash management, treasury, custody, investor and institutional trust services.

Clients are served through three businesses. JPMorgan Institutional Trust Services is the number one trustee for all U.S. debt issues. The business provides a range of fiduciary services to debt and equity issuers and various intermediaries in the global capital markets. JPMorgan Investor Services is one of the "big three" custodians globally, with $6.5 trillion in assets under custody. The business also offers a full range of related services for institutional investors, such as securities lending and investment analytics and reporting. JPMorgan Treasury Services is the largest provider of U.S. dollar payments globally, processing nearly $1.9 trillion in funds transfers daily. The business offers products to meet the cash management, payments processing, liquidity and trade finance needs of its global client base.

Leadership positions

- No. 1 in U.S. dollar clearing and commercial payments.
- No. 1 trustee for all U.S. debt issues.
- No. 1 custodian in the world in *Euromoney* annual survey.
- No. 1 in transaction services in North America in *Euromoney* annual survey.
- No. 1 in CHIPS, Fedwire, ACH origination and U.S. dollar book transfer volume.
- No. 1 in orders of merit from *Global Investor* client satisfaction survey.
- No. 1 in issuing and paying agent services for U.S. commercial paper.
- No. 1 trustee for securitized debt products globally.
- No. 1 U.S. provider of euro clearing and commercial payments.
- Leadership franchise serving 60% of the *Fortune* 1000 and 100% of the top 50 global banks.

Investment Management & Private Banking

In millions (except ratios)	2001	2000
Operating revenue	**$3,085**	$3,362
Cash operating earnings	**467**	567
Cash overhead ratio	**81%**	75%

JPMorgan Fleming is a global asset manager providing financial expertise to governments, corporations, endowments, foundations and individuals in Europe, the Middle East, Japan, Asia and the Americas. We offer our clients a full range of solutions in cash management, currency, equity and fixed income, and alternative investments such as private equity, hedge funds and real estate. Recognized as one of the world's most trusted and highly regarded asset managers, we deliver excellence in investment performance, global solutions and client service.

JPMorgan Private Bank is a global leader providing advice, customized solutions, and unparalleled client service to wealthy individuals and families around the world. Uniting all of the capabilities of a commercial bank, a trust company, an asset manager, a broker dealer and an investment bank onto one platform, we can meet virtually every client's unique situation utilizing a broad array of wealth management solutions. For over 150 years, our comprehensive and integrated approach, commitment to innovation and integrity, and client focus have made us the pre-eminent global private bank.

- No. 1 private bank in the U.S.
- No. 1 fund management group in Asia over three and five years.
- No. 1 ranked fund management research in Japan.
- No. 2 most widely recognized fund brand name in Europe.
- No. 2 largest private bank in the world.
- No. 4 largest asset manager in the U.S.
- One of the top five asset managers worldwide.
- Relationships with nearly 60% of the individuals listed in the *Forbes* 400 U.S. list.
- Relationships with nearly 40% of the individuals listed on the *Forbes* billionaires global list.
- Morgan OnLine, the Private Bank's proprietary Internet tool, selected as Best of the Web FAVORITE (*Forbes*).

JPMorgan Partners

In millions (except ratios)	2001	2000
Operating revenue	**$(1,457)**	$789
Cash operating earnings	**(1,148)**	258
Cash overhead ratio	**NM**	51%

NM – Not meaningful

JPMorgan Partners (JPMP) is the firm's principal vehicle for private equity investing. The business provides equity and mezzanine capital financing to companies around the world throughout their entire life cycle. With $31 billion in total capital under management, JPMorgan Partners invests in a broad range of industries, including life sciences/healthcare infrastructure, industrial, telecommunications, media and technology, and financial services. JPMorgan Partners' global integrated network, composed of its nine offices, industry practice groups, portfolio companies and JPMorgan Chase industry specialists, provides a number of competitive advantages. Through this network, JPMP is well-positioned to adapt to changes and opportunities in the marketplace.

During its 18-year history, JPMorgan Partners has consistently produced a record of superior financial returns, over multiple business cycles and widely varying conditions in the capital markets, and is recognized as one of the most successful private equity organizations in the world.

- The largest private equity group in the world.
- Innovative approach to private equity investing through its global integrated network.
- Industry specialists in telecommunications, media & technology; life sciences & healthcare; industrial; consumer retail & services; financial services & real estate.
- Global presence with nine offices worldwide; investments in over 30 countries.
- Strong linkages to the global network and capabilities of JPMorgan Chase.
- More than 1,800 direct equity and mezzanine transactions closed since inception.
- Seats on the board of directors in over 550 diversified portfolio companies enabling JPMorgan Chase to act as a strategic partner, not only as an investor.

Retail & Middle Market Financial Services

In millions (except ratios)	2001	2000
Operating revenue	**$10,915**	$10,176
Cash operating earnings	**1,688**	1,785
Cash overhead ratio	**50%**	52%

Retail & Middle Market Financial Services focuses on consumers, small businesses and middle market customers. Serving more than 30 million customers in the U.S., the business offers a wide range of banking, credit, investment, and financing products and services through multiple distribution channels, including branches, ATMs, telephone and Internet banking.

Nationwide, these businesses are a leading provider of mortgages, credit cards and auto loans. JPMorgan Chase is a leading full-service bank for consumers in our four-state footprint, which encompasses New York, New Jersey, Connecticut and Texas. We also maintain a strong competitive advantage in serving middle market companies and small businesses in the New York tri-state area and Texas.

The firm continues to strengthen the communities it serves by expanding access to capital and by leveraging the many resources of the company.

- No. 1 primary relationship bank (based on deposits) in the New York tri-state region.
- No. 1 full-service bank for small businesses in the New York tri-state area.
- Fifth largest domestic credit card issuer.
- No. 1 credit card merchant processor through joint venture with First Data Corp.
- No. 2 originator of residential mortgage loans in the U.S., with more than $184 billion originated in 2001.
- No. 3 mortgage servicer in the U.S.
- No. 1 non-captive national provider of auto loans and leases, with $20 billion originated in 2001.
- No. 1 in lead share for middle market companies in the New York tri-state area.
- Middle market relationship managers rated best in the business (McKinsey & Company benchmarking study).
- Brown & Company, JPMorgan Chase's deep discount broker for experienced investors, ranked No. 2 in overall customer satisfaction and No. 1 in the Affluent Investor segment in the 2001 J.D. Power and Associates Online Investing Survey.

As of or for the year ended December 31, (in millions, except per share and ratio data)	**2001**	2000	1999
Reported basis			
Revenue	**$ 29,050**	$ 32,934	$ 30,930
Noninterest expense (excluding restructuring costs)	**20,776**	21,393	17,972
Merger and restructuring costs	**2,523**	1,431	23
Provision for loan losses	**3,185**	1,377	1,446
Net income	**1,694**	5,727	7,501
Net income per share:			
Basic	**0.83**	2.99	3.87
Diluted	**0.80**	2.86	3.69
Cash dividends declared per share	**1.36**	1.28	1.08
Total assets	**693,575**	715,348	667,003
Total stockholders' equity	**41,099**	42,338	35,056
Tier 1 capital ratio	**8.3%**	8.5%	8.5%
Total capital ratio	**11.9**	12.0	12.3
Tier 1 leverage	**5.2**	5.4	5.9
Operating basis[(a)]			
Revenue	**$ 30,098**	$ 32,793	$ 31,695
Earnings	**3,409**	5,927	7,433
Earnings per share — diluted	**1.65**	2.96	3.65
Cash operating basis[(b)]			
Earnings	**$ 4,138**	$ 6,455	$ 7,762
Cash earnings per share — diluted	**2.01**	3.23	3.82
Cash return on average common equity	**9.81%**	17.58%	23.25%
Shareholder value added	**$ (911)**	$ 2,018	$ 3,704

(a) Excludes the impact of credit card securitizations, merger and restructuring costs, special items and the net effect of a change in accounting principle.
(b) In addition to (a) above, it excludes the impact of the amortization of intangibles.

to our shareholders

> "Even though we are going through one of the most difficult environments in recent times, I have never been more confident in the future of the firm."

It was a challenging year for most companies, including our own. The economy, already weak at the outset of the year, fell into a full-fledged recession in the spring. Then came the tragedy of September 11. This tested the strength and resilience of the international financial system. While financial institutions, including our firm, passed the test with flying colors, subsequent events, including the collapse of Enron, undermined confidence in financial markets and raised serious questions about the integrity of accounting practices.

Despite these challenges, over the course of 2001, we continued to build and enhance the competitiveness of the newly created JPMorgan Chase. I am pleased to report that:

- We moved with great speed and purpose in executing a massive and complex merger, melding two great organizations into one. Our employee polls show a tremendous level of internal support for the new firm.

- In the midst of a massive merger integration effort, we gained share in most of our client and product activities, including global mergers and acquisitions, the origination of bond issues, loan syndications and derivatives. In doing so, we demonstrated the value of our expanded franchise to clients in the face of difficult and volatile market conditions.

- We aggressively reduced expenses and increased our goal for merger-related cost savings from $2.0 billion to $3.8 billion. By the end of 2001, we had captured more than three-quarters of our expected savings.

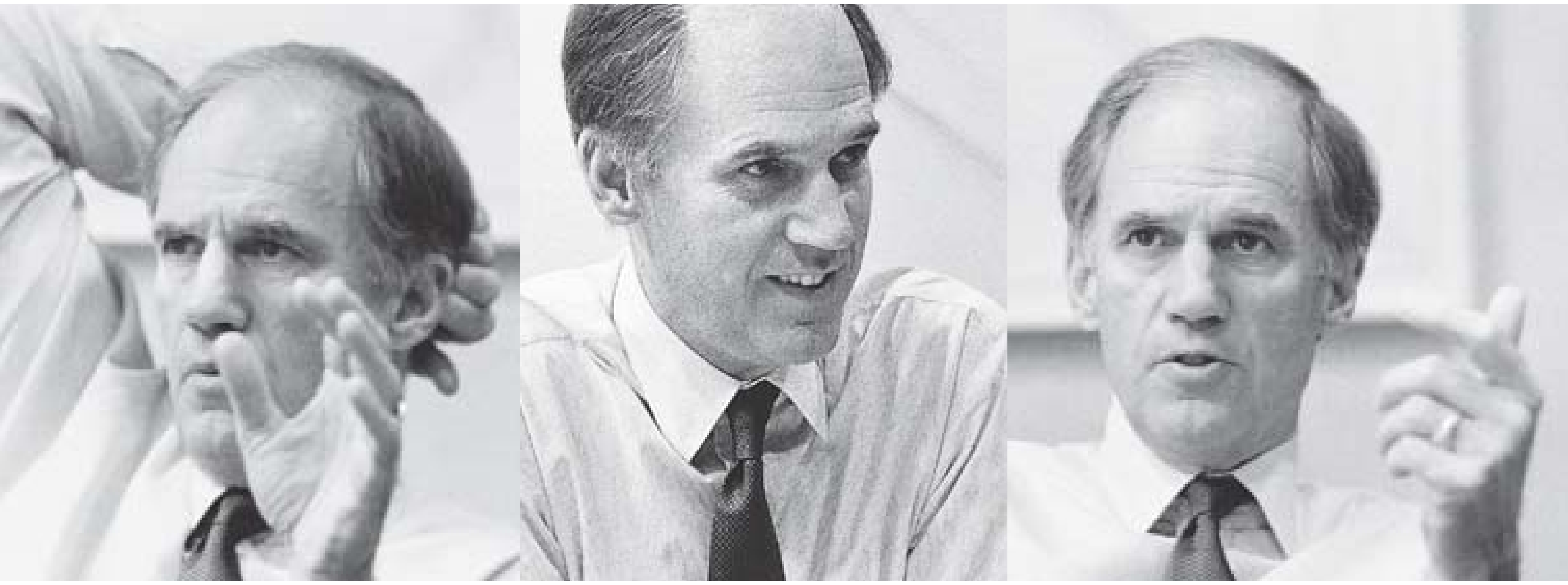
Nevertheless, our 2001 results were disappointing. Combined with declining stock markets and a sharp reduction in the volume of mergers and acquisitions and initial public offerings, the recession made for a weak revenue environment for our investment banking, asset management and custody businesses. In addition, we had substantial losses in JPMorgan Partners, our private equity business. Lastly, there was an overall decline in credit quality in 2001, affecting both commercial and consumer credit. All of these factors weighed heavily on our results in 2001 and will most likely extend into 2002.

We are dealing with all the issues in front of us, and we are doing so from a position of considerable strength. Our cash operating return on equity in 2001 was 10% — well below our target. Excluding the losses in JPMorgan Partners, historically a very profitable business, our cash operating return on equity was a more respectable 15%. Our Tier 1 capital ratio at year-end was 8.3% — well above the Federal Reserve's standard for a "well-capitalized" institution. Finally, the credit performance of our loan portfolio, both commercial and consumer, held up better than industry averages. At year-end, nonperforming assets represented about 10% of equity, better than most of our peers. By contrast, the comparable ratio for certain of our predecessor institutions in the early 1990s, the last recession in the U.S., was more than 100%. In addition, commercial loan charge-offs against loans outstanding were 87 basis points in 2001, compared with 101 basis points for our peer group.

As we move beyond the current difficult credit cycle, there is much opportunity for improvement. Continuing progress in reducing costs and increasing productivity will result in a higher proportion of revenues flowing to the bottom line. We expect our private equity business, which historically has generated outstanding returns, to return to profitability. We have realigned this business to reduce and diversify our risk by creating new private equity funds that enable us to invest our capital alongside our clients.

Our firm brings together an extraordinary breadth of capabilities — in investment banking, operating services, private banking, asset management, private equity, and retail and middle market financial services. There is no question we have a tremendous strategic platform. It is combined with a strong commitment to financial discipline and rigorous risk management across all of our businesses.

Even though we are going through one of the most difficult environments in recent times, I have never been more confident in the future of the firm.



Vision and strategy

By delivering our broad, deep and integrated global capabilities in a timely, efficient and creative manner, we expect to create exceptional value for our shareholders, clients and employees. We see three strategic requirements to succeed: scale, leadership positions, and integrated talent and product delivery. We also believe that our diversified business model, combining wholesale and consumer financial services, will give us more growth opportunity and earnings stability over time.

Let me begin with our global investment banking business, which accounts for nearly half of our total revenues, because the strategic landscape in this area could not be any clearer. The number of full-service firms in this field has been declining, and those that remain are becoming more and more capable. A handful of major global firms are emerging as the leaders in this sector, and we are among them.

The "must-haves" to be a leader in the wholesale space are clear. Scale in terms of capital, clients and products is the first must-have. JPMorgan Chase has all of those attributes. We are one of the largest banks in the world in terms of revenues, total assets, income and market capitalization.

In addition, nearly half of our revenues and income in wholesale banking comes from our activities outside the U.S. With a strong presence in Europe, Asia and Latin America, we have the size and the reach to act as an integrated, full-service provider to corporations, governments and other institutions on a global basis.

But size alone is not enough. The second must-have is leadership positions across a wide range of products and services, from syndicating loans, to underwriting bond and equity issues, to trading securities and advising clients on mergers and acquisitions and other complex business transactions. Our model enables us to provide creative and integrated solutions to globally oriented clients. As a result of our many leadership positions and our deep relations with clients, we are able to act on their behalf in taking advantage of windows of opportunity that may open in one area just as they are slamming shut in another. That happened in 2001 in a sudden shift from equities to bonds as the preferred method of raising capital for many companies. We have essentially all of the pieces. Now we must prove that we can provide seamless and superb execution.

The ideal firm — the firm we have visualized in our mind's eye as the new model for success — combines the breadth and clout of a big firm with the creativity and agility of a high-quality niche player. From a full gamut of leadership positions, with the insight that comes from a close working relationship with the client and as a result of the ability to act truly as "one team," our people should be able to propose and deliver the exact right combination of products and services in any market, in any economic conditions, anywhere in the world. That is the essence of the third must-have: integrated talent and product delivery.

As part of this integrated delivery, the capability to use our balance sheet intelligently to help our clients will, I believe, become an increasingly important differentiation in gaining market share against our competitors that do not have this capability.

During 2001, we completed a number of complex transactions for clients that illustrate the power and potential of such a model. To cite one example, we were the lead arranger on a $1 billion-plus financing package that enabled a major Japanese automobile company to build a new assembly plant in the U.S. By combining investor coverage between JPMorgan teams in New York and Tokyo, our firm was able to provide 24-hour support and close an extremely complex transaction with several interlocking components (a syndicated loan, sale/leaseback and commercial paper) within a very tight time frame. At the same time, this was a transaction that depended from the start upon a close, top-level and long-established relationship between our firm and the client.

There are abundant opportunities for synergy across many of our businesses and multiple avenues for creating additional value for existing and new clients. Our clients can benefit from our unique capabilities in investment banking, investment management and private banking, treasury and securities services, and private equity investing. And our global client base of corporations, governments and high net worth individuals is second to none.

But that is not all there is to JPMorgan Chase. We also have a powerful and multi-faceted retail financial services franchise. While our wholesale businesses are known globally as JPMorgan, our retail businesses market themselves under the Chase name. Like our wholesale businesses, our retail businesses maintain leadership positions in key products and activities, have broad scale and demonstrate a real commitment to delivering the greatest value to the customer. In retail, as in wholesale, we are known for technological excellence — both in the quality of back-office infrastructure and in the knowledge and expertise of our people.

Chase ranks among the leaders in the U.S. marketplace in credit cards, mortgage lending and auto finance. We have more than 27 million credit card accounts across the U.S., are the number one originator of auto loans (excluding the finance operations of the auto companies themselves) and are one of the leading originators of mortgages. Chase is a broad-scale and extremely efficient provider of these important personal financial services.

At a regional level, we have strong branch networks in the tri-state area of New York, New Jersey and Connecticut as well as in Texas. In the tri-state area, we are number one in deposit share and number one in middle market and small business lending and finance.

Finally, through Brown & Company, we have a profitable online brokerage operation geared to high net worth individuals. Though small, Brown & Company operates on a national level and represents a vehicle for potential future growth.

While the market for financial services is far more fragmented on the retail side than it is in wholesale, certain fundamentals apply in both worlds. One is the importance of flawless execution. That is why we are using the Six Sigma approach to drive improvements in quality and efficiency throughout JPMorgan Chase. Whether the product is a $50,000 mortgage or a multi-billion-dollar underwriting, we aim to get everything right the first time. Similarly, in all of our businesses, we have invested heavily — not just in systems but in the education of our people — in making the best and most creative use of technology.

In wholesale and retail financial services alike, our simple goal is to provide best-in-class products and integrated solutions that meet the complete financial needs of all of our clients and customers. Certainly, that is the way all of us at JPMorgan Chase felt in the days and weeks following September 11. The response of our people throughout the firm in tending to clients of every description was nothing short of extraordinary. They did everything from opening a business recovery center, to speeding the refinancing of a major airline, to working double shifts in London and Tokyo to keep the world's foreign exchange and payments system working.

One firm — one team

Formally concluded on the last day of 2000, the merger of J.P. Morgan and Chase Manhattan brought together two of the greatest names in banking — with a combined history spanning hundreds of years.

Not only was ours one of the most complex mergers in the history of financial services, but it also has been the most swiftly and fully executed of mergers. We did not wait to break down boundaries and build new teams and organizations from the ground up: We entered into this merger with a mindset of equality and inclusiveness. It helps, I believe, that we had a decade's worth of prior experience in putting together large mergers and acquisitions. Our attitude is simply this: Pick the best people. Pick the best systems. Pick the best strategy. And do not wait to make the tough decisions that have to be made to cut costs and capitalize on opportunities for top-line growth.

We also have put a huge emphasis on communications — on creating a common culture and aligning all our people around the vision and strategy. People want to be part of a team, and they especially want to be part of a winning team. At JPMorgan Chase, the vast majority of our employees responding to internal polls have signaled strong satisfaction with and commitment to the new firm. Clearly, most can see we are building a winning platform, and they are excited to be part of it.

We have launched a broad range of leadership initiatives across the firm, including LeadershipMorganChase, our own version of a leadership and cultural learning center. Jack Welch, former chairman of General Electric — who is both a great leader and a great teacher — is acting as an advisor to us in this and other endeavors involving leadership development. LeadershipMorganChase will be an important tool in creating a strong common culture that capitalizes on opportunities for synergy across our firm and enables us to achieve true leadership in global financial services.

In conclusion

This past year also witnessed significant change in our senior management, as Sandy Warner retired as Chairman of the Board. His leadership and dedication helped create a smooth transition as two firms became one. I want to thank him for his invaluable partnership and for helping to create a foundation upon which our team will build. In addition, Marina Whitman, professor of business administration and public policy at the University of Michigan, will retire from our Board of Directors on the eve of the 2002 Annual Meeting of Stockholders. I deeply appreciate the counsel and guidance she has provided for the past 29 years.

JPMorgan Chase is entering a new era. No longer are we consumed with the task of putting together the different pieces needed to achieve our vision of a richly diversified firm that will be one of the true leaders in global banking. We essentially have all of those capabilities in-house. We have built a tremendous platform. So now our task is to deliver — to perform. I am very confident of our ability to do just that.

William B. Harrison, Jr.
Chairman and Chief Executive Officer
March 1, 2002

> "We have built a tremendous platform — now our task is to deliver — to perform. I am very confident of our ability to do just that."

board of directors

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and Chief Executive Officer
Deere & Company

Riley P. Bechtel
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Bechtel Group, Inc.

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executive committee

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Controller

Lesley Daniels Webster
Market Risk Management

leadership

Our philosophy is that leadership positions drive growth and shareholder value. Leadership positions enable us to serve clients better, attract partners and intellectual capital, and lead to meaningful economies of scale that benefit all stakeholders.

"A goal- and team-oriented group of individuals is leading JPMorgan to the next level of success. Our core values and global expertise underpin all that we do on behalf of our clients. The culture that has been built at JPMorgan encourages excellence and the creation of a new standard in our dealings with clients."

Jennifer Meyers
Associate
Mergers & Acquisitions
New York

Investment Bank
Providing a 360° relationship for our clients

By any measure, JPMorgan ranks as one of the world's premier investment banks. With cash operating earnings of nearly $3 billion in 2001, we are one of the most profitable investment banking franchises in the world.

Meeting the critical financial needs of corporations, financial institutions, governments and institutional investors around the world, JPMorgan advises on corporate strategy and structure, raises capital, makes markets in financial instruments and offers sophisticated risk management services.

We take great pride in our deep and carefully nurtured relationships with corporate and institutional clients. Through the merger of two great institutions, we have created a platform that includes a full range of leadership positions in investment banking products and services. This is combined with a strong commitment within the firm to act truly as "one team" in serving the clients. We aim to deliver the exact right combination of

Groupe Danone
€1 billion convertible bond

JPMorgan's proprietary convertible financing structure, "PLYERS" (Puttable Low Yielding Equity-linked Redeemable Securities), allowed Groupe Danone to secure a low coupon and high conversion premium. With its strong investment banking relationship, JPMorgan acted as joint bookrunner and lead manager after demonstrating to the company the merits of convertible financing and this innovative structure. It represented the first time JPMorgan acted as bookrunner on a large convertible issue in France and led to our No. 1 ranking for underwriter of convertible securities in Europe.

Republic of Colombia
US$500 million benchmark bond issue

The Republic of Colombia re-entered the U.S. dollar market through this 10-year issue of global bonds, which allowed Colombia to prefinance the majority of its external funding needs for 2002. JPMorgan acted as joint-lead manager and strengthened the firm's leading position as an underwriter for Latin American sovereign issuers. This transaction was one of a number of deals that JPMorgan successfully led for the Republic of Colombia during 2001.

PEC Solutions
$85 million follow-on equity offering

JPMorgan acted as lead manager in a follow-on equity offering for PEC Solutions, a technology solutions provider. This offering was the second best performing follow-on of 2001. PEC Solutions was among a small number of technology companies that executed both an IPO in 2000 and a successful follow-on in 2001. JPMorgan's lead manager role in this transaction demonstrates our client commitment after acting as co-manager in PEC's original IPO.

"We've structured our equity platform to deliver the right solution to our clients across the spectrum of equity products. The expected growth in European capital markets activity represents a unique opportunity to leverage our market and deal experience and expand our business. We're well-positioned to capture market share and expect to continue the momentum we have been able to establish."

Bobby Banks
Managing Director
European Equity Capital Markets
London

products and services to meet the client's requirements in any market, in any economic conditions, anywhere in the world. Our mission is twofold: to deliver exceptional value to clients and to achieve pre-eminence in this field — becoming the world's most capable, most influential and most profitable investment bank.

In 2001, our platform was well-received in the marketplace, and our first year culminated with the distinction of being named "Bank of the Year" by *International Financing Review.*

This accolade was supported by an additional 18 number one awards from *IFR*, and these have been complemented by several best-in-class awards from *Risk* magazine. *IFR* also recognized that we have been "resolutely focused" on performance in a merger integration year, which is "nothing short of astounding."

As we move into 2002, the focus shifts from integration to transformation and the continuing drive for pre-eminence. Our model continues to be based on four distinct, but interlocked measures: commitment to 360º client relationships, global product leadership, a passionate, values-driven culture and flawless delivery.

Addressing client challenges and opportunities from every angle in a fully integrated, seamless fashion is the cornerstone of the investment bank's strategy. Captured by the "360º relationship" concept, this approach offers our clients a competitive advantage.

As stated by Walter Gubert, Chairman of the Investment Bank, "There is no other firm that has developed this model as fully as we have. That was the idea behind the merger. Our competitive advantage must come not just from being global, not just from being as good as we are, but from being fully integrated. We're not sellers of product; we deliver the firm."

JPMorgan leverages its global presence and integrated approach for the benefit of its clients. Client executives can

Comcast/AT&T

The $72 billion Comcast/AT&T merger was the largest merger announced in 2001. The combination will create one of the leading and most powerful communications, media and entertainment companies in the world and the world's pre-eminent broadband services company. JPMorgan acted as a financial advisor to Comcast on the acquisition strategy and advised the company on its debt raising capacity in the bank and bond markets. JPMorgan was chosen as a result of its long-standing relationship with Comcast.

"The depth of our research coverage is extensive — over 3,000 companies worldwide. Also, having strong leadership positions allows the firm to attract the best and brightest talent — a very important attribute that our clients expect and demand."

Shinji Kuroda
Vice President
Equity Research
Tokyo

harness the firm's resources and talent around each client's issues and maximize the knowledge and experience of product experts, industry professionals, regional specialists and other professionals throughout the firm to meet the client's strategic and tactical needs.

In addition, JPMorgan offers a multitude of products and services to assist clients throughout a company's life cycle. The end-to-end product capability, which reflects JPMorgan's strengths as both a commercial bank and an investment bank, includes the following services:

Strategic advisory: JPMorgan adheres to a disciplined approach for its clients in the screening, evaluation and execution of strategic transactions — acquisitions, divestitures and reorganizations.

Capital raising: JPMorgan can rapidly and efficiently accommodate its clients' capital raising needs — whether public or private, debt or equity — by combining its origination strength, structuring expertise and distribution capability. The uniqueness of JPMorgan is best illustrated in the debt arena where the firm's strength in loan syndications and fixed income origination makes it the world's largest debt house.

Risk management: As a premier market maker and the largest provider of derivative solutions in the world, JPMorgan offers a combination of talent, experience, structuring know-how and financial backbone to help issuers and investors protect their financial exposure against volatility.

The delivery of JPMorgan's range of investment banking products to its global client base is rooted in a corporate culture that fosters an atmosphere of trust, partnership and excellence. Core values — integrity, drive, partnership, excellence, insight and reliability — permeate everything JPMorgan does. These values enable JPMorgan to develop long-term, trusting relation-

UPM-Kymmene OYJ
€2.5 billion credit facility

UPM-Kymmene OYJ is one of the leading global paper producers. This principally acquisition-related financing represented one of the largest international financings for any Nordic company to date. Acting as the coordinator and sole bookrunner on the facility, JPMorgan executed a large financing during challenging market conditions and solidified its lead position and expertise in capital raising for the global pulp and paper industry.

"Our clients look to JPMorgan as a new institution with excellence, power and leadership. We have earned the trust of our clients through our proven ability to solve their most complex financial challenges. They know that our commitment to them goes well beyond any single transaction — we build long-term partnerships with our clients."

Susana de la Puente
Managing Director
Client Management
Lima, Peru

ships with its clients, both issuers and investors, based on respect and confidence.

At all levels — individual, product unit, division and firm — JPMorgan constantly strives for performance excellence that surpasses expectation. Demanding the utmost of itself is a key ingredient of the culture, defining how JPMorgan interacts with clients.

The Investment Bank's strategic imperatives include maintaining market-leading positions in syndicated lending, debt capital raising, derivatives and foreign exchange; building market share in mergers and acquisitions and equities; deepening and broadening our expense discipline; and utilizing Six Sigma and comparable efficiency-enhancing approaches to evaluate and improve our business methods.

At the onset of 2002, *Risk* stated that: "[JPMorgan] manages to top the polls via that most important commodity — client satisfaction." Such recognized client orientation, in conjunction with global scale, product proficiency and cross-divisional synergy to deliver customized solutions, is the base of our business model and positions JPMorgan to advance even further from an already solid foundation.

The opportunity to create value with and for our clients is tremendous. Clients want reliable, full-service, global providers of financial services to be their long-term partners. They also want a partner that has the capacity and expertise to commit capital to that long-term relationship when circumstances require, a clear competitive advantage we hold — by being the best of a commercial bank and the best of an investment bank.

BHP/Billiton

The $35 billion BHP/Billiton merger, the largest M&A transaction ever announced in Australia, created the world's largest diversified mining company. JPMorgan acted as financial advisor and corporate broker to Billiton. This transaction demonstrates the importance of strong, long-term relationships. In 1997, Flemings acted as financial advisor to Billiton during its initial public offering. Since that time, JPMorgan has advised Billiton on several acquisitions and held lead management positions in its debt and equity financings.

"Solid and clear leadership has empowered employees to grow and take ownership of initiatives — to step out and face new challenges. It actually goes beyond teamwork. We're building a community at JPMorgan."

Jose Cruz
Vice President
Institutional Trust Services
Brooklyn, New York

Treasury & Securities Services
Market-tested leader — strategic advisor and trusted partner

As a world leader in financial transaction processing and information services, JPMorgan Treasury & Securities Services (T&SS) delivers a complete range of cash and treasury management, institutional trust, custody and other investor services globally. These top-quality products are integral to JPMorgan's portfolio of services for corporations, financial institutions and government entities worldwide.

To maintain leadership, the three T&SS businesses have strategies designed to respond to their different market dynamics. The strategies have in common a commitment to maintaining financial discipline and rigorous expense management, as well as delivering excellent client service, developing innovative products, making targeted acquisitions and expanding into new markets.

JPMorgan Institutional Trust Services is the number one trustee for all U.S. debt issues and for fiduciary services for securi-

Bayerische Landesbank

Facing stiff competition, JPMorgan Institutional Trust Services was awarded with the securities clearance business of Bayerische Landesbank Girozentrale, the sixth largest bank in Germany. As part of the selection process, the client subjected Institutional Trust to rigorous testing; JPMorgan was able to demonstrate its technological sophistication and its ability to offer the client a single point of contact. JPMorgan will support Bayerische's securities lending, trading and sales, repo and proprietary trading groups. The deal demonstrates the growing strength of this business in Europe.

Sony Global Treasury Services

Global size and recognized expertise — these were the top reasons why Sony Global Treasury Services (SGTS) selected JPMorgan Treasury Services as its core global U.S. dollar bank. JPMorgan established a U.S. dollar account structure to facilitate SGTS's cross-border and in-country sweep activities, to centralize payment initiation and to streamline information management. SGTS now is served by a single communications pipeline, delivering ease of technology management, global economies of scale in treasury and technology activities, and a centralized, global function to facilitate funding and other treasury activities.

New Zealand Government Superannuation Fund Authority (GSFA)

JPMorgan Investor Services was awarded global custody of more than NZ$3.4 billion in the Government Superannuation Fund. The GSFA was charged with improving the Fund's investment income and reducing the New Zealand government's annual cost of financing the Fund's benefits while not incurring undue risk. The mandate reinforces JPMorgan's commitment to the New Zealand market and came at a time when other global fund managers and service providers were closing their New Zealand operations.

“Great leadership is about setting benchmarks and surpassing them. By setting higher standards and exceeding those standards, we are able to demonstrate to clients our commitment to the payments processing business and our superiority in U.S. dollar processing.”

Sethumadhavan Natarajan
Senior Vice President
Treasury Services
Hong Kong

tized debt products globally. The fastest growing T&SS business, Institutional Trust Services has a strategy focused on business expansion. The business aggressively manages its existing products by Web-enabling them to improve efficiency and service and by delivering them increasingly to markets outside the U.S. Institutional Trust Services also has a successful track record of acquisitions that have extended the business’s product capabilities, expanded its geographic reach and improved economies of scale.

JPMorgan Investor Services is one of the three largest firms in custody services globally, with $6.5 trillion in assets under custody. Growth in the business, beyond overall market growth, is driven by providing products of value to institutional investors and by marketing to the firm’s broad client base.

The business plans to spur future growth with targeted acquisitions. Investor Services was restructured in 2001 into product companies to support an increased emphasis on efficiency and to align new product development with client needs and changing industry requirements.

JPMorgan Treasury Services, the world’s largest U.S. dollar clearer and a market leader in cash and treasury management services, has delivered solid profits and consistent growth in a mature market. To gain market share, Treasury Services has focused on expanding into new client segments with existing products, developing new products for existing clients and, more recently, making selected acquisitions to extend its product offering. The business also is focused on expense management and efficiency.

ChevronTexaco

After a strategic review, JPMorgan Investor Services was chosen as master trustee of the new company’s U.S. pension program and as master custodian of Chevron’s larger non-U.S. pension schemes for a combined $5 billion in pension assets. JPMorgan was selected for its high level of professional knowledge and insight and its robust Web-based electronic information system for obtaining current asset values and performance data. As master trustee and custodian, JPMorgan also will supply accounting and global consolidated reporting, performance and analytics, and securities lending services.

"Clients of JPMorgan Private Bank recognize the combined power of our 'global reach' and 'local presence.' Our firm can follow high net worth clients locally in Europe and around the world, accessing the capabilities of our investment group in London, our hedge fund advisory team in Geneva and our private equity group in New York. Clients like the fact that we can provide experience and solutions across a broad range of needs in multiple geographies."

Hervé de Montlivault
Managing Director
JPMorgan Private Bank
Paris

Investment Management & Private Banking
World class, worldwide

Both JPMorgan Fleming Asset Management and JPMorgan Private Bank are leading trusted advisors, and each has a distinct strategy for growth in market share and assets. Both maintain strong reputations for excellence in client relationships.

JPMorgan Fleming Asset Management
JPMorgan Fleming is a leading asset manager delivering global investment capabilities ranging from cash management to equity and fixed income investments to alternative asset classes such as private equity, hedge funds and real estate. The business has relationships with more than 30% of the 1,000 largest U.S. pension plans and 30% of the 50 largest U.K. pension plans. Additionally, it is the second largest Pan-European mutual fund provider, the leading asset manager in Asia and the second largest active foreign asset manager in Japan.

Strong investment performance and outstanding client

Institutional plan under new management

In July 2001, Procter & Gamble (P&G), one of the world's largest and oldest consumer products manufacturers, awarded the management of its $11.8 billion profit-sharing plan and employee-stock ownership plan to J.P. Morgan/American Century Retirement Plan Services. The plan, composed of approximately 43,000 participants, offers a variety of JPMorgan Fleming commingled funds, including money market, fixed income, and domestic and international large and small cap investments. P&G had been its own recordkeeper since the plan's inception in 1887. J.P. Morgan/American Century now provides recordkeeping, communications and individual investment education services for P&G employees.

"JPMorgan Fleming's management has created an atmosphere where individuals are challenged to think creatively and are empowered to deliver our best thinking and excellence in execution for our clients. As we looked at the challenging investing environment facing our clients this year, our creativity culminated in an alternative investment seminar for institutional clients seeking education and advice on opportunities in real estate and hedge fund investments."

Susan Oh
Vice President
JPMorgan Fleming Asset Management
Chicago

service are key to its strategy. Recognized for delivering solid long-term performance in many equity products, including the Active Core, Active Value and Analyst Portfolios, we are working to build outstanding performance across all investment strategies. We are also sharply focused on expanding our business in the U.S. defined contribution and global mutual fund marketplaces. JPMorgan Fleming's 45% interest in American Century is important to this expansion in the U.S., while brand awareness of the Fleming and JPMorgan names is a critical advantage in Europe and Asia.

JPMorgan Private Bank

JPMorgan Private Bank is the pre-eminent global private bank. We have relationships with nearly 60% of the individuals on the *Forbes* 400 U.S. list and 40% of the individuals on the *Forbes* billionaires global list. Our strategy combines the best of commercial, trust and investment banking capabilities into a single integrated platform dedicated to serving the complex challenges faced by our wealthy clients. The range of capabilities at JPMorgan Private Bank is among the most comprehensive in the industry and leverages the leadership positions of the entire firm for the benefit of our clients.

JPMorgan Private Bank provides clients with a wide range of investment solutions, including portfolio management, securities trading and alternative investments along with risk management, tax and estate planning, capital raising and specialty wealth advisory services. Using a 360º approach, we deliver integrated and customized advice and solutions to meet each client's unique needs.

The power of partnership

In the summer of 2001, JPMorgan Fleming united its U.S. mutual fund families under the name "JPMorgan Funds," which offers investors an expanded range of investment styles and strategies. JPMorgan Funds partnered with the firm's retail brokerage unit, Chase Investment Services, to tap the firm's extensive retail customer base. This partnership helped make JPMorgan Funds the number one selling fund family to individual and small business customers, achieving a 21% market share, compared with 4.3% in 2000.

Focus on alternatives

In 2001, our private clients around the world invested over $2.5 billion in alternative investments. Due to its strategic and opportunistic nature, this asset class is particularly appropriate for qualified clients in uncertain investing environments. By leveraging the firm's global capabilities, we offered clients proprietary and third-party solutions in private equity, hedge funds, real estate and distressed investing. Notable examples include funds that allowed private clients opportunities to co-invest with the firm and our large institutional clients.

Growth in money markets

During 2001, institutional and retail clients worldwide invested over $45 billion in money markets, increasing our share of this rapidly growing market to over 22% across Europe, Asia and Japan and 5% in the Americas. This record growth is largely the result of strong partnerships with other lines of business within JPMorgan Chase, most notably the Investment Bank, Retail and Middle Market Financial Services, and Treasury and Securities Services.

"What distinguishes JPMorgan Partners in the private equity world is our globally integrated network which operates as a seamless team, regardless of specialty. As a result, we are able to build significant value for our investors in partnership with our portfolio companies, our limited partners and co-investors. Combined with our linkage with the JPMorgan Chase franchise, JPMP is able to serve as a true partner to our portfolio companies in meeting their capital needs."

Faith Rosenfeld
Partner
New York

JPMorgan Partners
Unparalleled knowledge, experience and resources

In the markets it serves, JPMorgan Partners (JPMP) is the principal vehicle for the private equity investing of JPMorgan Chase. During its 18-year history, JPMP has operated over multiple business cycles and widely varying conditions in the debt and equity markets and has become an established leader in this asset class.

Managing Partner Jeffrey Walker sees JPMP's globally integrated network as "the next-generation private equity model." The globally integrated network consists of four elements: nine worldwide offices, five industry practice groups, relationships with more than 600 current and former portfolio companies, and relationships with JPMorgan's worldwide industry specialists in equity research and investment banking. The globally integrated network plays a critical role across all stages of private equity investing: from deal sourcing to due diligence to the creation of value and the exit phase.

Chromalox

JPMorgan Partners purchased Chromalox, Inc., a leading worldwide manufacturer of heating elements, sensors and controls, from Emerson Electric for $165 million. Chromalox manufactures more than 5,000 products, the industry's most diverse selection of heating products, and has a customer base of over 30,000 end users and OEMs. We believe as a stand-alone company, Chromalox, in partnership with JPMorgan Partners, can achieve significant growth and increased profitability through its initiatives and acquisitions and by shifting production to lower-cost regions.

Axis Specialty Insurance

JPMorgan Partners was a lead investor in Axis Specialty, a Bermuda-based global insurance and reinsurance business with a specific focus on many of the specialty insurance and reinsurance lines most affected by the World Trade Center disaster. The company has an initial capital base of more than $1.6 billion and is funded by Marsh & McLennan and JPMorgan Partners.

Triton PCS

Triton PCS is a leading provider of digital wireless services in the Southeast, licensed to operate in a contiguous area covering more than 13 million people in Virginia, North Carolina, South Carolina, northern Georgia, northeastern Tennessee and southeastern Kentucky. The company markets its services under the brand SunCom, a member of the AT&T Wireless Network. JPMP provided seed financing for Triton in 1997.

"We have a tremendous opportunity to leverage the teamwork that we are developing between JPMorgan Partners and the strong leadership platforms throughout all of JPMorgan. As part of this integrated platform, JPMorgan Partners has a unique advantage to strengthen and enhance our global private equity business."

Damion Wicker, M.D.
Partner
New York

The competitive advantages resulting from this network are far-reaching. High-quality deal flow is generated from each of the four elements, along with access to experienced deal execution capabilities. In addition, the network provides market intelligence that allows us to anticipate change, identify new opportunities and execute successfully on those opportunities ahead of the competition.

JPMP will continue to leverage this network while ensuring industry and geographic diversification in our portfolio. JPMP has long believed that middle market buyout opportunities are our strength, and we will continue to focus on rebalancing the overall portfolio to bring those types of deals up to historical levels in terms of percentage of the overall portfolio.

Through the globally integrated network, JPMP has developed the capacity to invest, under appropriate economic and market conditions, substantially more capital in direct private equity than the amounts JPMorgan Chase desires to invest annually in such transactions. During 2001, JPMorgan Chase slowed the pace of proprietary investments while, at the same time, JPMP continued to raise third-party money for additional funds for future investment. To date, we have raised $1.5 billion in outside capital.

JPMP remains a source of long-term value creation for JPMorgan Chase with multiple synergies across the firm. Though 2001 saw weak economic and market conditions resulting in less favorable financial results than in previous years from JPMP, JPMorgan Chase continues to believe JPMP's unique approach to investing across industries, types of investments and regions, coupled with rigorous risk management, will lead to positive shareholder value added.

RiboTargets

In one of the largest European biotechnology private equity deals in 2001, JPMorgan Partners led a £32 million financing round in RiboTargets Ltd, a biopharmaceuticals company with novel therapeutic interests in the large, medical need areas of antibiotics, antivirals and oncology. RiboTargets focuses on structure-based drug design and applies its proprietary computational screening technology, RiboDock™, to fast-track drug candidate screening and lead compound identification. RiboDock is the only computational screening platform capable of handling both protein and RNA drug targets.

"As financial solutions representatives, we are the customer's first point of contact and are responsible for upholding the promise of great customer service. Our interaction with customers sets the standard for their experience and for their continuing patronage."

Nancy Lewis
Financial Services Representative
Hillside Branch
Hillside, New Jersey

Retail & Middle Market Financial Services
Superior product breadth and leadership

Already one of the foremost retail banks in the U.S., Chase is aggressively leveraging its brand, scale, leadership positions and broad capabilities to be a long-term winner in the financial services market. This dynamic business offers world-class credit, payment, savings, investments and insurance services through a wide array of distribution channels. As an industry leader, Chase is creating a new standard for financial services delivery that is focused on consistent, superior execution that exceeds customers' expectations.

Chase has established a number of key objectives to drive success in this effort. The first is to apply broadly a Six Sigma approach to quality improvement that enables Chase to provide exceptional customer service and value. Launched in early 2001, Six Sigma is enabling Chase to reduce flaws in its customer-facing processes, such as account opening, payment handling and checkbook reordering, thereby increasing customer satisfac-

Subaru Motors Finance

Chase Auto Finance launched its first private-label business with Subaru Motors Finance, which provides a customized program tailored to meet the needs of Subaru's customers and dealers. This innovative program positions Chase to deliver a full range of lease and retail financing to Subaru's customers as well as wholesale/floor plan financing to dealers. The program also exemplifies Chase Auto's strategy to grow and diversify the business through enhanced relationships with automotive manufacturers and dealers groups. Subaru was attracted to Chase for the types of service, products and pricing a Six Sigma-driven company could offer.

"We are committed to being the outstanding service provider. Our growth strategy is all about providing best-in-class service to customers at every point of contact."

Jim Peyman
Executive Vice President
Chase Cardmember Services
Tempe, Arizona

tion and improving overall efficiency. This is coupled with delivering best-in-class products and expert financial advice and guidance that enable customers to protect and grow their wealth. Specifically, we will provide integrated banking, investments, insurance and credit offerings that meet customers' needs all in one place.

Across its wide range of market-leading businesses, Chase believes in developing deep, long-term relationships with customers, whether they are individuals, small business owners or middle market companies. This conviction is backed by a dedication to tapping the diverse capabilities of the firm. It also involves delivering responsive, high-quality service at every customer touch point.

Chase's responsiveness to customers was never more evident than in the aftermath of the September 11 tragedy, when it implemented customer care policies and initiatives across all of its retail businesses and established a business recovery center to provide small business customers with a broad range of specialized services during this difficult time.

Another of Chase's objectives is to leverage information technology to improve operating efficiencies and business effectiveness. Technology also helps to provide insight and the ability to deliver in response to customers' preferences and behaviors and to provide customers with anytime, anywhere access to their accounts and information via multiple channels, including branches, ATMs, the Internet and telephone.

Chase strongly believes its strategic approach to executing effectively and consistently enhancing the customer experience will produce revenue growth and strong returns over the long term, resulting in increased value for shareholders.

Office Depot co-branded credit card

JPMorgan Chase and Office Depot, the largest office products retailer in the world, launched a co-branded credit card which offers businesses the opportunity to fund office supplies, business services and travel expenditures while earning reward points for card purchases. Points can be redeemed for free or discounted products and services, including Office Depot merchandise and gift certificates, hotel accommodations, car rentals and airline tickets. For added convenience, businesses will receive one consolidated statement that streamlines expense reconciliation and online statements, helping small businesses manage spending and tax preparation.

"The heritage institutions of JPMorgan Chase had a long and consistent track record of giving back to the community, and it's rewarding to see that, after the merger, the Philanthropic and Community Development budget of the new firm now surpasses the combined budgets of the individual firms. As a Public Finance banker financing tax-exempt entities, including not-for-profit organizations, it is extremely gratifying to assist in giving back to the organizations that give so much to their local communities."

Garth Salisbury
Managing Director
Public Finance Investment Banking
San Francisco

Community, culture & philanthropy
Reaching out in many ways

Since the founding of its earliest predecessor firm in 1799, JPMorgan Chase has vigorously supported the development and prosperity of the communities it serves. Our involvement touches people's lives through an innovative array of activities worldwide, sponsored by the corporation and its subsidiaries, The J.P. Morgan Chase Foundation, and thousands of employees and their families who give their time, money and creativity generously to make a difference. The success of our efforts inspires us to stay involved through a multitude of activities, including corporate and philanthropic giving, United Way, United Negro College Fund, blood drives, volunteerism, mentoring, community development, and sports and cultural events. In 2001, JPMorgan Chase contributed nearly $100 million to various philanthropic endeavors worldwide.

Through innovative corporate sponsorships of the arts, family entertainment and sporting events, JPMorgan Chase continues

September 11 — World Trade Center

Within hours, JPMorgan Chase began to help victims. Numerous employees donated blood while Small Business Financial Services opened two "recovery centers." We offered free child care for families who used WTC facilities and sponsored "Comfort for Kids," an intensive effort to help children manage fear, anger and grief. The firm donated banking services to support the national WTC Telethon and several relief funds and provided $12.7 million to support relief efforts. The firm matched $2.7 million contributed by employees and committed $10 million to address gaps in three areas: economic redevelopment, victims not supported by major relief efforts and tolerance.

"We're fortunate to be part of an organization that has been consistently recognized for its corporate values and community support. Being a leader in this area comes along with many responsibilities, and our commitment to these issues and values is just as important as the way we conduct our business with our clients. At all levels, our firm and employees care."

Joseph Scharfenberger
Executive Vice President
Small Business Financial Services
New York

its investment in the quality of lives globally by creating leisure opportunities for individuals and their families to enjoy new experiences that otherwise might not have been available to them. From creating "JPMorgan Chase Tennis Camp for Girls" as part of our corporate sponsorship of the U.S. Tennis Open to the JPMorgan Chase Corporate Challenge which runs internationally, the firm is continuously involved with building relationships and deepening its commitment to the communities it serves.

Our commitment to art is widely recognized. With over 20,000 pieces, the well-respected JPMorgan Chase art collection is known for its commitment to supporting contemporary artists who are shaping the future through their innovative and creative vision. Our involvement with art includes multiple endeavors where we find ourselves in the role of curator, educator, corporate sponsor or exhibition host.

The Community Development Group (CDG) strengthens the communities in which JPMorgan Chase does business by expanding access to capital, leading by example and leveraging the many resources of JPMorgan Chase. Central to this mission, the CDG serves low- and moderate-income communities, small businesses, and low-to-moderate-income individuals and families through services such as credit, banking, affordable housing, mortgages and technical assistance, as well as the Supplier Diversity Program, advisory services to community groups and nonprofit institutions that serve these communities.

Our culture, our people and the way we conduct ourselves also are respected as we continue to be widely recognized as one of the best workplaces for employees. Included among the numerous awards we received in 2001 was the prestigious Catalyst Award for our innovative programs that advance the careers of women.

Global Days of Service

The spirit of volunteerism among our employees is exemplary. In October, JPMorgan Chase volunteers set a new level of excellence with the Global Days of Service program. In more than 175 cities worldwide, over 17,000 JPMorgan Chase volunteers took part in more than 600 team projects — helping the homeless, cleaning up schools, cooking and serving at soup kitchens, planting bulbs in parks and organizing events for children in need. A number of the firm's volunteers also served at World Trade Center respite centers, supporting recovery workers by preparing and serving food and providing other much-needed comforts.

financial table of contents

This section of the Annual Report provides management's discussion and analysis ("MD&A") of the financial condition and results of operations for JPMorgan Chase. See Glossary of terms on pages 100 and 101 for a definition of terms used throughout this Annual Report.

Certain forward-looking statements

The MD&A contains certain forward-looking statements. Those forward-looking statements are subject to risks and uncertainties, and JPMorgan Chase's actual results may differ from those set forth in the forward-looking statements. See JPMorgan Chase's reports filed with the Securities and Exchange Commission for a discussion of factors that could cause JPMorgan Chase's actual results to differ materially from those described in the forward-looking statements.

Financial highlights:

Management's discussion and analysis:

Audited financial statements:

Supplementary information:

five-year summary of financial highlights

J.P. Morgan Chase & Co.

(unaudited) As of or for the year ended December 31, (in millions, except per share and ratio data)	2001	2000	1999	1998	1997
REPORTED BASIS					
Revenue	**$ 29,050**	$ 32,934	$ 30,930	$ 25,753	$ 24,028
Noninterest expense (excluding restructuring costs)	**20,776**	21,393	17,972	16,066	14,968
Merger and restructuring costs	**2,523**	1,431	23	887	192
Provision for loan losses	**3,185**	1,377	1,446	1,453	804
Net income	**$ 1,694**	$ 5,727	$ 7,501	$ 4,745	$ 5,173
Net income per share:					
Basic	**0.83**	2.99	3.87	2.37	2.53
Diluted	**0.80**	2.86	3.69	2.27	2.41
Return on average common equity	**3.92%**	15.56%	22.46%	14.35%	16.80%
Cash dividends declared per share	**$ 1.36**	$ 1.28	$ 1.08	$ 0.96	$ 0.83
Tier 1 capital ratio	**8.29%**	8.46%	8.54%	8.23%	7.93%
Total capital ratio	**11.88**	12.03	12.34	11.94	11.73
Tier 1 leverage	**5.17**	5.43	5.85	5.34	5.35
Book value per share	**$ 20.32**	$ 21.17	$ 18.07	$ 17.39	$ 16.04
Total assets	**693,575**	715,348	667,003	626,942	627,680
Long-term debt	**43,622**	47,238	45,540	47,132	39,266
Total stockholders' equity	**41,099**	42,338	35,056	35,099	33,146
OPERATING BASIS(a)					
Including JPMP(b)					
Revenue	**$ 30,098**	$ 32,793	$ 31,695	$ 26,523	$ 24,919
Noninterest expense	**20,776**	21,393	17,872	16,029	14,833
Credit costs(c)	**4,233**	2,367	2,439	2,601	1,797
Earnings	**$ 3,409**	$ 5,927	$ 7,433	$ 5,081	$ 5,314
Earnings per share – diluted	**1.65**	2.96	3.65	2.43	2.48
Return on average common equity	**8.05%**	16.12%	22.25%	15.39%	17.28%
Common dividend payout ratio	**82**	40	29	39	34
Cash operating basis(d)					
Cash earnings	**$ 4,138**	$ 6,455	$ 7,762	$ 5,374	$ 5,486
Cash earnings per share – diluted	**2.01**	3.23	3.82	2.58	2.56
Shareholder value added	**(911)**	2,018	3,704	1,384	1,730
Cash return on average common equity	**9.81%**	17.58%	23.25%	16.31%	17.87%
Cash overhead ratio	**67**	64	55	59	59
OPERATING BASIS(a)					
Excluding JPMP(b)					
Revenue	**$ 31,555**	$ 32,004	$ 28,616	$ 25,263	$ 23,778
Earnings	**$ 4,578**	$ 5,683	$ 5,653	$ 4,389	$ 4,659
Earnings per share – diluted	**2.23**	2.85	2.77	2.10	2.17
Return on average common equity	**12.87%**	19.56%	20.05%	15.26%	16.13%
Overhead ratio	**65**	66	61	63	62
Cash operating basis(d)					
Cash earnings	**$ 5,286**	$ 6,197	$ 5,981	$ 4,682	$ 4,831
Cash earnings per share – diluted	**2.58**	3.11	2.94	2.24	2.25
Cash return on average common equity	**14.88%**	21.36%	21.23%	16.31%	16.75%
Cash overhead ratio	**62**	64	60	62	61

(a) Excludes the impact of credit card securitizations, merger and restructuring costs, special items and the net effect of a change in accounting principle. For a list of special items, see Glossary of terms on page 101.
(b) JPMP represents JPMorgan Partners, JPMorgan Chase's private equity investment business.
(c) Includes provision for loan losses and credit costs related to the securitized credit card portfolio.
(d) Excludes the impact of the amortization of intangibles.

Overview

J.P. Morgan Chase & Co. ("JPMorgan Chase" or "the Firm") is a leading global financial services firm with assets of nearly $700 billion and operations in more than 50 countries. JPMorgan Chase has relationships with over 99% of the Fortune 1000 companies and serves more than 30 million consumers. The Firm is comprised of five business segments: Investment Bank, Treasury & Securities Services, Investment Management & Private Banking, JPMorgan Partners, and Retail & Middle Market Financial Services.

Financial performance of JPMorgan Chase

	Reported		Operating[a]			
			Including JPMP		Excluding JPMP[c]	
Year ended December 31, (in millions, except per share and ratio data)	2001	Over/(under) 2000	2001	Over/(under) 2000	2001	Over/(under) 2000
Revenue	$29,050	(12)%	$30,098	(8)%	$31,555	(1)%
Net income	1,694	(70)	3,409	(42)	4,578	(19)
Earnings per share ("EPS") – diluted	0.80	(72)	1.65	(44)	2.23	(22)
Return on average common equity ("ROCE")	3.9%	(1,170)bp	8.1%	(800)bp	12.9%	(670)bp
Cash earnings[b]			$ 4,138	(36)%	$ 5,286	(15)%
Cash EPS – diluted[b]			2.01	(38)	2.58	(17)
Cash ROCE			9.8%	(780)bp	14.9%	(650)bp

(a) Operating basis excludes the impact of credit card securitizations, merger and restructuring costs, special items and the net effect of a change in accounting principle. For a reconciliation of reported to operating results, see page 27.
(b) Cash operating basis also excludes the impact of the amortization of intangibles.
(c) Represents JPMorgan Chase's results excluding JPMorgan Partners, the Firm's private equity investment business. For a further description, see Segment results on page 28.
bp- Denotes basis points; 100 bp equals 1%.

In 2001, JPMorgan Chase's reported net income, which includes merger and restructuring costs, was $1,694 million, or $0.80 per share. This compares with $5,727 million, or $2.86 per share, in 2000. Operating income was $3,409 million in 2001, compared with $5,927 million last year. Operating earnings per share were $1.65, compared with $2.96 in 2000.

These results reflect a challenging economic environment that, in varying degrees, negatively affected activity, spreads and values in each of the Firm's major business segments. During 2001, the global economy was moving into a recession, as evidenced by significant reductions in asset values globally, lower liquidity in equity and equity-related markets, sharply reduced mergers and acquisitions ("M&A") activity and related declines in overall capital markets activity. These factors also contributed to cyclical credit pressures on both consumer and commercial financing markets.

While these economic and market pressures negatively affected 2001 operating performance, the pace of merger integration was on or ahead of plan, and this progress was enhanced by the franchise- and brand-power of the newly merged company. Market share gains in investment banking were realized as clients embraced the JPMorgan Chase business model as one that contributes to their success and financial flexibility. The investment management and private banking business successfully completed its merger integration and expense initiatives in 2001. Operating services and consumer businesses continued to produce solid returns and to execute on efficiency plans. JPMorgan Chase is well-positioned to produce higher returns when the economy recovers.

Key events for full-year 2001

- **Deteriorating credit conditions and continued losses at JPMorgan Partners had a negative impact on earnings**
- **Significant expense reductions were achieved**
- **The Investment Bank generated a cash ROCE of 15%; consumer and operating services businesses achieved cash ROCEs of 20% and 24%, respectively**
- **Business leadership positions were solidified through merger integration and client focus**
- **The flagship banks successfully merged on November 10, 2001**

Summary results by segment

Though revenue and cash operating earnings in the **Investment Bank** ("IB") were lower in 2001 than in 2000, expenses were significantly reduced. The IB's overhead ratio in 2001 reached its target of 60% for the year. Leadership positions across product categories

Year ended December 31, (in millions, except per share and ratio data)	Earnings 2001	Earnings Over/(under) 2000	ROCE 2001	ROCE Over/(under) 2000	EPS(a) 2001	EPS(a) Over/(under) 2000
Investment Bank	**$ 2,945**	(16)%	**15.1%**	(320) bp		
Treasury & Securities Services	**693**	—	**23.6**	(40)		
Investment Management & Private Banking	**467**	(18)	**7.5**	(550)		
Retail & Middle Market Financial Services	**1,688**	(5)	**19.5**	(110)		
Support Units / Corporate	**(507)**	(52)	**NM**	NM		
Cash operating earnings (excluding JPMP)	**5,286**	(15)	**14.9**	(650)	**$ 2.58**	(17)%
JPMP	**(1,148)**	NM	**NM**	NM	**(0.57)**	NM
Cash operating earnings	**4,138**	(36)	**9.8**	(780)	**2.01**	(38)
Amortization of intangibles	**(729)**	38	**NM**	NM	**(0.36)**	33
Operating earnings	**3,409**	(42)	**8.1**	(800)	**1.65**	(44)
Restructuring / merger costs and special items	**(1,715)**	NM	**NM**	NM	**(0.85)**	NM
Net income	**$ 1,694**	(70)%	**3.9%**	(1,170) bp	**$ 0.80**	(72)%

(a) Presented on a diluted basis.
bp- Denotes basis points; 100 bp equals 1%.
NM-Not meaningful.

were improved or maintained, and equities, a strategic priority, made important strides towards reaching its goals. Higher credit costs, including additions to the loan loss allowance, more than offset these positives and contributed to lower earnings.

Three businesses make up the **Treasury & Securities Services** ("T&SS") segment. Two of these, Treasury Services and Institutional Trust Services, posted revenue and earnings growth from 2000. Revenues and income in Investor Services, the largest of the three, decreased due to declining market transaction volumes and values. Treasury & Securities Services provides an important diversification benefit to the Firm and had a 24% ROCE for the year.

The **Investment Management & Private Banking** ("IMPB") segment was hard hit by declines in asset values and shifts in asset mix from equities to fixed income and money market products. In addition, the disappearance of the domestic technology initial public offering ("IPO") market and the downturn in the Japanese equity markets negatively impacted IMPB's results. With assets under management of $605 billion, JPMorgan Chase is one of the top five active asset managers in the world. The private bank continued to win new clients and an increased share of existing clients' assets. Expense discipline was strong in both businesses; however, with lower revenues, the unit saw its margin decline from last year.

Retail & Middle Market Financial Services ("RMMFS") posted revenue growth of 7%, driven by strong production, with record originations in Cardmember Services, Home Finance and Auto Finance. Cardmember Services realized double-digit revenue and earnings growth despite higher credit costs. The deposit businesses were hurt by declining interest rates despite growth in the deposit base. Expenses grew at a lower rate than revenues. A 35% increase in RMMFS's credit costs, including an addition to the loan loss allowance, resulted in cash operating earnings declining 5%.

JPMorgan Partners' public and private portfolios were negatively affected by the market conditions in 2001. Unrealized losses of $1,857 million more than offset realized gains of $675 million for the year. Many of the losses were attributable to write-downs in the values of the telecommunications companies in the portfolio. At the same time, sluggish M&A and IPO market activity negatively affected JPMP's ability to exit investments, significantly slowing the pace of realized gains. However, JPMorgan Chase continues to believe that JPMP's unique approach to investing across industries, types of investments and regions will lead to positive shareholder value added ("SVA") and improved returns in the future.

Expense management

The Firm aggressively reduced expenses in 2001 through both merger-related and right-sizing initiatives. Cash operating expenses in 2001 were reduced $1.9 billion from a pro forma 2000 base which assumes that the purchase of Robert Fleming Holdings Limited ("Flemings") occurred at the beginning of 2000. Expense reductions exceeded the original management target to hold expenses flat. Expense reductions occurred in businesses that were merging and which also had to align their costs with lower revenues. Businesses of the Firm not directly affected by the merger also focused on efficiency gains through the use of tools like Six Sigma.

The Firm enters 2002 with the momentum of declining expenses. The 2001 fourth quarter operating expense run rate of $19.6 billion (which is the annualized amount of fourth quarter expenses adjusted for full-year incentives) is almost $3 billion lower than the run rate in the fourth quarter of 2000. This reduction was driven by merger savings and other cost reductions as well as lower incentives resulting from the decline in revenues. In 2001, management increased the original target of merger expense savings and cost reductions related to right-sizing efforts from $2.0 billion to $3.8 billion; 100% of these savings are anticipated to be realized by the end of 2002. The merger and restructuring costs related to achieving these additional savings also increased. For a more detailed discussion, refer to page 44 and Note 6 on page 73.

Risk management

The Firm focuses on risk distribution and on diversification, with a significant weighting of its credit portfolios toward investment-grade companies. The Firm's ability to assist its clients in risk management was affirmed this year by various industry publications' awards.

The Firm is operating in a recessionary environment. For the first time in many years, the loan loss provision exceeded loan charge-offs, leading to a higher loan loss allowance. Nonperforming assets rose substantially in 2001. The Firm's focus is on distribution of credit and on continuing the reduction of its commercial credit exposure, both on- and off-balance sheet. The capacity and willingness to extend JPMorgan Chase's balance sheet to clients is an important competitive advantage.

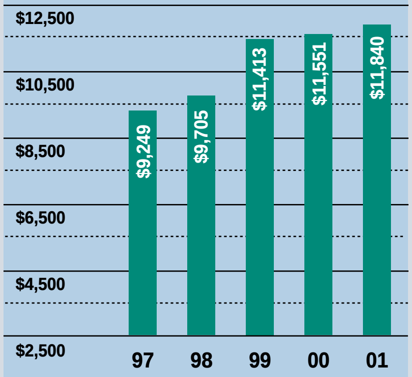
Capital management

The Firm is committed to maintaining strong capital ratios, including a Tier 1 capital ratio in the range of 8% to 8.25%. At the end of 2001, the ratio was 8.3%.

SVA discipline is applied to all investments and remains a critical performance metric for evaluating transactions and segment results. In July 2001, the Board of Directors authorized the repurchase of up to $6 billion of JPMorgan Chase's common stock, net of issuance for employee benefit plans. For a further discussion of the Firm's repurchase program, refer to the Capital management section on page 46.

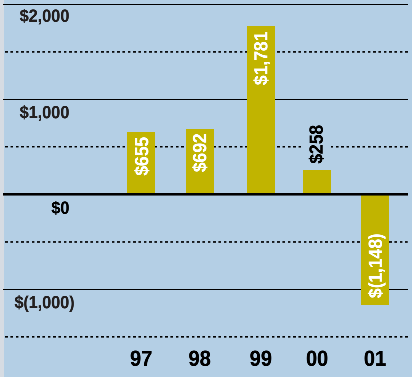
Despite a decline in revenue in 2001, management continues to execute its financial discipline of balancing expense growth with that of revenue …

Cash operating margin excluding JPMP
(in millions)

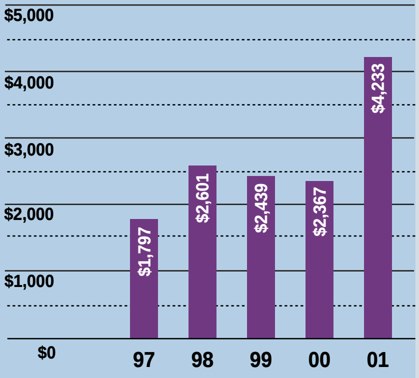


… however, the Firm's 2001 results were unfavorably affected by the weak markets and general slowdown in the economy as reflected by losses at JPMorgan Partners and higher credit costs.

JPMP cash earnings (loss)
(in millions)



JPMorgan Chase credit costs[(a)]
(in millions)



(a) Includes provision for loan losses and credit costs related to the securitized credit card portfolio.

Reconciliation of reported financials to operating results

The Firm prepares its financial statements using generally accepted accounting principles ("GAAP") in the United States of America. The primary financial statements prepared in accordance with GAAP appear on pages 65-68 of this Annual Report. This presentation, which is referred to as **"reported basis,"** provides the reader with an understanding of the Firm's results that can be consistently tracked from year to year and enables a comparison of the Firm's performance with other companies' GAAP financial statements.

In addition to analyzing the Firm's results on a reported basis, management utilizes **"operating basis"** to assess each of its businesses and to measure overall Firm results against targeted goals. The definition of operating basis starts with the reported GAAP results and then excludes the impact of merger and restructuring costs and special items, which usually are significant nonrecurring gains or losses. Management generally defines "special items" as nonrecurring revenue or expense events of $50 million or more. Both restructuring charges and special items are viewed by management as transactions that are not part of the Firm's normal daily business operations or are unusual in nature and are therefore not indicative of trends.

Operating results also exclude the impact of credit card securitizations. JPMorgan Chase periodically securitizes a portion of its credit card portfolio by selling a pool of credit card receivables to a trust, which issues securities to investors. When credit card receivables are securitized, the Firm ceases to accrue interest and credit costs on the receivables and, instead, receives net fee revenue for continuing to service those receivables. As a result, securitization does not affect JPMorgan Chase's reported or operating net income; however, it does affect the classification of items in the Consolidated statement of income.

Management also utilizes the term **"cash operating earnings,"** defined as operating earnings excluding the impact of amortization of intangibles.

Commencing January 1, 2002, the Firm adopted SFAS 142. Adoption of that accounting standard will eliminate the need for management, in assessing the Firm's performance, to add back the amortization of intangibles, as GAAP reported results will become substantially closer to cash earnings. For a further discussion of the impact of SFAS 142, see the Accounting and reporting developments section on page 62.

Within the MD&A section of the Annual Report, particularly the Segment results on pages 28-41 and the consolidated Results of operations for the Firm on pages 42-45, management provides a discussion of the results for 2001 and 2000 as well as a comparative discussion of the results for **2000 pro forma**. The 2000 pro forma results assume that the purchase of Flemings occurred at the beginning of 2000 rather than at the time of purchase in August 2000.

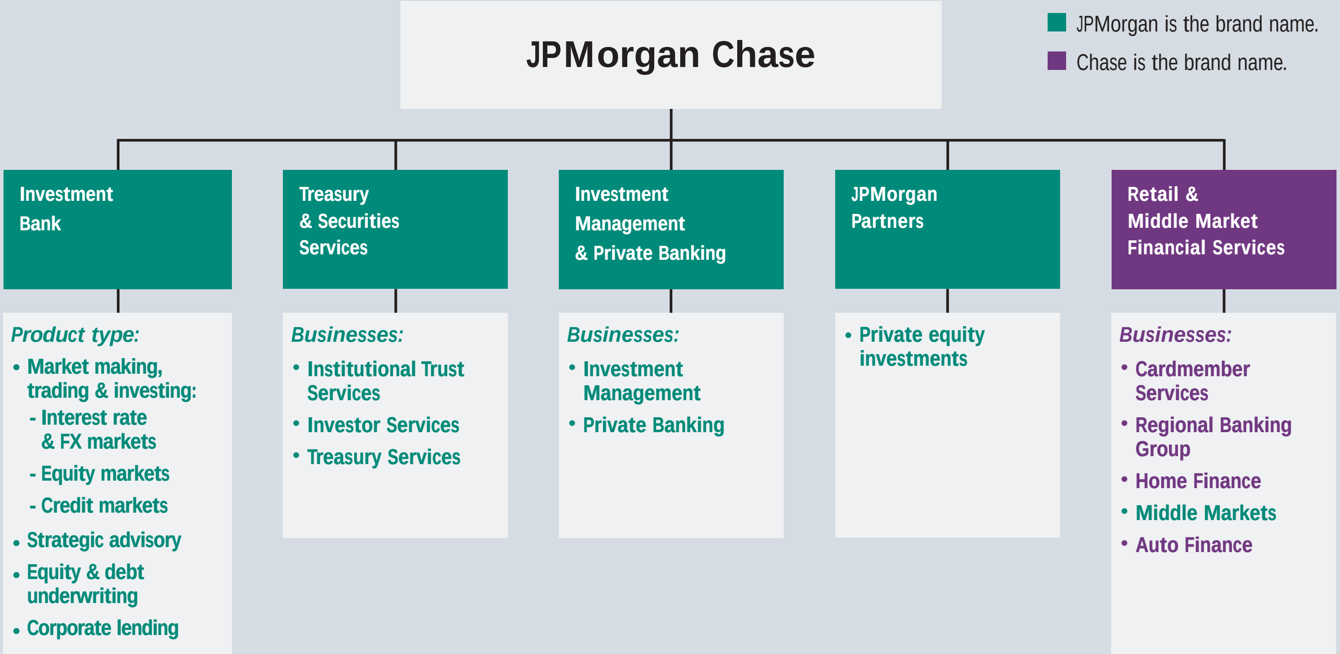
The following summary table provides a reconciliation between the Firm's reported and its operating and cash operating results.

	2001				2000			
Year ended December 31, (in millions, except per share data)	Reported basis(a)	Credit card(b)	Special items(c)	Operating basis	Reported basis(a)	Credit card(b)	Special items(c)	Operating basis
Income statement								
Revenue	**$29,050**	**$1,048**	**$ —**	**$30,098**	$32,934	$990	$(1,131)	$32,793
Noninterest expense:								
Cash expense(d)	**20,047**	**—**	**—**	**20,047**	20,865	—	—	20,865
Amortization of intangibles	**729**	**—**	**—**	**729**	528	—	—	528
Merger and restructuring costs	**2,523**	**—**	**(2,523)**	**—**	1,431	—	(1,431)	—
Noninterest expense	**23,299**	**—**	**(2,523)**	**20,776**	22,824	—	(1,431)	21,393
Credit costs(e)	**3,185**	**1,048**	**—**	**4,233**	1,377	990	—	2,367
Income before income tax expense and effect of accounting change	**2,566**	**—**	**2,523**	**5,089**	8,733	—	300	9,033
Income tax expense	**847**	**—**	**833**	**1,680**	3,006	—	100	3,106
Income before accounting change	**1,719**	**—**	**1,690**	**3,409**	5,727	—	200	5,927
Net effect of accounting change	**(25)**	**—**	**25**	**—**	—	—	—	—
Net income	**$ 1,694**	**$ —**	**$ 1,715**	**$ 3,409**	$ 5,727	$ —	$ 200	$ 5,927
Add back: amortization of intangibles	**729**	**—**	**—**	**729**	528	—	—	528
Cash earnings	**$ 2,423**	**$ —**	**$ 1,715**	**$ 4,138**	$ 6,255	$ —	$ 200	$ 6,455
Net income per share – diluted	**$ 0.80**			**$ 1.65**	$ 2.86			$ 2.96
Cash earnings per share – diluted	**1.16**			**2.01**	3.13			3.23

(a) Represents condensed version of JPMorgan Chase's GAAP financial statements.
(b) Represents the impact of credit card securitizations. For receivables that have been securitized, amounts that would have been reported as net interest income and as provision for loan losses are instead reported as components of noninterest revenue.
(c) Includes merger and restructuring costs, and special items. For a description of special items, see Glossary of terms on page 101.
(d) Represents management's definition of total noninterest expense less amortization of intangibles and merger and restructuring costs.
(e) Credit costs on a reported basis represent the provision for loan losses on the Consolidated statement of income.

Segment results

The wholesale commercial and private banking businesses are known globally as "JPMorgan" and encompass the Investment Bank, Treasury & Securities Services, Investment Management & Private Banking and JPMorgan Partners. The retail businesses of JPMorgan Chase are known as "Chase," consisting of Retail & Middle Market Financial Services.



The table below provides summary financial information on a cash operating basis for the five major business segments. Management tracks the operating performance of the Firm both including and excluding the results of JPMP. Management believes that it is more informative to analyze separately the results of JPMP and the results of the Firm excluding JPMP as the basis for valuing the Firm.

For the businesses that were affected by the Flemings acquisition, all comparisons with 2000 are on a pro forma basis, which assumes that the purchase of Flemings occurred at the beginning of 2000. See Note 29 for further information about JPMorgan Chase's five business segments.

Segment results

Year ended December 31, (in millions, except ratios)	Investment Bank 2001	Investment Bank Over/(under) 2000	Investment Bank Over/(under) Pro forma 2000(b)	Treasury & Securities Services 2001	Treasury & Securities Services Over/(under) 2000	Investment Management & Private Banking 2001	Investment Management & Private Banking Over/(under) 2000	Investment Management & Private Banking Over/(under) Pro forma 2000(b)
Operating revenue	**$ 14,899**	(7)%	(11)%	**$ 3,632**	2%	**$ 3,085**	(8)%	(20)%
Cash operating expense	**8,978**	(11)	(16)	**2,563**	3	**2,486**	(1)	(13)
Cash operating margin	**5,921**	—	(2)	**1,069**	(1)	**599**	(29)	(40)
Credit costs	**1,155**	353	328	**8**	100	**16**	(38)	(38)
Cash operating earnings	**2,945**	(16)	(18)	**693**	—	**467**	(18)	(30)
Average common equity	**19,312**	3	(4)	**2,912**	2	**6,077**	42	(7)
Average managed assets	**511,034**	8	7	**18,053**	9	**34,149**	12	(4)
Shareholder value added	**601**	(49)	(48)	**339**	(1)	**(272)**	NM	(119)
Cash ROCE	**15.1%**	(320) bp	(260) bp	**23.6%**	(40) bp	**7.5%**	(550) bp	(260)bp
Cash overhead ratio	**60**	(300)	(400)	**71**	100	**81**	600	700

(a) Includes support units and the effects remaining at the corporate level after the application of management accounting policies.
(b) Pro forma results assume that the purchase of Flemings occurred at the beginning of 2000.
bp- Denotes basis points; 100 bp equals 1%.
NM- Not meaningful.

JPMorgan Chase's segment results reflect the manner in which financial information currently is evaluated by the Firm's management.

The Firm allocates equity to its business units utilizing a risk-adjusted methodology, which quantifies credit, market and operating risks within each business and, for JPMP, private equity risk. For a discussion of those risks, see the Risk management section on pages 45-62. The Firm also allocates equity to its businesses incorporating an "asset capital tax" on managed assets and some off-balance sheet instruments. In addition, businesses are allocated equity equal to 100% of goodwill and certain intangibles generated through acquisitions.

For the Firm, the SVA framework applies a 12% cost of equity. To derive SVA for businesses, JPMorgan Chase applies a 12% cost of equity for all businesses except JPMorgan Partners. This business is charged a 15% cost of equity. All prior periods have been restated to conform with the current presentation.

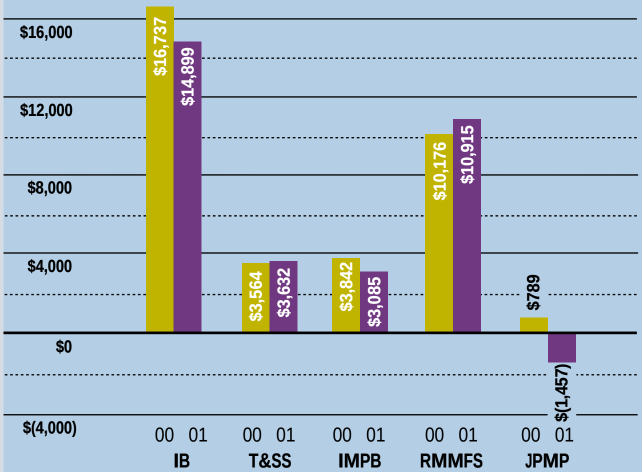
The capital elements and resultant capital charges provide the businesses with the financial framework to evaluate the trade-off between the use of capital by the business unit versus its return to the shareholders. The capital charges are an integral part of the SVA measurement for each business. See Glossary of terms on page 101 for a definition of SVA.

Restatements of segment results may occur in future periods to reflect further alignment of management accounting policies or changes in organizational structure among businesses.

Contribution of businesses (2000 results are on a pro forma basis where applicable)

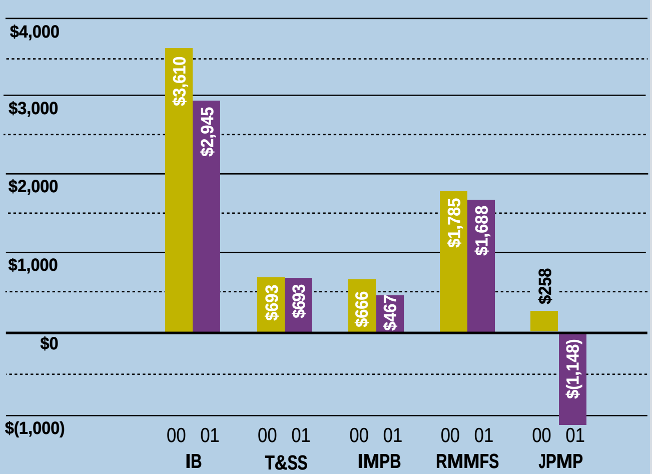
Operating revenues

(in millions)



Cash operating earnings

(in millions)



Segment results (continued)

Retail & Middle Market Financial Services 2001	Over/(under) 2000	JPMorgan Chase operating results excluding JPMP(a) 2001	Over/(under) 2000	JPMorgan Partners 2001	Over/(under) 2000	JPMorgan Chase operating results including JPMP 2001	Over/(under) 2000	Over/(under) Pro forma 2000(b)
$ 10,915	7%	$ 31,555	(1)%	$ (1,457)	NM%	$ 30,098	(8)%	(12)%
5,468	4	19,715	(4)	326	(20)	20,047	(4)	(8)
5,447	11	11,840	3	(1,783)	NM	10,051	(16)	(17)
2,803	35	4,233	79	—	NM	4,233	79	78
1,688	(5)	5,286	(15)	(1,148)	NM	4,138	(36)	(38)
8,582	—	35,147	23	6,377	(15)	41,524	15	5
165,432	12	742,283	9	11,665	(12)	753,948	8	6
645	(13)	1,203	(59)	(2,114)	NM	(911)	NM	NM
19.5%	(110)bp	14.9%	(650)bp	NM	NM	9.8%	(780)bp	(670)bp
50	(200)	62	(200)	NM	NM	67	300	300

Investment Bank

Combining the best of investment and commercial banking, the Investment Bank serves the financial needs of corporations, financial institutions, governments and institutional investors. It uses an integrated delivery model that leverages scale, global presence and broad leadership positions. The Investment Bank advises on corporate strategy, raises capital and designs risk management solutions. It also provides market making and distribution of a broad range of financial instruments.

- **Market making, trading & investing:**
  - **Interest rate & FX markets**
  - **Equity markets**
  - **Credit markets**
- **Strategic advisory**
- **Equity & debt underwriting**
- **Corporate lending**

Selected financial data

Year ended December 31, (in millions, except ratios)	2001	Over/(under) Pro forma 2000[a]
Revenue:		
Trading-related revenue	$ 6,184	(10)%
Investment banking fees	3,610	(20)
Net interest income	3,092	14
Fees and commissions	1,501	(21)
All other revenue	512	(31)
Operating revenue	14,899	(11)
Cash operating expense	8,978	(16)
Cash operating margin	5,921	(2)
Amortization of intangibles	142	(7)
Credit costs	1,155	328
Cash operating earnings	$ 2,945	(18)%
Average common equity	$ 19,312	(4)%
Average assets	511,034	7
Shareholder value added	601	(48)
Cash ROCE	15.1%	(260)bp
Cash overhead ratio	60	(400)
Compensation as a % of operating revenue	39	(300)

(a) Pro forma results assume that the purchase of Flemings occurred at the beginning of 2000.
bp- Denotes basis points; 100 bp equals 1%.

	2001	Pro forma 2000
Trading-related revenue:		
Equities	$ 1,210	$ 1,699
Fixed income and other	4,974	5,200
Total	$ 6,184	$ 6,899
Investment banking fees:		
Advisory	$ 1,252	$ 1,894
Underwriting and other fees	2,358	2,608
Total	$ 3,610	$ 4,502

Financial results overview

In a challenging market environment in 2001, the Investment Bank's cash operating margin declined 2% from last year's pro forma results. Operating revenue declined 11%, driven by the substantial reduction in market activity for M&A and equity underwriting. This was largely offset by a 16% decline in cash expenses from the prior year. The Investment Bank met its 2001 overhead ratio target of 60%, which was down from 64% a year ago. Results included approximately $800 million in pre-tax charges related to Enron and Argentina as well as higher loan charge-offs and additions to the loan loss allowance. As a result of these factors, **cash operating earnings** declined 18%.

Financial line-item discussion

Trading-related revenues, which include trading-related net interest income, were lower by 10%. The decline was primarily attributable to lower equity-related trading results, driven by lower margins in equity securities and reduced demand for equity derivatives. Also contributing to the decline was $359 million of losses related to exposure to Enron and Argentina in *fixed income* trading. Excluding the effects of Enron and Argentina, fixed income and other trading was up 3%, as weaker performance in emerging markets was more than offset by strong results in interest rate trading products.

Investment banking fees were 20% lower than last year, driven by the overall market decline in equity underwriting and M&A activities. These declines were partially offset by record investment-grade bond underwriting fees. *Advisory revenues* declined 34%, while overall market volume was down 50%. The Investment Bank increased its market share in global announced M&A transactions during 2001.

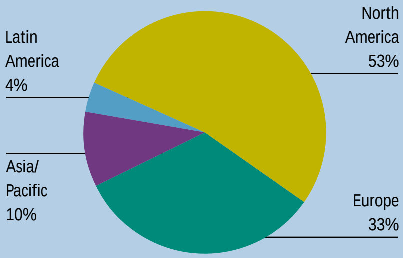
Underwriting and other fees declined 10%, reflecting significantly lower equity underwriting activity, partially offset by higher bond underwriting fees. Record bond issuance for the market was driven by the favorable interest rate market environment.

2001 highlights

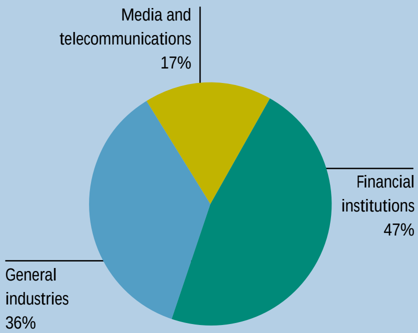
- **Increased market share in M&A transactions and maintained key leadership positions in debt underwriting**
- **Exceeded original expense savings target by $1.4 billion**
- **Overhead ratio improved to 60% from 64% despite a stronger market environment in 2000 than 2001**

Dimensions of revenue diversification

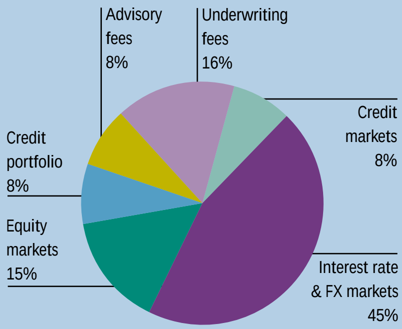
By geographic region



By client segment



By product class



Important leadership positions were maintained in leveraged and syndicated lending (ranked No.1) and U.S. investment-grade debt underwriting (No. 2). The Investment Bank's equity underwriting business lost market share relative to the prior year, but increased market share in each of the quarters of 2001, culminating with a market share of 8% (ranked No. 6) in the 2001 fourth quarter. In addition, the Investment Bank was named "Bank of the Year" by *International Financing Review* and "Derivatives House of the Year" by *Risk* magazine.

The increase in **net interest income** of 14% from last year was primarily due to the Firm's interest rate risk management in a declining rate environment.

Fees and commissions declined 21% from the prior year, reflecting lower equity brokerage commissions.

The decrease in **all other revenue** was attributable to negative valuation adjustments taken against syndicated loans that are held for sale. Partly offsetting the decrease were higher gains on sales of available-for-sale securities as part of the Firm's interest rate risk management activity.

Cash operating expense declined 16% from 2000. Included in the decline was the impact of reduced headcount and lower incentive compensation expense. Compensation as a percentage of revenue decreased from 42% in 2000 to 39% in 2001 despite lower revenues. Since the merger announcement date, the Investment Bank has reduced staff levels by approximately 6,700, or 23% of total headcount, contributing to the Investment Bank's ability to meet its 2001 overhead ratio target of 60%.

Credit costs increased 328%, reflecting the impact, in general, of the recession on the Firm's credit portfolio and, in particular, charge-offs for Enron of $221 million and a provision for Argentina of $140 million.

Average total assets were $511 billion, an increase of 7%, reflecting growth in fixed income trading assets, partially offset by a decline in commercial loans and investment securities. **Average common equity** declined by 4% from last year as a result of lower operating risk capital, associated with the Investment Bank's lower expense base.

The economic outlook remains uncertain, and revenue levels for the Investment Bank in 2002 will be heavily influenced by the speed and extent of the economic recovery.

Market shares and rankings(a)

	2001		2000	
December 31,	Market share	Ranking	Market share	Ranking
Global syndicated loans(b)	**26.0%**	**#1**	22.9%	#1
U.S. investment-grade bonds	**14.8**	**#2**	16.4	#2
Euro-denominated high grade bonds	**7.0**	**#3**	5.0	#7
Global announced M&A	**22.3**	**#5**	16.7	#6
U.S. equity & equity-related	**4.2**	**#8**	5.3	#6

(a) Derived from Thomson Financial Securities Data. Global announced M&A based on rank value; all others based on proceeds, with full credit to each book manager/equal if joint. Because of joint assignments, market share of all participants will add up to more than 100%.

(b) In 2001, data reflect the Bookrunner title for all regions. Data before 2001 combined the Bookrunner title in the Americas with the Mandated Arranger title elsewhere, since global Bookrunner data were not published.

Treasury & Securities Services

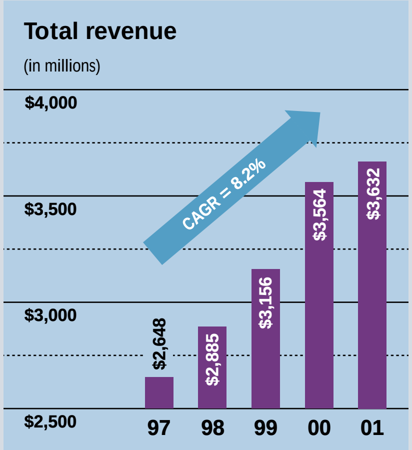
Treasury & Securities Services is composed of three businesses: Institutional Trust Services provides a range of fiduciary services to debt and equity issuers and various intermediaries, from traditional trustee and paying agent to global securities and other administrative services; Investor Services provides securities custody and related services, such as securities lending and investment analytics and reporting for mutual funds, investment managers, pension funds, insurance companies and banks worldwide; Treasury Services provides treasury and cash management, as well as payment, liquidity management and trade finance services for a diversified client base of corporations, financial institutions and governments worldwide.

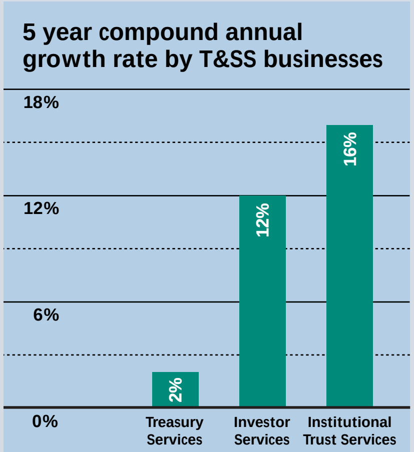
Financial results overview

Treasury & Securities Services' **cash operating earnings** remained virtually flat, compared with 2000, with growth in Institutional Trust Services of 22% and Treasury Services of 11% offset by a decline in Investor Services of 17%. These results reflected the impact of weaknesses in the economy and financial markets. Significant declines in interest rates and reduced equity market prices depressed many revenue sources. Partially offsetting these declines were the positive effects, especially in Institutional Trust Services, of greater volumes of debt issuance and market share gains in several key product lines. The net result was revenue growth of 15% in Institutional Trust Services and of 3% in Treasury Services — in line with historical growth rates — and a revenue decline of 4% in Investor Services, which had realized high growth rates in previous years due to more favorable market conditions.

Financial line-item discussion

Fees and commissions increased 6%, primarily due to higher fees in Institutional Trust Services. Institutional Trust Services earns fees from the issuance and payment of debt securities, servicing secondary market loan programs for governmental entities, and maintaining American depositary receipt programs for foreign issuers. The increase in fees in 2001 was attributable to successful sales in the expanding collateralized debt obligation market and the acquisition of Colson Services Corp. ("Colson"), a recordkeeper and loan servicer providing outsourcing support to government agencies. Treasury Services' clients shifted their payment method to fees rather than maintain compensating balances in a low interest rate environment. These increases were offset by lower revenues at Investor Services, as fees based on equity values and the volume of transactions declined.





Selected financial data

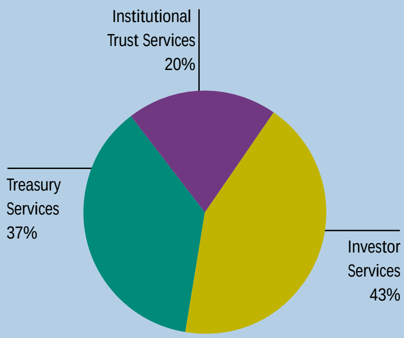
Year ended December 31, (in millions, except ratios)	2001	Over/(under) 2000
Revenue:		
Fees and commissions	$ 2,059	6%
Net interest income	1,391	(1)
All other revenue	182	(19)
Operating revenue	3,632	2
Cash operating expense	2,563	3
Cash operating margin	1,069	(1)
Amortization of intangibles	82	17
Credit costs	8	100
Cash operating earnings	$ 693	—
Average common equity	$ 2,912	2%
Average assets	18,053	9
Shareholder value added	339	(1)
Cash ROCE	23.6%	(40)bp
Cash overhead ratio	71	100

bp- Denotes basis points; 100 bp equals 1%.

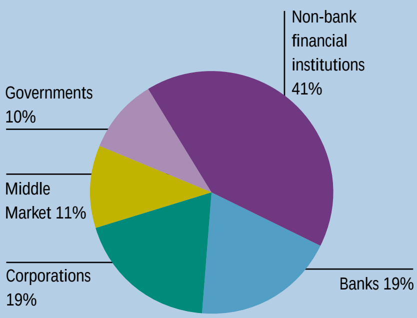
2001 highlights

- **Institutional Trust Services continued to grow at double-digit rates assisted by acquisitions**
- **Revenues at Investor Services were negatively affected by the downturn in the global equity markets**
- **Treasury Services realized double-digit growth in operating earnings and a reduced cash overhead ratio through strong expense management despite low revenue growth**

By business revenues

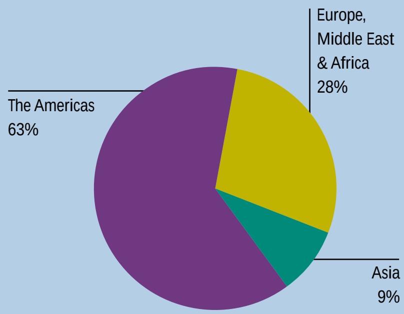


By client segment (a)

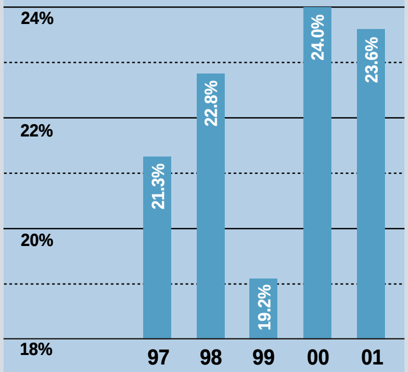


(a) Represents relationships as a percentage of revenues.

By geographic region



Treasury & Securities Services cash return on common equity



Net interest income decreased slightly, reflecting compressed spreads on deposits as a result of lower interest rates and the impact of lower compensating balances. This was partially offset by higher deposit levels at Institutional Trust Services associated with new clients processing their debt payments.

The events of September 11th caused Treasury & Securities Services' demand deposits and noninterest-bearing deposits to grow significantly as customers looked to depository institutions to hold their cash funds. By the end of 2001, these cash balances had returned to pre-September 11th levels.

The decline in **all other revenue** of 19% was attributable to lower foreign exchange revenue, driven by the decrease in clients' global trading activities at Investor Services. Also contributing to the decline was the effect of the divestiture by Institutional Trust Services of a company involved in stock transfer.

Cash operating expense grew modestly from 2000, reflecting strategic investments in all three businesses, partly offset by tighter expense control, primarily in Treasury Services and Investor Services. The 3% expense growth, coupled with 2% revenue growth, slightly increased the cash overhead ratio to 71%. Treasury & Securities Services' long-term cash overhead ratio target is 65%.

Treasury & Securities Services

Institutional Trust Services

- Debt issuing and payment services
- Securities settlement and clearing
- American depositary receipts
- Specialty trust services

Investor Services

- Securities custody
- Related services:
  - Securities lending
  - Investment analytics and reporting
  - Fund accounting

Treasury Services

- Treasury and cash management
- Payment and liquidity management
- Trade finance services

Investment Management & Private Banking

Assets under management were $605 billion. Investment Management delivers expertise and advice across all asset classes and global markets to private and public sector institutional investors, high net worth individuals, and retail customers. The Private Bank delivers personalized advice and solutions to wealthy individuals and families.

Selected financial data

Year ended December 31, (in millions, except ratios)	2001	Over/(under) Pro forma 2000[(a)]
Revenue:		
Fees and commissions	$ 2,300	(12)%
Net interest income	547	(16)
All other revenue	238	(58)
Operating revenue	3,085	(20)
Cash operating expense	2,486	(13)
Credit costs	16	(38)
Cash pre-tax margin	583	(40)
Amortization of intangibles	289	99
Cash operating earnings	$ 467	(30)%
Average common equity	$ 6,077	(7)%
Average assets	34,149	(4)
Shareholder value added	(272)	(119)
Cash ROCE	7.5%	(260)bp
Tangible cash ROCE	26	(600)
Cash pre-tax margin	19	(600)

(a) Pro forma results assume that the purchase of Flemings occurred at the beginning of 2000.
bp- Denotes basis points; 100 bp equals 1%.

Financial results overview

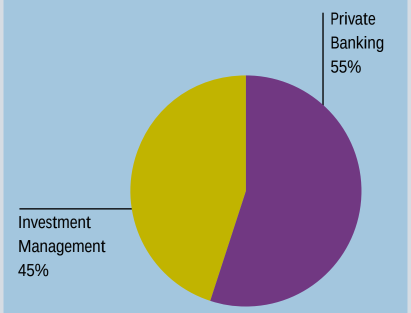
Investment Management & Private Banking's **cash operating earnings** were 30% lower than last year. Lower revenues were only partially offset by lower expenses. Revenues decreased due to declines in the value of assets under management, lower international retail fund flows and a reduction in brokerage account volumes. Investment Management revenues of $1.37 billion decreased 23%, and Private Banking revenues of $1.72 billion declined 16% from 2000. For the year, the percentage of cash operating earnings before taxes to total operating revenue declined to 19% from 25% in 2000; the business's long-term target is 30%.

Financial line-item discussion

Fees and commissions were 12% lower than the prior year, reflecting the lower value of assets under management and lower associated investment management fees, and the shift from higher-margin equities to fixed income and money market products. In addition, brokerage commissions declined as private banking clients executed fewer transactions in 2001. Partially offsetting these factors were gains realized from new inflows to money market funds.

The decline in **net interest income** of 16% reflected the impact of lower short-term interest rates on the spread on client deposits.

Operating revenues



All other revenue was lower by 58%, primarily as a result of the decline in trading volumes. Earnings from the Firm's 45% investment in American Century Companies, Inc. ("American Century") also declined.

Cash operating expense decreased 13% as a result of merger synergies and the elimination of approximately 1,500 positions since the merger announcement date. With the merger integration essentially completed in IMPB, the business is positioned to benefit from future improvement in market conditions.

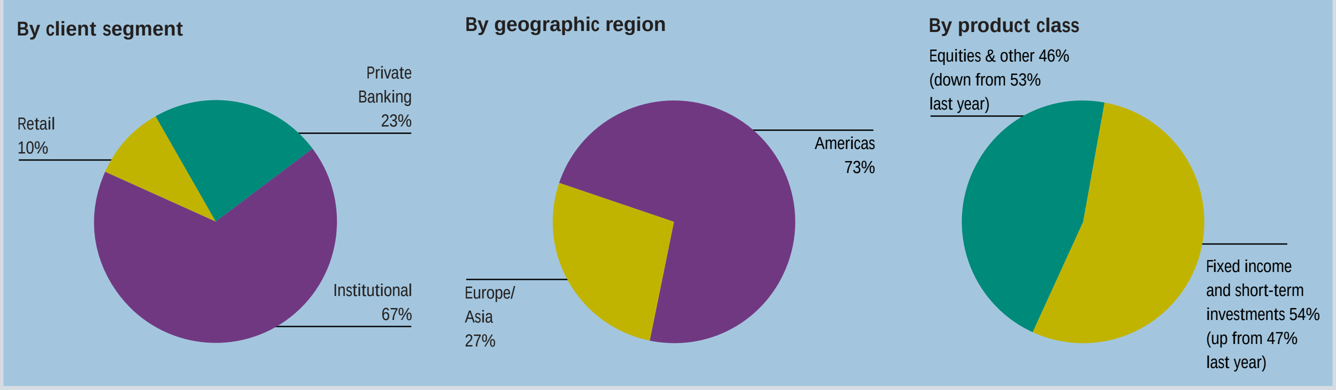
The increase in **amortization of intangibles** to $289 million reflected the full-year impact of the Flemings acquisition.

Average assets for the year were $34 billion, a decline of 4% from the prior year, primarily reflecting lower equity-related lending. For 2001, **average common equity** decreased 7%.

2001 highlights

- **Assets under management declined 5%; money market funds experienced significant inflows**
- **Revenue declined 20%, and expenses declined 13%**
- **Actions taken in 2001 provide a solid basis for margin expansion in the future**

Diversification of IMPB's $605 billion of assets under management at December 31, 2001



Assets under management at December 31, 2001 declined 5% from the prior year-end, primarily as a result of market depreciation. However, during 2001, inflows into assets under management were driven by a significant increase in money market assets, as investors shifted toward lower-risk assets. The result was approximately $45 billion in new flows into global money market funds. The accompanying table demonstrates the diversification across asset classes and geographic regions, which has helped mitigate market volatility.

Assets under management(a)

At December 31, (in billions)	2001	2000
CLIENT SEGMENT:		
Private banking	**$ 141**	$ 152
Institutional	**404**	424
Retail	**60**	62
Total	**$ 605**	$ 638
GEOGRAPHIC REGION:		
Americas	**$ 441**	$ 440
Europe and Asia	**164**	198
Total	**$ 605**	$ 638
PRODUCT CLASS:		
Fixed income and short-term investments	**$ 329**	$ 297
Equities and other	**276**	341
Total	**$ 605**	$ 638
Total Client Positions (b)		
Private banking	**$ 302**	$ 342

(a) Assets under management represent assets actively managed by IMPB on behalf of institutional and private banking clients. Excludes assets managed by American Century.
(b) Total private banking client positions represent assets under management ($141 billion at December 31, 2001) as well as custody, restricted stock, deposit, brokerage and loan accounts.

JPMorgan Partners

JPMorgan Partners, the global private equity organization of JPMorgan Chase, provides equity and mezzanine capital financing to private and public companies. It invests throughout the entire life cycle of the business development process, with the objective of creating long-term value for the Firm and its third-party investors.

Selected financial data

Year ended December 31, (in millions)	2001	2000
Revenue:		
Private equity gains (losses)	$ (1,182)	$ 988
Net interest income	(335)	(309)
All other revenue	60	110
Operating revenue	(1,457)	789
Cash operating expense	326	405
Cash operating margin	(1,783)	384
Amortization of intangibles	27	21
Cash operating earnings	$ (1,148)	$ 258
Average common equity	$ 6,377	$ 7,526
Average assets	11,665	13,319
Shareholder value added	(2,114)	(888)

	2001	2000
Realized gains (losses):		
Cash gains	$ 1,030	$ 2,340
Write-offs	(355)	(299)
Subtotal	675	2,041
Unrealized gains (losses):		
Public mark-to-market	$ (520)[(a)]	$ (1,097)
Private write-downs	(1,337)	44
Subtotal	(1,857)	(1,053)
Private equity gains (losses)	$ (1,182)	$ 988

(a) Includes the impact of portfolio hedging activities.

Financial results overview

JPMorgan Partners recognized a cash operating loss of $1.1 billion in 2001. The portfolio was negatively affected by a decline in valuations of private securities and the downturn in the public equity markets, particularly securities in the telecommunications, media and technology ("TMT") sector.

Financial line-item discussion

Private equity gains (losses)

JPMP's portfolio recorded a loss of $1.2 billion in 2001 consisting of losses in direct investments ($0.9 billion), private funds ($0.2 billion) and from hedging transactions ($0.1 billion). During the year, unrealized losses from portfolio revaluations more than offset income from realization activities. Despite limited exit opportunities, JPMP generated realized cash gains of over $1.0 billion from sales of investments, including approximately $0.9 billion from public and private direct investments and $0.1 billion from fund investments. Realized cash gains were recognized across all industries, with significant gains harvested from investments in the energy sector. During the fourth quarter of 2001, JPMP completed significant selldowns of two public TMT holdings, generating realized cash gains of over $125 million.

JPMP's realized gains were more than offset by valuation actions taken across the private portfolio and mark-to-market losses recorded in the public portfolio. Valuation actions included net write-downs and write-offs of $1.4 billion on private direct securities and $0.3 billion on private fund investments. JPMP's private direct TMT investments from 1999 and 2000 currently are valued at 50% of initial cost. In 2001, JPMP also recorded unrealized losses of $0.5 billion from mark-to-market losses on its public portfolio.

Other revenue includes third-party management fees and net revenue allocated to or from other JPMorgan Chase businesses. While management fee revenue was stable year over year, net intersegment revenue in 2001 included fees paid to other areas of the Firm for services associated with the raising of third-party funding and asset sale activities.

JPMorgan Partners' **cash operating expenses** in 2001 decreased 20%, driven by a decline in compensation expenses.

Investment pace, portfolio diversification and capital under management

For 2001, JPMorgan Partners' investment pace declined 65% from last year to $0.9 billion as JPMP adopted a more cautious approach to new investments in light of the depressed market conditions.

2001 highlights

- **Private equity losses of $1.2 billion, driven primarily by $1.7 billion in write-downs and write-offs taken across the private investment portfolio**
- **Significant decline in new investment activity given adverse market conditions**
- **Closed on $1.5 billion of third-party investor commitments for the J.P. Morgan Partners Global Investors, L.P. (Global Fund)**

JPMP investment portfolio

December 31, 2001 (in millions)	Carrying value	Cost
Public securities (163 companies)[a]	$ 998	$ 802
Private direct securities (959 companies)	6,289	7,544
Private fund investments (338 funds)[b]	1,910	2,182
Total investment portfolio	$ 9,197	$ 10,528

(a) Quoted public value was $1,389 million, or 1.7 times original cost, at December 31, 2001.
(b) At December 31, 2001, JPMP had $2,328 million of unfunded commitments to these private equity funds.

Public securities investments at December 31, 2001[a]

(dollars and shares in millions)

	Symbol	Shares	Quoted public value	Cost
Triton PCS Holdings, Inc.	TPC	16.0	$ 469	$ 70
TeleCorp PCS [b]	TLCP	7.7	96	5
Fisher Scientific International, Inc.	FSH	3.0	86	27
dj Orthopedics, Inc.	DJO	5.9	78	54
Packaging Corp of America	PKG	3.9	70	18
Encore Acquisition Company	EAC	4.9	65	34
Guitar Center Inc.	GTRC	4.7	63	50
1-800 FLOWERS.COM, Inc.	FLWS	3.9	61	14
American Tower Corp.	AMT	5.9	55	19
Crown Media Holdings Inc.	CRWN	2.7	31	40
Top 10 public securities			1,074	331
Other public securities (153 companies)			315	471
Total public securities (163 companies) – carrying value $998 million[c]			$1,389	$ 802

(a) Publicly traded positions only.
(b) Does not include 3.7 million shares held directly by the holding company, received upon a distribution from JPMP.
(c) For a discussion of how the Firm determines the carrying value, see Note 27.

At December 31, 2001, JPMP's investment portfolio was $9.2 billion, a decline of $2.6 billion from year-end 2000. The decline from last year was primarily the result of reductions in carrying values due to valuation adjustments and sales activities. The decline in JPMP's assets resulted in a 15% decline in common equity allocated to JPMP.

At December 31, 2001, TMT investments were $2.5 billion, down 40% from December 31, 2000; they represented 27% of JPMP's holdings. Management's goal is to decrease TMT investments while increasing the industrial and consumer sectors.

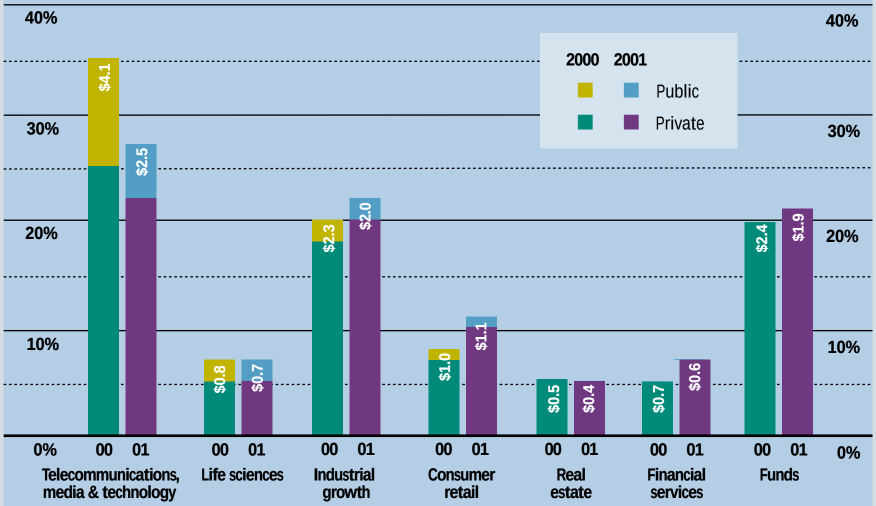
The Firm believes that JPMorgan Partners will continue to create value over time. Given the volatile nature of the markets, and the NASDAQ market in particular, JPMP's reported results for any period may include significant public securities unrealized gains or losses. The Firm makes no assumptions about the unrealized gains or losses that may be experienced by the JPMP portfolio.

JPMP's diversified equity portfolio by industry group[a]

% carrying value as of December 31, 2001

Amounts within the bars represent the carrying values of the investments.

(in billions)



(a) Represents JPMP's total investment portfolio, by industry, excluding third-party private fund investments.

Retail & Middle Market Financial Services

Retail & Middle Market Financial Services, through branch networks (in the New York tri-state area and Texas) and national product companies, offers a complete range of financial products and services to consumers, small businesses and middle market clients. These products and services include banking, credit cards, loans (home, auto and education finance), investment and insurance offerings.

- **Cardmember Services (CCS)**
- **Regional Banking Group (RBG)**
- **Home Finance (CHF)**
- **Middle Markets (MMBG)**
- **Auto Finance (CAF)**

Selected financial data

Year ended December 31, (in millions, except ratios)	2001	Over/(under) 2000
Revenue:		
Net interest income	$ 6,947	10%
Fees and commissions	2,859	(9)
Securities gains	378	50
All other revenue	731	60
Operating revenue	10,915	7
Cash operating expense	5,468	4
Cash operating margin	5,447	11
Amortization of intangibles	181	(8)
Credit costs	2,803	35
Cash operating earnings	$ 1,688	(5)%
Average common equity	$ 8,582	—
Average managed assets	165,432	12
Shareholder value added	645	(13)
Cash ROCE	19.5%	(110) bp
Cash overhead ratio	50	(200)

bp- Denotes basis points; 100 bp equals 1%.

Financial results overview

Retail & Middle Market Financial Services' 2001 results were marked by solid revenue growth and disciplined expense management. Record originations drove revenues, while restructuring, Six Sigma and other productivity efforts moderated expenses. These actions were unable to offset the negative impact of higher credit costs. As a result, RMMFS realized a 5% decline in **cash operating earnings** from last year.

Financial line-item discussion

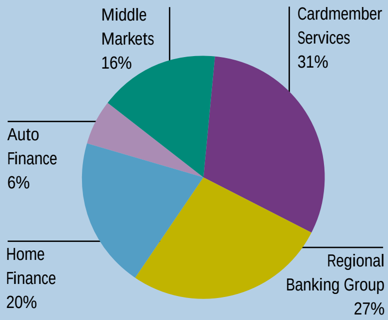
Net interest income grew 10% from a year ago, driven by higher levels of consumer loans resulting from record origination volumes across all credit businesses (CCS, CHF and CAF), partially offset by the lower spreads earned on customer deposits due to the decline in interest rates experienced in 2001.

Fees and commissions declined 9%, reflecting the negative impact of the increased level of mortgage loan prepayments that occurred because of lower interest rates. Prepayments resulted in accelerated amortization and impairment of mortgage servicing rights. In CHF, this was substantially offset by increased securities gains and other revenues. The decline in fees and commissions was partially offset by growth in credit card, mortgage and auto loans outstanding, as well as by a higher utilization of consumer banking and insurance products and services, all of which generated higher fees.

The increase in **securities gains** of 50% was attributable to sales of U.S. government securities used as economic hedges of mortgage servicing rights.

All other revenue increased by 60%, primarily as a result of record residential mortgage sales activity to government sponsored enterprises such as Fannie Mae, Ginnie Mae and Freddie Mac.

Cash operating earnings by key businesses 2001



Cash expense rose 4%, reflecting the costs associated with the growth in origination volumes. The expense increase also included the impact of the acquisition in 2001 of the mortgage business of Advanta Corp. ("Advanta") and higher credit card marketing expenditures that helped generate a record number of new accounts. Partially offsetting these increases were $145 million in savings achieved through restructuring, productivity and quality programs, including an organization-wide Six Sigma effort. This disciplined expense management approach helped reduce the cash overhead ratio to 50% from 52% one year ago.

Amortization of intangibles decreased 8% as a result of the sale of the Hong Kong credit card business in 2000.

Credit costs increased by 35% due to significant growth in credit card customer bankruptcies, increased levels of delinquencies resulting from the economic slowdown in the U.S. and a higher level of consumer-related receivables outstanding. RMMFS added $310 million to its allowance for loan losses in 2001 in response to the deteriorating credit conditions. For a further discussion of the consumer credit portfolio, see pages 52-53. The impact of these events was partially mitigated by more intense collection efforts in all of the credit businesses. In 2002, credit costs will be dependent upon the conditions in the domestic economy. RMMFS will continue to pursue collection and risk management actions to mitigate future credit losses.

2001 highlights

- **Achieved record origination volumes in Cardmember Services, Home Finance and Auto Finance**
- **Achieved $145 million in expense reductions through expense initiatives including an organization-wide Six Sigma effort**
- **Significant increase in credit costs, driven by additions to the allowance for loan losses and higher charge-offs**
- **Declining interest rates resulted in lower funding costs for consumer lending, increased prepayments in the mortgage servicing portfolio and lower spreads on deposits**

Retail & Middle Market Financial Services' businesses

Year ended December 31, (in millions, except ratios)	2001 Operating revenues	2001 Cash expense	2001 Cash operating earnings	Over/(under) 2000 Operating revenues	Over/(under) 2000 Cash expense	Over/(under) 2000 Cash operating earnings
Cardmember Services	**$ 4,427**	**$ 1,445**	**$ 595**	17%	9%	16%
Regional Banking Group	**2,985**	**2,031**	**504**	(5)	(3)	(8)
Home Finance	**1,611**	**965**	**371**	22	22	20
Middle Markets	**1,199**	**648**	**299**	(3)	1	(7)
Auto Finance	**540**	**197**	**123**	63	12	215
Other consumer services[(a)]	**153**	**182**	**(204)**	(59)	(30)	NM
Total	**$ 10,915**	**$ 5,468**	**$ 1,688**	7%	4%	(5)%

(a) Includes discontinued operations, support services and unallocated credit costs.
NM-Not meaningful.

Cardmember Services

Cardmember Services is the fifth largest credit card issuer in the U.S., servicing almost 24 million accounts. Cash operating earnings for 2001 were a record $595 million, 16% greater than 2000. Operating revenue increased $630 million, or 17%, driven by the increase in the number of cardholders, growth in receivables and stronger customer purchase volume. Also contributing to the increase was the decline in the costs to fund receivables. Cash expense increased 9% when compared with last year due to higher marketing expenditures that resulted in record originations of over 4 million new accounts, and higher business volume-related expenses. Credit costs rose 21% due to the impact of the increase in receivables outstanding combined with the slowdown in the economy that affected the level of consumer bankruptcies. The managed credit card-related net charge-off ratio was 5.49%, an increase of 36 basis points from 2000. Managed credit card-related receivables at December 31, 2001 increased 12% to over $41 billion and total purchase volume, cash advances and balance transfers increased 19% to over $72 billion. The cash overhead ratio in 2001 improved 200 basis points to 33%.

In the first quarter of 2002, Cardmember Services acquired Providian National Bank's interest in the Providian Master Trust, which includes a credit card portfolio of approximately $8.0 billion. The acquired portfolio is comprised mainly of Providian's higher quality or "platinum" assets and consists of approximately 3.3 million credit card accounts.

Business-related metrics

As of or for the year ended December 31, (in billions, except ratios)	2001	Over/(under) 2000
End-of-period outstandings	**$ 41.6**	12%
Total purchases & cash advances[(a)]	**72**	19
Total accounts (in millions)	**23.9**	15
Net charge-off ratio	**5.49%**	36 bp
Cash overhead ratio	**33**	(200)

Note: The above metrics include other consumer loans.
(a) Sum of total customer purchases, cash advances and balance transfers.
bp- Denotes basis points; 100 bp equals 1%.

Regional Banking Group

The Regional Banking Group is the No. 1 full-service bank based on deposits for consumers and small businesses in the New York tri-state area and is one of the leading providers of financial services to the consumer and small business sectors in the Firm's Texas market. RBG provides banking, investment, credit and insurance services to 2.9 million consumers and 300,000 small businesses. RBG also offers discount brokerage services through Brown & Company, the 8th largest online brokerage firm in the U.S.

RBG had cash operating earnings of $504 million in 2001, down 8% from 2000, driven by the declining interest rates and lower customer trading volumes in the equities markets, which negatively affected deposit spreads and discount brokerage transactions revenue, respectively. Partially offsetting these unfavorable items was the growth in insurance sales, particularly annuities. The lower interest rate environment also negatively affected the cash overhead ratio increasing it 100 basis points to 68%.

Total client assets under management of $100 billion, including $67 billion in deposits and $33 billion of investment assets, grew 4% over 2000.

Cash expense declined $60 million, or 3%, from 2000. This decline reflected the results of initiatives to realize continued productivity improvement and provide high-quality service to the Firm's customers.

Business-related metrics

As of or for the year ended December 31,	2001	Over/(under) 2000
Total deposits (in billions)	**$ 67**	6%
Total assets under management[(a)] (in billions)	**100**	4
Number of branches	**531**	(2)
Number of ATMs	**1,907**	—
Number of online customers (in thousands)	**937**	44
Cash overhead ratio	**68%**	100 bp

(a) Assets under management includes deposits.
bp- Denotes basis points; 100 bp equals 1%.

Home Finance

Chase Home Finance is the mortgage industry's second largest mortgage originator and third largest mortgage servicer in the United States with over 4 million customers. CHF experienced a record year in 2001, with total revenue increasing 22%, cash operating earnings increasing 20% and mortgage originations increasing 142% to $184 billion. CHF's 2001 performance demonstrated the effectiveness of its balanced business model of being both a leading originator and servicer of mortgage loans. The significant reduction in interest rates contributed to higher origination revenue as record loan originations were packaged and sold as securities. Low interest rates also improved net interest margins by reducing funding costs. However, the lower interest rates led to high prepayment levels and reduced mortgage servicing revenue due to the accelerated amortization and impairment of mortgage servicing rights ("MSR"). To mitigate the effect of reduced revenue from MSR impairment and prepayments, CHF used both interest rate derivatives and available-for-sale ("AFS") securities that increased in value when interest rates declined.

Interest rate derivatives that qualify as fair value hedges under SFAS 133 and the related hedged MSRs were accounted for at fair value. For 2001, the decrease in revenue resulting from SFAS 133 valuation adjustments and MSR impairment totaled $1,951 million. These losses were substantially offset by total gains of $1,773 million relating to a combination of derivative gains, including those that qualify as SFAS 133 hedges, and realized gains from sales of AFS securities.

Business-related metrics

As of or for the year ended December 31, (in billions, except ratios)	2001	Over/(under) 2000
Originations	**$184.2**	142%
Loans serviced	**429.8**	19
Total loans owned	**55.7**	19
Number of customers (in millions)	**4**	12
Net charge-off ratio	**0.18%**	3bp
Cash overhead ratio	**60**	—

bp- Denotes basis points; 100 bp equals 1%.

The increase in cash expense of 22% was related to the growth of business volume and the acquisition in 2001 of Advanta's mortgage business. The cash overhead ratio remained flat compared with last year at 60%. Charge-offs of 0.18% were slightly higher in 2001 reflecting weak domestic economic conditions.

Middle Markets

JPMorgan Middle Market Banking is a premier national provider of commercial banking and corporate financial services to companies with annual sales of $3 million to $500 million, as well as to not-for-profit, real estate and public sector entities. Middle Markets enjoys a leadership position in the lucrative New York tri-state market and select Texas markets, and is leveraging its expertise in select markets across the country. Product offerings include corporate finance, cash management, credit and international finance capabilities. Cash operating earnings declined 7% when compared with the prior year. Declining interest rates affected earnings as well as revenue. Revenue declined 3% despite a 7% increase in deposit levels. A 24% increase in deposit fees offset some of the impact of lower rates. Cash expense rose 1% due to the increase in volume-related expenses.

Business-related metrics

As of or for the year ended December 31, (in billions, except ratios)	2001	Over/(under) 2000
Total loans	**$13.6**	(2)%
Total deposits	**19.3**	7
Nonperforming loans as a % of total loans	**2.30%**	11bp
Cash overhead ratio	**54**	200

bp- Denotes basis points; 100 bp equals 1%.

Auto Finance

Auto Finance is the largest bank originator of auto loans and leases in the U.S., with over 2 million accounts. In 2001, the business unit had a record number of auto loan originations, which grew 63% over 2000 to $19.9 billion. Loan and lease receivables grew 26% to $28.4 billion, and Auto Finance's market share among auto finance companies improved from 2.6% in 2000 to 4.1% in 2001 as a result of strong organic growth and an origination strategy that allies the business with car manufacturers and dealers nationwide.

Auto Finance's operating revenues and cash operating earnings grew 63% and 215%, respectively, from 2000. The cash overhead ratio decreased to 37%. These results reflected the increase in origination volume, the impact of lower rates, and the effect of a $100 million charge in 2000 from an estimated decrease in auto lease residual value. The risk of future charges for residual values was substantially mitigated in the first quarter of 2001 through the purchase of a residual value insurance policy to cover previously uninsured auto leases in the portfolio. New auto lease originations continue to be insured under an existing policy. The moderately higher charge-off rate in 2001 reflects consumer defaults in a weaker business environment.

Business-related metrics

As of or for the year ended December 31, (in billions, except ratios)	2001	Over/(under) 2000
Loan and lease receivables	**$28.4**	26%
Origination volume	**19.9**	63
Market share	**4.1%**	150bp
Net charge-off ratio	**0.54**	9
Cash overhead ratio	**37**	(1,700)

bp- Denotes basis points; 100 bp equals 1%.

The results of Auto Finance also include Chase Education Finance, which is a top provider of government guaranteed and private loans for higher education through its joint venture with Sallie Mae.

Support Units and Corporate

Selected financial data

Year ended December 31, (in millions)	2001	2000
Operating revenue	**$ (976)**	$ (1,061)
Cash operating expense	**226**	117
Credit costs	**251**	(1)
Cash operating earnings	**$ (507)**	$ (334)
Average common equity	**$ (1,736)**	$ (5,840)
Average assets	**13,615**	15,632
Shareholder value added	**(110)**	593

Note: 2000 amounts are shown in place of % changes.

The Support Units and Corporate include Enterprise Technology Services ("ETS"), Corporate Business Services ("CBS"), legal, audit and finance.

ETS is an internal technology service organization, and CBS manages the Firm's support services, including real estate management, human resources, finance operations and procurement. CBS and ETS seek to provide services to the Firm's businesses that are competitive with comparable third-party providers in terms of price and service quality. These units leverage the Firm's global scale and technology to gain efficiencies through consolidation, standardization, vendor management and outsourcing.

Corporate reflects the accounting effects remaining at the Corporate level after the application of management accounting policies of the Firm. These policies include the allocation of costs associated with technology, operational and staff support services with the respective revenue generating businesses and allow management to evaluate business performance on an allocated basis.

For 2001, Corporate had a cash operating loss of $507 million, compared with a loss of $334 million in 2000. In 2001, there were $251 million of credit costs in excess of net charge-offs not allocated to the segments. Also included in the 2001 net loss was a pre-tax loss of $152 million at LabMorgan resulting from the write-downs of investments and equity accounting losses. LabMorgan has been restructured and, going forward, its remaining investment portfolio of $52 million at December 31, 2001 will be managed by JPMorgan Partners.

Critical accounting policies used by the Firm

The Firm's accounting policies are integral to understanding the results reported. Accounting policies are described in detail in the Notes to the consolidated financial statements. The Firm's most complex accounting policies require management's judgment to ascertain the valuation of assets and liabilities. The Firm has established detailed policies and control procedures that are intended to ensure valuation methods are well controlled and applied consistently from period to period. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. The following is a brief description of the Firm's current accounting policies involving significant management valuation judgments.

Allowance for loan losses

JPMorgan Chase's allowance for loan losses is intended to adjust the value of the Firm's loan assets for probable credit losses. Management also computes an allowance for lending-related commitments using a methodology similar to that used for the loan portfolio. The methodology for calculating both allowances involves judgments at many levels. First and foremost, it involves the early identification of credits that are deteriorating. Second, management applies its judgment to derive loss factors. Wherever possible, the Firm uses independent, verifiable data or the Firm's own historical loss experience in its models for estimating loan losses. Many factors can affect management's estimates of specific loss and expected loss, including volatility of default probabilities, rating migrations and loss severity. For example, judgment is required to determine how many years of data to include when estimating loss severity. If a full credit cycle is not captured in the data, loss estimates may be inaccurate. Similarly, there are judgments as to which external data on default probabilities should be used, and when they should be used. Choosing data that are not reflective of the Firm's specific loan portfolio characteristics could affect loss estimates. Management's judgments also are applied when considering uncertainties that relate to current macroeconomic and political conditions, the impact of currency devaluations on cross-border exposures, changes in underwriting standards, unexpected correlations within the portfolio or other factors. For a further discussion of the methodologies used in establishing the Firm's Allowance for loan losses, see Credit risk management and Note 8 – Loans on pages 54 and 75, respectively.

Fair value of financial instruments

A portion of JPMorgan Chase's assets and liabilities are carried at fair value, including trading assets and liabilities, available-for-sale securities and loans held for sale. At December 31, 2001, approximately $315 billion of the Firm's assets were recorded at fair value.

Fair value is defined as the value at which positions could be closed out or sold in a transaction with a willing and knowledgeable counterparty over a period of time consistent with JPMorgan Chase's trading or investment strategy. A majority of assets carried at fair value are determined based on quoted market prices. If listed prices or quotes are not available, then fair value is based on internally developed cash flow models. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, option volatilities and currency rates. The valuation process then takes into consideration factors such as counterparty credit quality, liquidity and concentration concerns. Management applies judgment in the determination of these factors. For example, there is often limited market data to rely on when estimating the impact of holding a large or aged position. Similarly, judgment must be applied in estimating prices where no external parameters exist. Finally, other factors can affect estimates of fair value including market dislocations, incorrect model assumptions, and unexpected correlations. Imprecision in estimating these factors can impact the amount of revenue or loss recorded for a particular position. The largest valuation adjustment relates to credit risk associated with derivatives in the Firm's derivatives portfolio. The credit valuation adjustment, or CVA, represents the estimated credit component of the Firm's derivative counterparty exposures. The CVA is recalculated on a daily basis, taking into account market and counterparty-related activity, such as changes in credit ratings and market prices, master netting agreements and collateral. CVA also includes additional adjustments for name-specific credit risk not reflected in credit spreads.

Notwithstanding the judgment required in fair valuing JPMorgan Chase's assets and liabilities, the Firm believes its estimates of fair value are reasonable given the Firm's process for obtaining external prices and parameters, internal model review and approval, consistent application of approach from period to period and the validation of estimates through the actual settlement of contracts.

Specific details on fair values by type of instrument, including the valuation policy for private equity investments and mortgage servicing rights, are included in Note 27 – Fair value of financial instruments and Note 10 – Mortgage servicing rights, respectively.

Results of operations

The following section provides a discussion of JPMorgan Chase's results of operations both on a reported and operating basis. The differences between reported and operating basis are the treatment of revenues from credit card securitizations, the exclusion of special items and the reclassification of trading-related net interest income ("NII") to trading revenue. See page 27 for a further discussion.

Revenues

	2001				2000			
Year ended December 31, (in millions)	Reported basis (a)	Credit card (b)	Special items (c)	Operating basis	Reported basis (a)	Credit card (b)	Special items (c)	Operating basis
Investment banking fees	**$ 3,612**	**$ —**	**$ —**	**$ 3,612**	$ 4,362	$ —	$ —	$ 4,362
Trading revenue (including trading NII)	**6,279**	**—**	**—**	**6,279**	7,142	—	—	7,142
Fees and commissions	**9,208**	**(340)**	**—**	**8,868**	9,229	(350)	—	8,879
Private equity – realized gains	**651**	**—**	**—**	**651**	2,051	—	—	2,051
Private equity – unrealized gains (losses)	**(1,884)**	**—**	**—**	**(1,884)**	(1,036)	—	—	(1,036)
Securities gains	**866**	**—**	**—**	**866**	229	—	—	229
Other revenue	**877**	**(17)**	**—**	**860**	2,289	(10)	(1,131)	1,148
Net interest income (excluding trading NII)	**9,441**	**1,405**	**—**	**10,846**	8,668	1,350	—	10,018
Total revenue	**$ 29,050**	**$ 1,048**	**$ —**	**$30,098**	$ 32,934	$ 990	$(1,131)	$ 32,793

(a) Trading-related NII is recorded in net interest income on the Consolidated statement of income. For purposes of this schedule, trading NII has been reclassified to trading revenue in the reported basis column. See Note 3 on page 72 for details of trading revenue and the related NII.
(b) This column presents the impact of credit card securitizations.
(c) For a description of special items, see Glossary of terms on page 101.

Revenues both on a reported and operating basis were down from 2000 due to private equity losses and, to a lesser degree, lower investment banking fees and trading revenue. These were partially offset by higher net interest income and securities gains.

Investment banking fees

Investment banking fees declined due to lower merger and acquisition advisory and equity underwriting fees. The decline was partially offset by a record year for investment-grade bond underwriting fees. For a further discussion of these fees, see the Investment Bank's results on page 30 and Note 4 on page 72.

Trading-related revenue

The decline was primarily attributable to lower margins in equity securities and reduced demand for equity derivatives. Also contributing to the decline was $359 million of losses related to the exposure to Enron and Argentina. Excluding these two, the weaker performance in emerging markets was more than offset by the strong results within the interest rate trading products as a result of the declining interest rate environment.

Fees and commissions

Fees and commissions both on a reported and operating basis for 2001 were essentially flat from last year, reflecting:

- Investment management, custody and processing services fees in 2001 rose 4% to $3.8 billion, primarily as a result of the acquisition of Flemings in the second half of 2000, partially offset by the general decline in asset values;
- Credit card revenue in 2001 rose $337 million, or 19%, on a reported basis ($347 million on an operating basis) due to the increased number of cardholders, stronger customer purchase volume and an increase in delinquencies. These factors resulted in higher interchange income, late charges and other fees. For a further discussion of this revenue, see page 72;
- Deposit service fees for 2001 were $1.0 billion, an increase of 13% as a result of more customers opting to pay fees for services, rather than maintaining a compensating balance in a low interest rate environment. In addition, consumer banking fees increased reflecting a higher level of customer utilization of retail banking products and services;
- Other fees rose 19% to $794 million in 2001 due to the acquisition of Colson in early 2001, and strong sales of insurance, particularly annuities and mortgage reinsurance;

partly offset by:

- Mortgage servicing fees in 2001 were a loss of $230 million, a decline of $671 million from last year, primarily as a result of the accelerated amortization and net impairment of servicing rights stemming from the lower interest rate environment. For a further discussion of these fees, see page 40;
- Other lending-related service fees in 2001 were $495 million, a decrease of $95 million from 2000 due to lower volume in the trade finance business, reducing the commissions on letters of credit.

For a table that breaks out fees and commissions, see Note 4 on page 73.

Private equity gains (losses)

Both realized gains and unrealized losses on private equity investments deteriorated from last year's levels due to the limited opportunities to sell investments and depressed valuations, particularly in the TMT sector. For a further discussion of private equity gains (losses), see JPMorgan Partners' results on page 36.

Securities gains

The Firm's available-for-sale securities portfolio was positioned for interest rate reductions in the U.S. and Europe, and thus, the Firm was able to realize large gains on the sales of those securities in 2001. There were also higher gains on the sales of debt securities used as economic hedges of the value of mortgage servicing rights at Home Finance. For a further discussion of securities gains, see both the Investment Bank and Home Finance discussions on pages 30 and 40, respectively.

Other revenue

The decrease in other revenue of $288 million included:

- Mark-to-market gains of $229 million in 2000 on economic hedges for anticipated overseas revenues, compared with no such gains in 2001;
- Unfavorable valuation adjustments in 2001 of $177 million related to residual loan positions held after the syndication period;
- Lower equity income of $71 million ($36 million in 2001 compared with $107 million in 2000) on the American Century investment due to the decline in the value of its funds under management, and a nonoperating charge related to its restructuring activities;

partly offset by:

- Revenues from residential mortgage sales and origination activities in 2001 increased to $552 million from $194 million in 2000, driven by the reduction in interest rates. For a further discussion of this revenue, see page 40.

Reported other revenue reflected the following special items, all in 2000:

- Gains of $827 million on the sale of the Hong Kong retail banking business; $399 million on the transfer of the Firm's interest in Euroclear; and $81 million on the sale of the Panama operations;

partly offset by:

- Losses of $176 million on the economic hedge of Flemings' purchase price.

For a table that breaks out other revenue, see Note 4 on page 73.

Net interest income

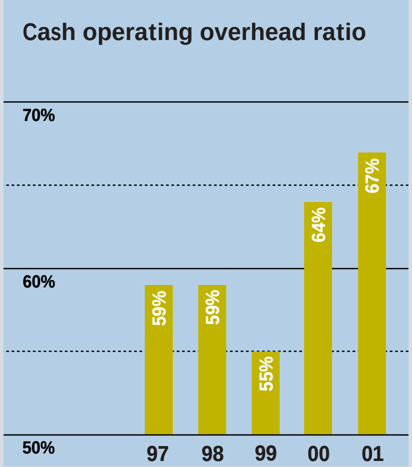
Net interest income benefited from the lower interest rate environment in 2001, resulting in a higher volume of average interest-earning assets (in particular, credit card receivables and residential mortgages), and slightly wider spreads on assets (the short-term funding costs to support interest-earning assets declined faster than the interest earned on them). Also contributing to the increase in NII was an aggregate of $84 million of interest refunds in 2001 (related to several tax settlements) for prior years' federal tax overpayments.

The spread on interest-earning assets was 1.99% in 2001, compared with 1.87% in the prior year. Excluding the impact of the interest refunds, the spread would have been 1.97% in 2001.

Expenses

Year ended December 31, (in millions)	2001 Reported basis	2001 Special items	2001 Operating basis	2000 Reported basis	2000 Special items	2000 Operating basis(a)
Compensation expense	**$11,944**	**$ —**	**$ 11,944**	$12,748	$ —	$ 12,748
Occupancy expense	**1,348**	**—**	**1,348**	1,294	—	1,294
Technology and communications	**2,631**	**—**	**2,631**	2,454	—	2,454
Merger and restructuring costs	**2,523**	**(2,523)**	**—**	1,431	(1,431)	—
Amortization of intangibles	**729**	**—**	**729**	528	—	528
Other expense	**4,124**	**—**	**4,124**	4,369	—	4,369
Total noninterest expense	**$23,299**	**$ (2,523)**	**$ 20,776**	$22,824	$ (1,431)	$21,393
Less: Amortization of intangibles			**729**			528
Cash operating noninterest expense			**$ 20,047**			$20,865

(a) On a 2000 pro forma basis (assuming the purchase of Flemings occurred at the beginning of 2000), cash operating noninterest expense was $21.9 billion.



On a reported basis, total noninterest expense increased slightly from 2000, reflecting higher merger and restructuring costs. On an operating basis, expenses declined from the prior year due to savings from merger and right-sizing initiatives and lower incentives. On a pro forma basis, operating expenses in 2001 decreased 8%.

Compensation expense

Compensation expense declined 6% in 2001, primarily as a result of headcount reductions, particularly in areas affected by the merger such as the Investment Bank and Investment Management & Private Banking. Also contributing to the decline were lower incentives as a result of a lower level of earnings. These items were partially offset by higher compensation expense, reflecting the full-year impact of Flemings in 2001, the addition of the mortgage business of Advanta, and new hiring at Home Finance and Cardmember Services related to the growth in their business volume.

The total number of full-time equivalent employees at December 31, 2001 was 95,812, a decrease of 3,945 employees from the prior year-end, reflecting headcount reductions at businesses that were impacted by the merger, particularly IB and IMPB, partly offset by an increase in RMMFS.

Occupancy, technology and communications

The increase of $54 million in occupancy expense was primarily attributable to the Flemings acquisition, additional space requirements of several business segments, and the moderate increase in utility, maintenance and building administration costs. These were partially offset by the savings derived from the consolidation of offices and the relocations of certain functions from the New York metropolitan area to the South and Southwest regions of the United States.

Technology and communications expense reflected the increase in depreciation expense associated with upgrades to the Firm's hardware systems and software applications. Also contributing to the increase were the costs of more sophisticated telecommunications systems, including greater requirements for market data used in trading activities and research at the Investment Bank, as well as the leasing and maintenance of more advanced computer and other equipment.

Other expense

Other operating expense decreased $245 million from 2000 due to the following (for the table on other expense, see page 74):

- Lower all other expense of $171 million due to decreases in operating losses and employee-related recruitment and relocation expenses;
- Lower professional services of $64 million, reflecting fewer requirements for legal services stemming from the slowdown in the Investment Bank's business volume, and less need for information technology consultants due to a reduction in non-merger-related projects;
- Lower travel and entertainment of $37 million, driven by the slowdown in business activities, which reduced air travel and hotel expenses, and implementation of cost-containment measures;

partly offset by:

- Higher outside services of $21 million, reflecting an increase in outsourced data processing and mortgage closing costs associated with the significant increase in securities and cash transactions at Treasury & Securities Services and origination volume at Home Finance, respectively.

Expenses related to the attacks on the World Trade Center were immaterial. The branch located at the World Trade Center was destroyed and the Firm experienced some temporary dislocations in its downtown Manhattan offices, but there were no significant operational losses.

Amortization of intangibles

The increase was largely attributable to the full-year impact of goodwill associated with the acquisitions of Flemings and The Beacon Group, LLC in mid-2000. For a discussion on the impact of SFAS 142 on the Firm's amortization of intangibles expense in 2002, see page 62.

Merger and restructuring costs

Management initially estimated that the Firm would incur one-time costs of $3.2 billion in connection with the merger of J.P. Morgan and Chase. These costs consisted of a $1.25 billion merger charge that was recorded on the December 31, 2000 merger date and $1.95 billion of other costs to be incurred in 2001 and 2002 that were not accruable under existing accounting pronouncements.

In September 2001, management estimated that $1.05 billion of additional merger costs (consisting primarily of systems integration costs, facilities costs and retention payments) and severance costs for the right-sizing of employee levels in certain businesses (2,000 employee reductions) beyond that planned at the time of the merger would be incurred in the remainder of 2001 and 2002. At that time, management also increased its estimate of related expense savings from the $2.0 billion originally estimated at the time of the merger to $3.6 billion. During 2001, the Firm incurred total merger and right-sizing costs of $2.3 billion. At December 31, 2001, cumulative merger-related and right-sizing employee reductions, including attrition, since the merger announcement date, have been approximately 8,200.

In December 2001, management again revised its estimate of total merger and right-sizing costs to be incurred in 2002 to be approximately $1 billion, representing an increase of approximately $250 million from the total costs previously estimated. At the same time, management increased its estimate of expense savings to be realized from $3.6 billion to $3.8 billion.

For the past few years, the Firm has been relocating several businesses to Florida, Texas and Massachusetts. Management continues to estimate that $200 million of relocation costs will be incurred in 2002, resulting in cumulative relocation costs of $585 million and related expense savings of $80 million in 2003 increasing to $140 million in 2007.

Credit costs

Credit costs on an operating basis are composed of the provision for loan losses related to loans on the Consolidated balance sheet and the provision for credit card receivables that have been securitized.

Year ended December 31, (in millions)	**2001**	2000
Provision for loan losses	**$ 3,185**	$1,377
Credit costs associated with credit card securitizations	**1,048**	990
Operating credit costs	**$ 4,233**	$2,367

Credit costs increased 79% in 2001 due to the impact of the economic slowdown on both the commercial and consumer credit portfolios. In 2001, the Firm increased the loan loss allowance by $850 million. For a further discussion of these costs, see page 54.

Income taxes

JPMorgan Chase recognized income tax expense on a reported basis of $847 million in 2001, compared with $3.01 billion in 2000. The effective tax rate was 33.0% in 2001 compared with 34.4% in 2000. The decrease in the effective tax rate in 2001 as compared with 2000 was principally a result of the decrease in reported income before income tax expense. JPMorgan Chase's effective tax rate in 2002 will likewise be affected by the overall level of reported pre-tax earnings.

Risk management

The major risks to which the Firm is exposed are:

- **Credit risk**
- **Market risk**
- **Operational and business risks**
- **Liquidity risk**
- **Private equity risk**

Risk management at JPMorgan Chase is guided by several principles, including:

- Defined risk governance
- Independent oversight
- Continual evaluation of risk appetite, managed through risk limits
- Portfolio diversification
- Disciplined risk assessment and measurement, including Value-at-risk analysis and portfolio stress testing
- Performance measurement (SVA) that allocates risk-adjusted capital to business units and charges a cost against that capital

Risk management and oversight begins with the Risk Policy Committee of the Board of Directors, which reviews the governance of these activities, delegating the formulation of policy and day-to-day risk oversight and management to the Executive Committee and to the two corporate risk committees:

- Capital
- Risk Management

The Executive Committee provides guidance regarding strategies and risk appetite and is responsible for an integrated view of risk exposures, including the interdependencies among JPMorgan Chase's various risk categories.

The **Capital Committee** focuses on firm-wide capital planning, internal capital allocation and liquidity risk. The **Risk Management Committee** focuses on credit risk, market risk, operational and business risks, private equity risk and fiduciary risk. Both risk committees have decision-making authority, with major policy decisions and risk exposures subject to review by the Executive Committee.

In addition to the Risk Policy Committee, the Audit Committee of the Board of Directors reviews with management the system of internal controls and financial reporting that is relied upon to assure compliance with the Firm's operational risk management processes.

The Firm's use of SVA, which incorporates a risk-adjusted capital methodology as its primary performance measure, has strengthened its risk management discipline by charging the businesses the cost of capital linked to the risks associated with their respective activities. The result of this discipline has been controlled growth in, and a lower risk profile for, the assets on the Firm's balance sheet.

Risk Policy Committee of Board of Directors

- **Oversees risk management**

Executive Committee

- **Strategic guidance**
- **Integrated view**

Capital Committee

- **Recommends targeted capital ratios and monitors adherence to those ratios**
- **Recommends the allocation of capital within the Firm**
- **Monitors Firm-wide and parent company liquidity and approves collateral and liquidity planning policies**
- **Reviews the adequacy of the Firm's capital and debt levels**
- **Provides a forum for discussion of capital adequacy and liquidity issues**
- **Reviews exposure to special purpose entities, with particular focus on any potential liquidity risk**

Risk Management Committee

- **Provides oversight and direction of risk profile and risk appetite**
- **Reviews and approves corporate policies and risk strategies intended to ensure that risk management and monitoring accurately reflect the business mandate, accepted practice, and legal and regulatory requirements**
- **Approves aggregate limits and authorities to control risk**
- **Monitors significant risk exposures, concentrations of positions, asset quality, and significant position and risk limit changes, paying particular attention to stress scenarios**
- **Reviews allowance adequacy and approves charge-offs**
- **Provides a forum for discussion of risk issues**

Capital management

JPMorgan Chase's capital management framework helps to optimize the use of capital by:

- **Determining the amount of capital commensurate with:**
  - **Internal assessments of risk as estimated by the Firm's economic capital allocation model**
  - **The Firm's goal to limit losses, even under stress conditions**
  - **Targeted regulatory ratios and credit ratings**
  - **The Firm's liquidity risk management strategy**
- **Directing capital investment to activities with the most favorable risk-adjusted returns**
- **Defining the most efficient composition of the Firm's capital base**

Available versus required capital

December 31, (in billions)	2001	2000
Common stockholders' equity	**$ 40.1**	$ 40.8
Required economic capital:		
Credit risk	**13.6**	12.4
Market risk	**3.9**	3.6
Operating risk	**6.8**	9.5
Private equity risk	**5.3**	6.7
Goodwill	**8.8**	9.5
Asset capital tax	**3.7**	4.0
Diversification effect	**(9.0)**	(10.4)
Total required economic risk capital	**$ 33.1**	$ 35.3
Capital in excess of required economic capital	**$ 7.0**	$ 5.5

Economic risk capital: JPMorgan Chase assesses capital adequacy by measuring risk utilizing internal risk assessment methodologies. The Firm assigns economic capital based primarily on four risk factors. The methodology quantifies credit, market and operating risk for each business and, for JPMP, private equity risk, and assigns capital accordingly. These methodologies are discussed in the risk management sections of this Annual Report.

Capital also is assessed against business units for certain nonrisk factors. Businesses are assessed capital equal to 100% of any goodwill or certain other intangibles generated through acquisitions. Additionally, JPMorgan Chase assesses an "asset capital tax" against managed assets and some off-balance sheet instruments. These assessments recognize that certain minimum regulatory capital ratios must be maintained by the Firm. JPMorgan Chase also estimates the portfolio effect on required economic capital based on correlation of risk in stress scenarios across risk categories. This estimated diversification benefit leads to a reduction in required economic capital for the Firm.

The total required economic capital for JPMorgan Chase as determined by its models and after considering the Firm's estimated diversification benefits is then compared with available common stockholders' equity to evaluate overall capital utilization. The Firm's policy is to maintain an appropriate level of excess capital to provide for growth and additional protection against losses.

Regulatory capital: JPMorgan Chase's primary federal banking regulator, the Federal Reserve Board, establishes capital requirements, including well-capitalized standards and leverage ratios, for the consolidated financial holding company and its state-chartered banks, including JPMorgan Chase Bank. The Office of the Comptroller of the Currency establishes similar capital requirements and standards for the Firm's national bank subsidiaries, including Chase Manhattan Bank USA, National Association. As of December 31, 2001, the financial holding company and its banking subsidiaries maintained capital levels well in excess of the minimum capital requirements and in excess of well-capitalized standards.

Additional information regarding the Firm's capital ratios as well as a more detailed discussion of federal regulatory capital standards are presented in Note 21 on pages 88-89 of this Annual Report.

Currently, the Firm's most important regulatory capital target is to maintain a Tier 1 capital ratio in the range of 8% to 8.25%. The Capital Committee reviews the Firm's capital targets and policies regularly in light of changing economic conditions and business needs. Capital generated in excess of the Tier 1 capital target and the Firm's assessment of necessary excess capital could be used for purchases of JPMorgan Chase common stock or for future investment opportunities. The components of the Firm's Tier 1 and total capital are reflected in Note 21 on pages 88-89 of this Annual Report.

Stock repurchases: In July 2001, JPMorgan Chase's Board of Directors authorized the repurchase of up to $6 billion of the Firm's common stock, net of any issuance for employee benefit plans. In the latter half of 2001, the Firm repurchased approximately 21.9 million shares worth $871 million. These repurchases were offset by the net issuance of 5.7 million shares during the same period under JPMorgan Chase's various stock-based employee benefit plans. Management anticipates significant repurchases only when the operating income of the Firm improves and generation of internal excess capital accelerates.

Dividends: In the first quarter of 2001, JPMorgan Chase raised the quarterly cash dividend on its common stock to $0.34 per share from $0.32 per share. In recent years, JPMorgan Chase has had a policy of paying common stock dividends at a level that over time would be in the range of 25%-35% of an amount equal to operating earnings less preferred stock dividends. The Firm continues to consider this range an appropriate target over the medium- and long-term. However, dividends above this range may be declared for a period if the Firm's results for the relevant period are below what the Firm considers its medium- or long-term operating earnings capacity, as has been the case for the past several quarters. Dividends declared in any quarter will be determined by JPMorgan Chase's Board of Directors after taking into consideration factors such as the Firm's current earnings, expected medium- and long-term operating earnings, financial condition, regulatory capital position and applicable governmental regulations and policies.

Credit risk management

Credit risk is the risk of loss due to borrower or counterparty default. This risk is managed at both the transaction and portfolio levels. Credit risk management processes are designed to preserve the independence and integrity of the risk assessment process.

Risk management

Credit risk management begins with an assessment of the risk of loss resulting from the default by a borrower or counterparty. All credit exposures are assessed, whether on- or off-balance sheet. These exposures include loans, receivables under derivative and foreign exchange contracts, and lending-related commitments (e.g., letters of credit and undrawn commitments to extend credit).

Using statistical techniques, estimates are made of both expected losses (average losses over a cycle) and unexpected losses for each segment of the portfolio. Unexpected losses represent the potential volatility of actual losses relative to the expected level of loss. Expected losses are used to set risk-adjusted loss provisions, whereas unexpected losses drive the allocation of credit risk capital by portfolio segment. Within the consumer businesses, capital allocations are differentiated by product and product segment. In the commercial portfolio, capital allocations are differentiated by risk rating and maturity. Off-balance sheet exposures are converted to loan equivalent amounts, based on their probability of being drawn, before applying the expected loss and capital factors. The credit risk profile of each business unit is an important factor in assessing its financial performance.

Expected credit losses alone are not key indicators of risk. For commercial assets, if losses were entirely predictable, then the expected loss rate could be factored into pricing and covered as a normal and recurring cost of doing business. Unexpected losses (i.e., the uncertainty of loss rates relative to expected levels) are what create risk and represent the primary focus of credit risk management.

The risks of the consumer and commercial portfolios are markedly different. Broadly speaking, losses on consumer exposures are more predictable, less volatile and less cyclical than losses on commercial exposures. For the latter, the loss volatility can be much greater over the course of an economic cycle.

JPMorgan Chase's managed credit-related assets totaled $310 billion at December 31, 2001, essentially flat from year-end 2000. The portfolio continues to be well-balanced between commercial and consumer assets. At December 31, 2001, consumer assets represented 43% of the total managed credit-related portfolio, compared with 37% at December 31, 2000.

2001 highlights

Despite a difficult economic environment in 2001, the overall quality of both the commercial and consumer credit portfolios remained sound

- **The commercial loan portfolio declined 12% in 2001, reflecting, in part, the Firm's strategy of managing risk through the origination of loans for distribution and its desire to reduce commercial credit**
- **Commercial credit-related assets considered investment-grade equivalent declined to 65% at December 31, 2001 from 67% at year-end 2000**

Credit risk management processes

The credit risk management process is guided by policies and procedures established by the Credit Risk Policy group. At both the business unit and corporate level, processes are in place that are designed to ensure that risks are accurately assessed, properly approved and continuously monitored.

Credit Risk Policy also has primary responsibility for the credit risk measurement framework, allocating the cost of credit, evaluating the portfolio risk profile and assessing concentration risks, setting limits to provide for adequate portfolio diversification, validating internal risk grades and managing problem assets.

Within each major business unit, there is an independent credit risk management function that reports jointly to the relevant business executive and to the Vice Chairman for Finance, Risk Management and Administration. These functions are responsible for managing credit decisions on a day-to-day basis. They approve significant new transactions and product offerings, have the final authority over credit risk assessments and monitor the credit risk profile of the business unit's portfolio.

Credit risk management of commercial assets

Within the commercial sector, credit risk management begins with the client selection process. A global industry approach allows the Firm to monitor and evaluate a given industry's risk profile; exposures thus can be managed in industries deemed to have increasing risk profiles. The Firm's international strategy, particularly in emerging markets, is to focus on the largest, leading firms with cross-border financing needs.

Concentration management continues to be a key tool in managing commercial credit risk. The Firm manages concentrations by obligor, risk grade, industry, product and geographic location. From the perspective of portfolio risk management in the aggregate, concentration management is enhanced by the Firm's established strategy of loan origination for distribution as well as the purchase of credit protection.

Credit risk management of consumer assets

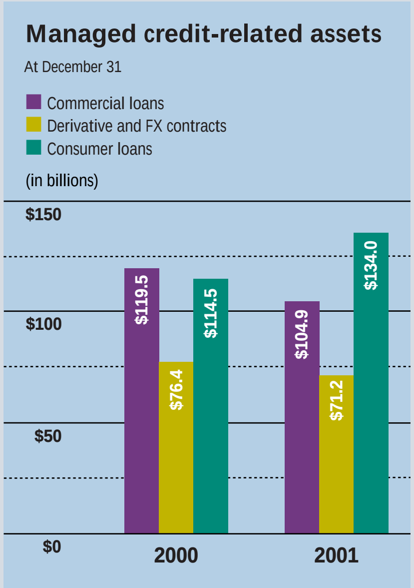
Consumer credit risk management uses sophisticated portfolio modeling, credit scoring and decision support tools to project credit risks and establish underwriting standards. Risk parameters are established in the early stages of product development, and the cost of credit risk is an integral part of the pricing and evaluation of a product's profit dynamics.

Consumer portfolios are monitored to identify deviations from expected performance and shifts in consumers' patterns of behavior.

2002 view

The Firm continues to view credit as a lagging economic indicator. The economic and associated credit environments are expected to remain challenging in 2002.

In the consumer sector, the Firm currently anticipates higher loan losses and charge-off rates in 2002, reflecting both ongoing portfolio growth and a continuation of the difficult economic environment.



Credit-related portfolio

The following table presents a summary of managed credit-related information for the dates indicated:

As of or for the year ended December 31, (in millions, except ratios)	Credit-related assets		Nonperforming assets(d)		Net charge-offs		Past due 90 days and over and accruing		Average annual net charge-off rate	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
Commercial loans	**$104,864**	$119,460	**$1,997**	$1,434	**$ 982**	$ 400	**$ 35**	$ 99	**0.87%**	0.33%
Derivative and FX contracts	**71,157**	76,373	**170**	37	**NA**	NA	**—**	—	**NA**	NA
Total commercial credit-related	**176,021**	195,833	**2,167**	1,471	**982**	400	**35**	99	**0.87**	0.33
Consumer loans(a)	**134,004**	114,461	**499**	384	**2,401**	1,977	**943**	788	**1.92**	1.82
Charge to conform to FFIEC policy(b)					**—**	93				
Total	**$310,025**	$310,294	**$2,666**	$1,855	**$3,383**	$2,470	**$978**	$887	**1.42%**	1.08%
Assets acquired as loan satisfactions			**124**	68						
Total			**$2,790**	$1,923						
Other receivables(c)			**1,130**	—						
Total nonperforming assets			**$3,920**	$1,923						

(a) Includes securitized credit cards. For a further discussion of credit card securitizations, see page 27.
(b) In 2000, the Firm incurred a $93 million charge to conform its policies to the Federal Financial Institutions Examination Council's ("FFIEC") revised policy establishing uniform guidelines for charge-offs of consumer loans to delinquent, bankrupt, deceased and fraudulent borrowers. Of this total amount, $12 million related to credit cards on the balance sheet, $13 million related to securitized credit cards, $35 million related to residential mortgages, $30 million related to auto financings and $3 million related to other loans.
(c) This amount relates to the Enron-related surety receivables and letter of credit, which are the subject of litigation with credit-worthy entities.
(d) Nonperforming assets have not been reduced for credit protection (single name credit default swaps and collateralized loan obligations) relating to nonperforming counterparties in amounts aggregating $42 million and $36 million at December 31, 2001 and 2000, respectively.
NA- Not applicable. Derivative and FX contracts are marked-to-market, and valuation adjustments are included in trading revenues.

Commercial portfolio

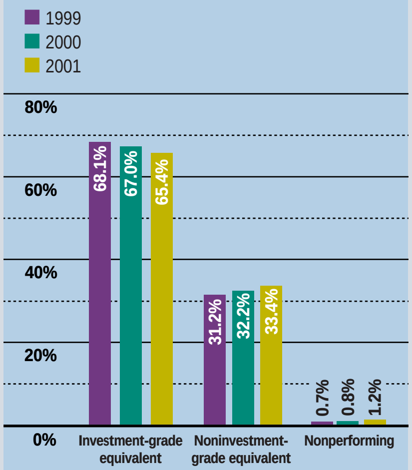
The following table presents commercial credit-related information for the dates indicated:

As of or for the year ended December 31, (in millions, except ratios)	Credit-related assets		Nonperforming assets(b)		Net charge-offs		Past due 90 days and over and accruing		Average annual net charge-off rate	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
Commercial loans										
Domestic commercial:										
Commercial and industrial	**$ 56,680**	$ 64,031	**$1,186**	$ 727	**$796**	$ 269	**$11**	$ 95	**1.13%**	0.43%
Commercial real estate	**4,148**	4,834	**56**	65	**(2)**	(5)	**19**	3	**NM**	NM
Financial institutions	**5,608**	7,342	**33**	29	**23**	26	**—**	—	**0.32**	0.32
Total domestic commercial loans	**66,436**	76,207	**1,275**	821	**817**	290	**30**	98	**1.02**	0.38
Foreign commercial:										
Commercial and industrial	**33,530**	37,002	**679**	556	**162**	118	**5**	1	**0.52**	0.29
Commercial real estate	**167**	1,470	**9**	9	**—**	—	**—**	—	**—**	—
Financial institutions	**3,570**	3,976	**23**	13	**(6)**	(8)	**—**	—	**NM**	NM
Foreign governments	**1,161**	805	**11**	35	**9**	—	**—**	—	**1.21**	—
Total foreign commercial loans	**38,428**	43,253	**722**	613	**165**	110	**5**	1	**0.50**	0.25
Total commercial loans	**104,864**	119,460	**1,997**	1,434	**982**	400	**35**	99	**0.87**	0.33
Derivative and FX contracts										
Commercial and industrial(a)	**34,432**	30,874	**165**	11	**NA**	NA	**—**	—	**NA**	NA
Financial institutions	**36,725**	45,499	**5**	26	**NA**	NA	**—**	—	**NA**	NA
Total derivative and FX contracts	**71,157**	76,373	**170**	37	**NA**	NA	**—**	—	**NA**	NA
Total commercial credit-related	**$176,021**	$195,833	**$2,167**	$1,471	**$982**	$ 400	**$ 35**	$ 99	**0.87%**	0.33%
Other receivables(c)			**1,130**	—						
Total commercial nonperforming assets			**$3,297**	$1,471						

(a) Includes foreign governments.
(b) Nonperforming assets have not been reduced for credit protection (single name credit default swaps and collateralized loan obligations) relating to nonperforming counterparties in amounts aggregating $42 million and $36 million at December 31, 2001 and 2000, respectively.
(c) This amount relates to the Enron-related surety receivables and letter of credit, which are the subject of litigation with credit-worthy entities.
NA- Not applicable. Derivative and FX contracts are marked-to-market, and valuation adjustments are included in trading revenues.
NM- Not meaningful.

Commercial credit-related assets
Risk profile

At December 31



Note: The balances include derivative and FX contracts.

Loan origination for distribution
The Firm's business strategy remains one of origination for distribution. The majority of the Firm's wholesale loan originations continue to be distributed into the marketplace. The commercial loan portfolio declined 12% in 2001 reflecting, in part, the results of the Firm's strategy to originate for distribution as well as the Firm's ongoing goal of reducing its exposure to commercial credit. In addition, the Firm's SVA discipline continues to discourage the retention of loan assets that do not generate a positive return above the cost of risk-adjusted capital. SVA remains a critical discipline in selecting loan assets to add to the Firm's balance sheet, particularly when combined with other credit and capital management disciplines (e.g., credit derivatives).

Purchase of credit protection
The Firm uses credit derivatives, as well as cash and synthetic collateralized loan obligations ("CLOs"), to reduce the credit risk of, and the internal economic capital allocated to loans, loan commitments, and derivatives. The use of credit derivatives to hedge exposures does not reduce the reported level of assets on the balance sheet or the level of reported off-balance sheet commitments. The notional amounts outstanding relating to single name credit default swaps and CLOs were approximately $19.0 billion and approximately $18.7 billion, respectively, at December 31, 2001.

Commercial credit quality
At December 31, 2001, 65% of the Firm's commercial credit-related assets were considered investment-grade equivalent, while approximately 35% were considered non-investment-grade equivalent, of which 1% was nonperforming.

Total commercial nonperforming assets were $3.297 billion at December 31, 2001. Excluding the $1.130 billion of nonperforming Enron-related other receivables, commercial nonperforming assets were $2.167 billion, an increase of $696 million from year-end 2000, which equaled approximately 1% of the total commercial credit-related assets.

Unfunded commercial lending commitments
The Firm's unfunded commercial lending-related commitments at December 31, 2001 totaled $248 billion, down from $263 billion at the year-end 2000; 85% of these unfunded commitments were considered investment grade equivalent and 15% were considered non-investment grade equivalent, which were essentially unchanged from the prior year. For a breakdown of the unfunded commitments outstanding at December 31, 2001, by remaining maturity, see page 60.

The risk profile of the Firm's total commercial credit exposure at December 31, 2001 (loans, derivatives and unfunded commitments) was considered 77% investment grade equivalent and 23% non-investment grade equivalent.

Commercial credit exposure
At December 31, 2001

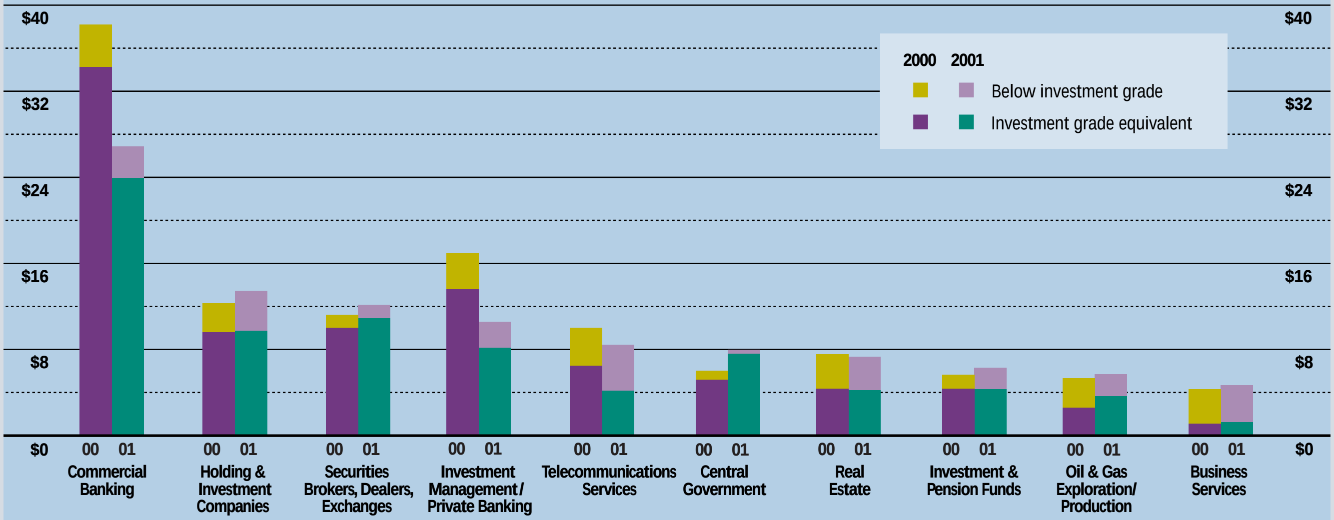
(in billions)	Outstandings	% Investment grade	% Maturing < 1 yr
Loans	$105	54%	44%
Derivatives	71	83	21
Credit-related assets	176	65	35
Commitments	248	85	63
Total	$424	77%	51%

Net charge-offs
In 2001, commercial net charge-offs increased by $582 million, or 146%, compared with 2000. The increase was primarily the result of higher domestic commercial net charge-offs, including increased net charge-offs in the telecommunications sector and for Enron. The annual commercial loan net charge-off rate for 2001 had been expected to be in the range of 60 basis points (0.60%) of the total commercial loan portfolio. In 2001, the actual net charge-off rate on average commercial loans was 0.87%. In 2000, the net charge-off rate was 0.33%.

Diversification
The Firm remains highly focused on diversifying its commercial credit-related assets. The graph below displays the Firm's 10 largest credit-related industry groups.

- Commercial Banking, traditionally the largest industry group, continues to reflect the Firm's market-leading position in derivatives and in providing credit to this industry. The portfolio continues to be high-quality, predominantly investment grade equivalent.
- The second largest industry group is Holding and Investment Companies. The underlying exposures in this group are not highly correlated and remain high quality.
- The third largest industry group represents extensions of credit to securities brokers, dealers and exchanges. Like commercial banking, the risk profile of this portfolio is predominantly investment grade equivalent. As a leading primary dealer, the Firm has significant credit relationships with other primary dealers in this industry.
- The remaining industry groups contribute to the further diversification of total commercial outstandings. These industry groups, including Telecommunications Services, are continuously monitored with respect to risk profile, industry composition and portfolio size. For example, telecommunications credit-related assets were reduced from $10.1 billion at mid-year 2001 to $8.4 billion at December 31, 2001. The Firm has placed limits on its exposure to the higher risk segments of this portfolio; emerging telecom credit-related assets totaled $1.5 billion at December 31, 2001.

Commercial credit-related assets
Industry diversification profile – 10 largest industries[(a)]
At December 31 (in billions)



This graph shows the Firm's diversification across industries and its high-quality commercial lending exposure. The balances include derivative and FX instruments. These industry risk profiles take into consideration the benefit of collateral.

(a) Amounts exclude Enron-related other receivables.

Commercial loans

Commercial and industrial: The commercial and industrial ("C&I") portfolio consists primarily of loans made to large corporate and middle market customers. The domestic C&I portfolio declined $7.4 billion from 2000 year-end. Nonperforming domestic C&I loans increased over 2000, while net charge-offs in 2001 were $796 million, or 1.13% of the average portfolio, higher in both absolute dollar and percentage terms relative to 2000.

The foreign C&I portfolio totaled $33.5 billion at December 31, 2001, representing a $3.5 billion decline in outstandings from 2000 year-end levels. Nonperforming foreign C&I loans increased by $123 million, or 22%, due primarily to an increase in nonperforming loans in Latin America (largely Argentina), offset in part by declines in Asia. Net charge-off levels for 2001 increased from the prior year by $44 million, or 37%, reflecting higher charge-offs in Europe and Latin America in 2001, partly offset by lower charge-offs in Asia.

Commercial real estate: The commercial real estate portfolio represents loans secured primarily by real property (other than loans secured by mortgages on 1-4 family residential properties, which are included in the consumer loan portfolio). Domestic commercial real estate loans decreased $686 million from year-end 2000, principally as a result of sales and repayments.

Financial institutions: The financial institutions portfolio includes loans to commercial banks and companies whose businesses primarily involve lending, financing, investing, underwriting or insurance. Loans to financial institutions decreased $2.1 billion in 2001 from 2000 levels, primarily in the domestic portion of the portfolio. Nonperforming financial institution loans increased by $14 million in 2001, primarily in the foreign portfolio. The total portfolio experienced net charge-offs of $17 million in 2001, compared with $18 million in 2000.

Enron-related exposure

The Firm's exposure to Enron at the time it declared bankruptcy was approximately $2.6 billion. At year-end 2001, after giving effect to net charge-offs, write-downs and payments of $0.5 billion, Enron-related exposure was $2.1 billion. The following table provides details of Enron-related exposure at year end:

December 31, 2001 (in millions)	Exposure
Unsecured[(a)]	$ 169
Secured by pipelines and other assets	440
Credit-worthy joint ventures	74
Surety receivables and letter of credit	1,130
Debtor-in-possession financing ("DIP")[(b)]	250
Total Enron-related exposure	$ 2,063

(a) Includes $58 million in undrawn letters of credit.
(b) DIP financings are backed by the unencumbered assets of the company, and the lender receives priority from the bankruptcy court in terms of payment. There have been no drawdowns as of February 26, 2002.

Nonperforming Enron-related assets at December 31, 2001 were comprised of $98 million of nonperforming loans, $45 million of nonperforming derivatives, and the $1,130 million of nonperforming other receivables, which represent surety receivables and a letter of credit that are the subject of litigation with insurance companies and a foreign bank.

Derivative and foreign exchange contracts

In the normal course of business, the Firm utilizes derivative and foreign exchange financial instruments to meet the financial needs of its customers, to generate revenues through its trading activities, to manage its exposure to fluctuations in interest and currency rates, and to manage the Firm's own credit risk.

The Firm uses the same credit risk management procedures when entering into derivative and foreign exchange transactions as those used for traditional lending products. In addition, the Firm actively manages the credit risk of the derivative counterparties with credit, interest rate, foreign exchange, equities and commodity derivatives.

In terms of credit risk outstanding exposure, the true measure of risk from derivative and foreign exchange contracts is the mark-to-market value of the contracts at a point in time (i.e., the cost to replace the contract at the current market rates should the counterparty default prior to the settlement date). For most derivative transactions, the notional principal amount does not change hands; it is simply an amount that is used as a reference upon which to calculate payments. While notional principal is the most commonly used volume measure in the derivative and foreign exchange markets, it is not a measure of credit risk. The $24 trillion of notional principal of the Firm's derivative and foreign exchange contracts outstanding at December 31, 2001, does not represent a proxy for, and significantly exceeds the possible credit losses that could arise from such transactions. At December 31, 2001, the associated mark-to-market value of the contracts, or the amount owed to the Firm, was $71 billion after taking into consideration the benefit of legally enforceable master netting agreements. Further, after taking into account $20 billion of collateral held by the Firm at year-end, the net credit exposure owed to the Firm relating to derivative and foreign exchange contracts was $51 billion.

The Firm's primary counterparties in derivative and foreign exchange transactions are investment-grade financial institutions, most of which are dealers in these products. The investment-grade equivalent portion of the derivative and foreign exchange contracts portfolio was 83% at December 31, 2001.

Many of the Firm's derivative and foreign exchange contracts are short term, which also mitigates credit risk, since these transactions settle quickly. The table on the next page provides the remaining maturities of derivative and foreign exchange contracts outstanding at December 31, 2001 and 2000. The maturity profile remained relatively consistent with the prior year.

At December 31, 2001, the Firm had approximately $41 billion in notional value related to energy trading commodity contracts with unrealized gains of $4.3 billion and unrealized losses of $2.8 billion.

At December 31, 2001, nonperforming derivative contracts were $170 million, compared with $37 million at December 31, 2000.

Maturity profile

	2001				2000			
December 31,	Interest rate contracts	Foreign exchange contracts	Equity, commodity and other contracts	Total	Interest rate contracts	Foreign exchange contracts	Equity, commodity and other contracts	Total
Less than 1 year	**13%**	**84%**	**33%**	**21%**	12%	89%	40%	28%
1 to 5 years	**45**	**14**	**58**	**43**	45	9	57	41
Over 5 years	**42**	**2**	**9**	**36**	43	2	3	31
Total	**100%**	**100%**	**100%**	**100%**	100%	100%	100%	100%

Percentages are based upon remaining contract life of mark-to-market exposure amounts.

Country exposure

The Firm has a process for measuring and managing its country exposures and risk. Exposures to a country include all credit-related lending, trading and investment activities.

The table to the right presents JPMorgan Chase's exposure to selected countries. This disclosure is based on management's view of country exposure. Amounts as of December 31, 2000 have been restated to conform to the current presentation.

The Firm has been closely managing its exposure to Argentina over the last several quarters and, in particular, in the months leading up to the government's announcement of a restructuring of its bond obligations. Since March of 2001, the Firm reduced its exposure to Argentina from $1.8 billion to $0.6 billion (before loan loss allowances). The latter number includes the effect of fair value adjustments on the derivatives portfolio ($0.2 billion) and write-downs of market positions ($0.1 billion) taken by the end of December 2001.

In addition, the Firm took a $140 million provision against its loans to Argentina. The increase in the Firm's exposure to Brazil was largely concentrated in short-term lending and trading activity.

Selected country exposure

	At December 31, 2001						At Dec 31, 2000
	Cross-border						
(in billions)	Lending[(a)]	Trading[(b)]	Other[(c)]	Total	Total local[(d)]	Total exposure[(e)]	total exposure[(e)]
Brazil	**$ 1.0**	**$ 0.8**	**$ 0.6**	**$ 2.4**	**$ 0.9**	**$ 3.3**	$ 2.4
Mexico	**1.2**	**0.7**	**0.3**	**2.2**	**0.4**	**2.6**	3.3
Argentina	**0.3**	**0.2**	**—**	**0.5**	**0.1**	**0.6**	1.4
Venezuela	**0.2**	**0.1**	**—**	**0.3**	**—**	**0.3**	0.4
South Africa	**0.2**	**0.3**	**0.1**	**0.6**	**0.1**	**0.7**	1.3
Japan	**2.9**	**3.5**	**0.6**	**7.0**	**3.7**	**10.7**	14.4
Indonesia	**0.4**	**0.1**	**—**	**0.5**	**0.1**	**0.6**	0.9
Turkey	**0.1**	**0.1**	**0.1**	**0.3**	**—**	**0.3**	0.7

(a) Lending includes loans and accrued interest receivable, interest-bearing deposits with banks, acceptances, other monetary assets, issued letters of credit, and undrawn commitments to extend credit.
(b) Trading includes (1) issuer exposure on cross-border debt and equity instruments, held in both trading and investment accounts, adjusted for the impact of issuer hedges including credit derivatives; and (2) counterparty exposure on derivative and foreign exchange contracts as well as security financing trades (resale agreements and securities borrowed). The amounts associated with derivative and foreign exchange contracts are presented on a mark-to-market ("MTM") basis after taking into account the impact of legally enforceable master netting agreements, as well as collateral. MTM on such contracts may fluctuate in response to market moves in underlying asset values. The Firm's internal risk model incorporates the correlation between such asset values (including value of collateral) and a counterparty's credit worthiness. Amounts reflect any fair value adjustment on derivative positions.
(c) Mainly local exposure funded cross-border.
(d) Local exposure is defined as exposure to a country denominated in local currency, booked and funded locally.
(e) Total exposure includes exposure to both government and private sector entities in a country.

Consumer portfolio

The following table presents managed consumer credit-related information for the dates indicated:

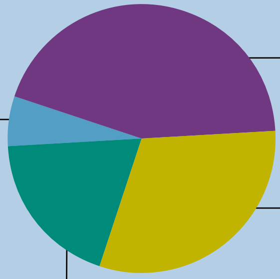
As of or for the year ended December 31, (in millions, except ratios)	Credit-related assets 2001	Credit-related assets 2000	Nonperforming assets 2001	Nonperforming assets 2000	Net charge-offs 2001	Net charge-offs 2000[(c)]	Past due 90 days and over and accruing 2001	Past due 90 days and over and accruing 2000	Average annual net charge-off rate 2001	Average annual net charge-off rate 2000[(c)]
Consumer loans										
Domestic consumer:										
1-4 family residential mortgages	**$ 59,430**	$ 50,302	**$ 280**	$269	**$ 50**	$ 36	**$ —**	$ 2	**0.09%**	0.08%
Credit card – reported	**19,387**	18,495	**22**	26	**990**	693	**449**	327	**5.09**	5.00
Credit card securitizations[(a)]	**21,424**	17,871	**—**	—	**1,048**	977	**457**	387	**5.83**	5.20
Credit card – managed	**40,811**	36,366	**22**	26	**2,038**	1,670	**906**	714	**5.45**	5.12
Auto financings	**25,667**	19,802	**118**	76	**137**	89	**1**	1	**0.59**	0.46
Other consumer[(b)]	**8,096**	7,991	**79**	13	**176**	182	**36**	71	**2.17**	1.88
Total consumer loans	**$134,004**	$114,461	**$ 499**	$384	**$2,401**	$1,977	**$ 943**	$788	**1.92%**	1.82%

(a) Represents the portion of credit card receivables that have been securitized.
(b) Consists of installment loans (direct and indirect types of consumer finance), student loans, unsecured revolving lines of credit and foreign consumer loans.
(c) Excludes the effect of the FFIEC-related charge of $93 million.

JPMorgan Chase's consumer portfolio consists primarily of mortgages, credit cards and auto financings. This portfolio is predominately domestic and continues to be geographically well-diversified.

The Firm's managed consumer portfolio totaled $134 billion at December 31, 2001, an increase of $20 billion, or 17%, from 2000. The following pie graph provides a summary of the consumer portfolio by loan type at 2001 year-end and each loan type's respective charge-off rate. The Firm's largest component, residential mortgage loans, comprised 44% of the total consumer portfolio and is primarily secured by first mortgages.

Consumer managed loan portfolio



Charge-off rates for 2000 exclude the effect of the FFIEC-related charge of $93 million.

Consumer loans

Residential mortgage loans: 1-4 family residential mortgage loans increased 18% during 2001. While net charge-offs for 2001 increased $14 million, or 39%, over the prior year, the 2001 net charge-off rate remained low at 0.09%, reflecting the continued strong credit quality of the portfolio.

Credit card loans: The Firm analyzes its credit card portfolio on a "managed basis," which includes credit card receivables on the balance sheet as well as credit card receivables that have been securitized.

Managed credit card receivables increased 12% during 2001. The increase in the net charge-off rate was a result of higher consumer bankruptcy levels as well as higher contractual losses (i.e., losses on accounts not bankrupt).

A new collection system for Cardmember Services was installed in the fourth quarter of 2000, the benefits of which were evidenced in 2001. This system significantly improved the productivity of collections and the accuracy and sophistication of risk prediction models, as well as enabling the Firm to move more quickly to decrease credit card lines for high-risk accounts.

Auto financings: Auto financings increased 30% from year-end 2000, reflecting strong consumer demand during the second half of 2001 as a result of favorable pricing programs. The moderately higher charge-off rate in 2001 reflected consumer defaults in a weaker economic environment.

Consumer loans by geographic region

	Residential mortgage loans		Managed credit card loans		Auto financings	
December 31, (in millions)	**2001**	2000	**2001**	2000	**2001**	2000
New York City	**$ 6,638**	$ 5,537	**$ 2,431**	$ 2,146	**$ 2,244**	$ 1,762
New York (excluding New York City)	**4,976**	3,774	**2,426**	2,227	**868**	793
Remaining Northeast	**8,954**	7,332	**7,143**	6,563	**5,651**	4,445
Total Northeast	**20,568**	16,643	**12,000**	10,936	**8,763**	7,000
Southeast	**8,164**	7,043	**7,800**	6,884	**4,463**	3,372
Midwest	**4,060**	3,747	**7,901**	7,135	**3,668**	2,206
Texas	**3,566**	2,686	**3,434**	2,952	**3,495**	3,338
Southwest (excluding Texas)	**1,428**	1,406	**1,952**	1,720	**931**	869
California	**16,820**	14,504	**5,065**	4,455	**3,370**	2,397
West (excluding California)	**4,824**	4,273	**2,659**	2,284	**977**	620
Foreign	**506**	292	**7**	6	**38**	22
Total	**$59,936**	$50,594	**$40,818**	$36,372	**$25,705**	$19,824

Allowance for credit losses

Loans
JPMorgan Chase's Allowance for loan losses is intended to cover probable credit losses for which either the asset is not specifically identified or the size of the loss has not been fully determined. Within the allowance, there are specific and expected loss components and a residual component.

The **specific loss component** covers those commercial loans deemed by the Firm to be criticized. The Firm internally categorizes its criticized commercial loans into three groups: doubtful, substandard and special mention.

Nonperforming commercial loans (excluding leases) are considered to be impaired loans. The allowance for impaired loans is computed using the methodology under SFAS 114. An allowance is established when the discounted cash flows (or collateral value or observable market price) of an impaired loan is lower than the carrying value of that loan. For purposes of computing the specific loss component of the allowance, larger impaired loans are evaluated individually, and smaller impaired loans are evaluated as a pool using historical loss experience for the respective class of assets. The criticized but still performing loans also are evaluated as a pool using historical loss rates.

The **expected loss component** covers performing commercial loans (except criticized loans) and consumer loans.

Expected losses are the product of default probability and loss severity. The computation of the expected loss component of the allowance is based on estimates of these factors in JPMorgan Chase's credit risk capital model. These estimates are differentiated by risk rating and maturity for commercial loans.

The expected loss estimates for each consumer loan portfolio are based primarily on the Firm's historical loss experience for the applicable product portfolio.

Finally, a **residual component** is maintained to cover uncertainties that could affect management's estimate of probable losses. The residual component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific losses and expected losses in both the commercial and consumer portfolios. It is anticipated that the residual component of the allowance will range between 10% and 20% of the total allowance for loan losses.

Factors affecting the uncertainty of specific loss and expected loss estimates include the volatility of default probabilities, rating migrations and loss severity. These uncertainties also could relate to current macroeconomic and political conditions, the impact of currency devaluations on cross-border exposures, changes in underwriting standards, unexpected correlations within the portfolio or other factors.

The Firm's Risk Management Committee reviews, at least quarterly, the allowance for loan losses relative to the risk profile of the Firm's credit portfolio and current economic conditions. The allowance is adjusted based on that review if, in management's judgment, changes are warranted.

The total specific and expected allowance for commercial loan losses was $1,724 million at December 31, 2001, an increase of 13% from the prior year-end. The specific loss component was approximately $1 billion, up significantly from year-end 2000 reflecting an increase in commercial loans deemed by the Firm to be criticized. The expected loss component of the commercial allowance was approximately $700 million at year-end 2001, a decrease of approximately 20% from the prior year-end as a result of a lower level of commercial loans outstanding.

The consumer expected loss component of approximately $2.1 billion increased 46% from the prior year-end reflecting the growth in consumer portfolios and a challenging credit environment.

The residual component at December 31, 2001 was $695 million, approximately the same at year-end 2000. The residual component represented approximately 15% of the total allowance for loan losses.

The Firm's concerns with respect to the continuing challenging credit environment are reflected in the allowance for credit losses, which was increased by $850 million over the third and fourth quarters of 2001. The allowance represented 2.08% of loans at December 31, 2001, compared with 1.70% at December 31, 2000.

As of December 31, 2001, management deemed the allowance to be adequate (i.e., sufficient to absorb losses that currently may exist but are not yet identifiable).

Lending-related commitments
To provide for risk of losses inherent in the credit extension process, management also computes specific and expected loss components as well as a residual component for lending-related commitments, using a methodology similar to that used for the loan portfolio.

Allowance components

	Loans		Lending-related commitments	
December 31, (in millions)	**2001**	2000	**2001**	2000
Commercial specific and expected	**$ 1,724**	$ 1,521	**$ 226**	$ 250
Consumer expected	**2,105**	1,444	**—**	—
Total specific and expected	**3,829**	2,965	**226**	250
Residual component	**695**	700	**56**	33
Total	**$ 4,524**	$ 3,665	**$ 282**	$ 283

Market risk management

JPMorgan Chase employs comprehensive, rigorous processes to measure, monitor and control market risk.

The Firm employs a comprehensive approach to market-risk management for its trading, investment and asset/liability management ("A/L") portfolios. Responsible for maintaining a sound market-risk control environment, the Firm's Market Risk Management Group operates independently of the business units it monitors, and comprises professionals in major markets around the globe.

Limits

JPMorgan Chase controls market risk primarily through a series of limits. Approved by the Firm's Risk Management Committee, these limits align specific risk-taking activities with the overall risk appetite of the Firm and of the individual business units.

Limits are set based on analyses of both the market environment and business strategy. The analyses encompass criteria such as market volatility, liquidity of the products involved, business track record, and management experience and depth. JPMorgan Chase reviews risk limits regularly and the Firm's Market Risk Management Group updates the risk limits at least twice a year. The Market Risk Management Group further limits the Firm's exposure by specifically designating which financial instruments each business unit may trade.

Types of limits and where they apply:

At the corporate level:
- Value-at-risk ("VAR")
- Stress test loss advisories

At the segment and line of business levels:
- VAR
- Nonstatistical limits
- P&L loss advisories

Market risk represents the potential loss in value of portfolios and financial instruments caused by movements in market variables, such as interest and foreign-exchange rates, credit spreads, and equity and commodity prices.

The Firm establishes VAR limits at the aggregate corporate and top-level business, or unit levels. The Firm complements VAR with restrictions on overall portfolio size, and the amount of value a portfolio can lose as measured by hypothetical stress test scenarios. Additional types of limits may apply to business sub-units. As a rule, all businesses are expected to maintain exposures within their limits. If a limit is exceeded, the business is responsible for immediately reducing exposure to a level within the limit. When this is not possible within an acceptable timeframe, senior management is consulted on the appropriate method of reducing exposure. Together, these techniques reduce the likelihood that trading losses will exceed the risk appetite of the Firm as a whole, or that of a single business.

Risk measurement

Because no single measure can reflect all aspects of market risk, the Firm uses several risk measures, both statistical and nonstatistical. This combined approach gives JPMorgan Chase a more comprehensive view of its exposure, and enhances the stability of the Firm's revenues from market-risk-taking activities.

Risk measures:
- **Statistical risk measures**
  - VAR
- **Nonstatistical risk measures**
  - Stress testing
    - Economic value
    - Net interest income ("NII")
  - Notional portfolio value
  - Basis point value ("BPV")
  - Risk identification for large exposures ("RIFLE")

Value-at-risk

JPMorgan Chase's statistical risk measure, VAR, gauges the dollar amount of potential loss from adverse market moves in an ordinary market environment. Each business day, the Firm undertakes a comprehensive VAR calculation that includes the trading and investment portfolios, plus all JPMorgan Chase market-risk-related A/L activities.

JPMorgan Chase's VAR calculation is highly granular, comprising more than 500,000 positions and 220,000 market prices, e.g., securities prices, interest rates, and foreign-exchange rates. For a large portion of the Firm's exposure, JPMorgan Chase has implemented full-revaluation VAR, which management believes tends to generate more accurate results.

To calculate VAR, the Firm uses historical simulation, which measures risk across instruments and portfolios in a consistent, comparable way. This approach assumes that actual historical changes in market prices are representative of possible future changes. The simulation is based on data for the previous 12-month period.

Key terms:

- **VAR: Worst-case loss expected within the confidence level; while larger losses are possible, they have a correspondingly low probability of actually occurring**
- **Full-revaluation VAR: Method that prices each financial instrument separately, based on the actual pricing models used by the lines of business; compared with sensitivity-based VAR, which only approximates the impact of market moves on financial instrument prices**
- **Back-testing: Validating a model by comparing its predictions with actual results**
- **Confidence level: The probability that actual losses will not exceed estimated VAR; the greater the confidence level, the higher the VAR**

All statistical models involve a degree of uncertainty, depending on the assumptions they employ. The Firm prefers historical simulation because it involves fewer assumptions about the distribution of portfolio losses than parameter-based methodologies.

To evaluate the soundness of the Firm's VAR model, JPMorgan Chase conducts daily back-testing of VAR against actual financial results. In addition, the Firm rigorously assesses the quality of the market data, since their accuracy is critical to computing VAR.

JPMorgan Chase calculated the VAR numbers reported to the right using a one-day time horizon and a 99% confidence level. This means the Firm would expect to incur losses greater than predicted by VAR estimates only once in every 100 trading days, or about 2.5 times a year. For the year 2001, actual Firm-wide trading losses exceeded the VAR on one day, a result which does not differ significantly from the 99% confidence level.

Although no single risk statistic can reflect all aspects of market risk, the table to the right provides a meaningful overview of the Firm's market risk exposure arising from trading activities and the investment and A/L portfolio. The investment and A/L activities are accounted for on an accrual basis; therefore, changes in value do not impact income results in the same manner as trading positions.

A note on confidence levels: **Commonly set between 95% and 99%, confidence levels reflect the degree to which the statistical model accurately captures the more extreme risks that can occur over the time horizon. Using a 95% confidence level (as compared with a confidence level of 99%) reduces the predicted VAR by approximately 30%.**

Aggregate portfolio

(in millions)	Year ended December 31, 2001 Average VAR	Minimum VAR	Maximum VAR	At December 31, 2001
Trading portfolio:				
Interest rate	**$ 51.1**	**$ 26.1**	**$ 97.1**	**$ 85.3**
Foreign exchange	**7.4**	**3.9**	**16.9**	**8.7**
Equities	**21.6**	**8.9**	**36.9**	**10.7**
Commodities	**5.2**	**2.5**	**13.9**	**13.7**
Hedge fund investments	**3.1**	**2.5**	**4.2**	**3.5**
Less: Portfolio diversification	**(21.0)**	**NM**	**NM**	**(28.6)**
Total trading VAR	**67.4**	**48.1**	**103.8**	**93.3**
Investment portfolio and A/L activities[a]	**107.2**	**79.8**	**143.9**	**130.7**
Less: Portfolio diversification	**(45.4)**	**NM**	**NM**	**(84.2)**
Total VAR[b]	**$129.2**	**$ 98.2**	**$174.0**	**$139.8**

(a) Substantially all of the risk is interest-rate related.
(b) The Firm's aggregate VAR at the end of 2001 was higher than the average VAR primarily due to increased market volatility during November and December and to a relatively low diversification among businesses as a result of particular positions taken at that time. Corporate VAR at the end of 2001 is not necessarily indicative of the Firm's future VAR levels.
NM-Because the minimum and maximum may occur on different days for different risk components, it is not meaningful to compute a portfolio diversification effect. JPMorgan Chase's average and period-end VAR are less than the sum of the VARs of its market risk components due to risk offsets resulting from portfolio diversification.

As the chart at the top of the next page shows for 2001, JPMorgan Chase posted positive daily market risk-related revenue for 220 out of 251 days, with 89 days exceeding positive $50 million. No daily trading losses were incurred in excess of $125 million.

The inset examines the 31 days on which JPMorgan Chase posted trading losses, and depicts the amount by which the VAR was greater than the actual loss on each day. The inset shows that a loss exceeded the VAR on only one day (when the Firm recognized trading losses related to its exposure to Enron), a performance statistically consistent with the Firm's VAR's 99% confidence level.

Stress testing

While VAR reflects the risk of loss due to unlikely events in normal markets, stress testing captures the Firm's exposure to unlikely but plausible events in abnormal markets. Stress testing is equally important as VAR to the Firm in measuring and controlling its risk. The Firm stress tests its portfolios at least once a month, at both the corporate and line-of-business levels, using multiple scenarios. Scenarios are continually reviewed and updated to reflect changes in the Firm's risk profile and economic events.

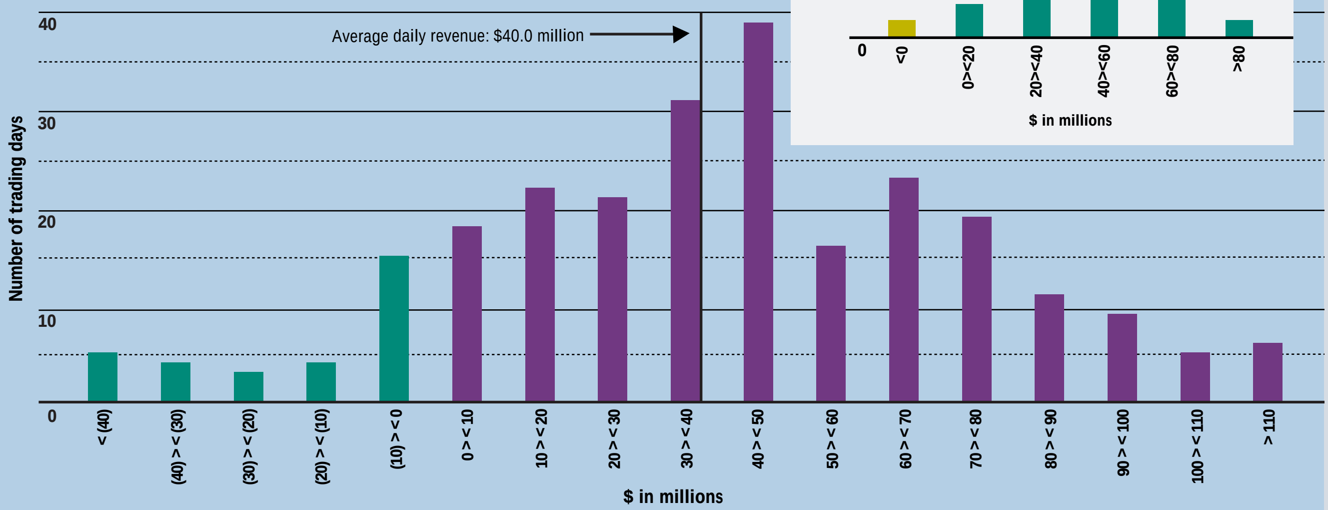
The Firm's stress testing methodology assumes that, during an actual stress event, no action would be taken to change the risk profile of the Firm's portfolios. This lets the Firm capture the decreased liquidity that often occurs with abnormal markets, and results, in the Firm's view, in a conservative stress test result.

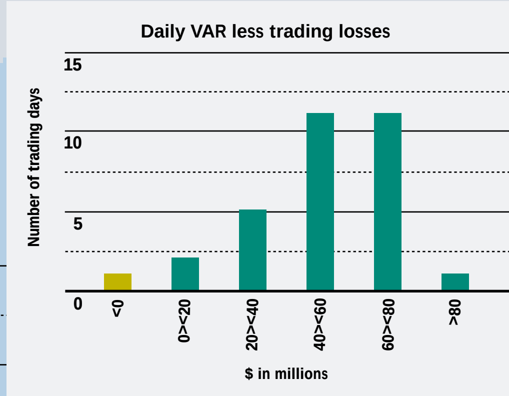
The Firm's Risk Management Committee has established stress test loss advisories for the Firm. Should a stress test loss exceed a designated threshold, responsible business managers and senior management discuss how best to reduce the relevant risk exposure.

JPMorgan Chase conducts both economic-value and NII stress tests. Applying economic-value stress tests to the Firm's trading portfolio, investment portfolio and A/L activities helps the Firm understand how the economic value of its balance sheet (not the amounts reported under GAAP) would be likely to change under certain scenarios.

The graph below depicts the number of days on which JPMorgan Chase's market risk-related revenues fell within particular ranges. The inset graph to the right looks at those days on which the Firm experienced trading losses, and depicts the amount by which the VAR exceeded the actual loss on each of those days.

Daily market risk-related revenue





The following table represents the potential economic value stress test loss (pre-tax) in JPMorgan Chase's trading portfolio predicted by JPMorgan Chase's stress test scenarios:

Largest monthly stress test loss — pre-tax

	Year ended December 31, 2001*			
(in millions)	Average	Minimum	Maximum	At December 31, 2001
Stress test loss – pre-tax	$ (381)	$ (118)	$ (641)	$ (504)

* Corporate stress-test results for the month of December reflect updated market stress scenarios.

The more conventional NII stress test reveals the potential change in JPMorgan Chase's net interest income over the next year. NII stress tests highlight exposures to various interest-rate-sensitive factors, such as rates (e.g., the prime-lending rate), pricing strategies on deposits, and changes in product mix. NII stress tests also take into account forecasted balance sheet changes, such as asset sales and securitizations, as well as prepayment and reinvestment behavior.

Other nonstatistical risk measures

Nonstatistical risk measures other than stress testing include net open positions, basis point values, option sensitivities, position concentrations and position turnover. These risk measures provide additional information on an exposure's size and the direction in which it is moving.

Some material risks may escape detection through VAR, stress testing and the non-statistical risk measures described above. JPMorgan Chase identifies these potential earnings vulnerabilities through the RIFLE system. Individuals who manage risk positions use this system to identify potential "worst-case" losses and estimate the probability of loss. Through RIFLE, this information flows to the appropriate level of management.

Capital allocation

JPMorgan Chase allocates market risk capital to each major business division according to a formula that weights the division's VAR and stress test exposures.

The VAR measure captures a large number of one-day price moves, while stress tests capture a smaller number of very large price moves. Under the capital allocation formula, capital is allocated to VAR exposure and stress test exposure equally.

Operational risk management

- **Operational risk management is a principal risk discipline within the Firm**
- **Business managers are responsible for maintaining a comprehensive system of internal controls in order to manage operational risk effectively**
- **The Corporate Operational Risk team is executing a multi-year plan to develop a new, integrated, firm-wide approach for managing and analyzing operational risk**

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors, or external events.

Overview

Operational risk is an inherent risk element in each of the Firm's businesses and key support activities. Such risk can manifest itself in various ways, including breakdowns, errors, business interruptions, and inappropriate behavior of employees, and can potentially result in financial losses and other damage to the Firm.

To monitor and control such risk, the Firm maintains a system of comprehensive policies and a control framework designed to provide a sound and well-controlled operational environment. The goal is to keep operational risk at appropriate levels in view of the Firm's financial strength, the characteristics of its businesses and the markets in which it operates, and the competitive and regulatory environment to which it is subject.

Notwithstanding its control environment, the Firm has incurred operational risk losses from time to time, and there can be no assurance that such losses will not be incurred in the future.

Components of the JPMorgan Chase operational risk management practice

The Firm's operational risk practice is comprised of several integrated components:

Governance structure: The governance structure provides the framework for, and sets the direction of, the Firm's operational risk management activities.

Primary responsibility for managing operational risk rests with business managers.

Components of the Firm's operational risk management practice

- **Governance structure**
  - **Corporate Operational Risk team oversight**
  - **Operational risk policies**
  - **Operational Risk Committee**
  - **Business control committees**
- **Self-assessment process**
  - **Owned by the businesses**
  - **Focused on business-specific key risks and controls**
  - **Automated using Horizon tool**
- **Risk event database**
  - **Internal data collected and analyzed**
  - **Enables comparative analysis with external data (where available)**
- **Use of key risk indicators as leading indicators**
- **Alignment with internal audit activities**

These individuals, with the support of their staffs, are responsible for establishing and maintaining internal control procedures that are appropriate for their particular operating environments.

The Corporate Operational Risk ("COR") team, reporting to the Firm's Productivity and Quality Executive under the overall responsibility of the Vice Chairman for Finance, Risk Management and Administration, has oversight responsibility for the Firm's operational risk management initiatives. The COR team is currently executing a multi-year plan to develop a new integrated operational risk approach that emphasizes active management of operational risk throughout the Firm.

In 2001, the COR team created the Operational Risk Committee ("ORC"), comprised of senior operational risk and finance managers from each of the businesses. The ORC meets quarterly to discuss key operational risk issues of importance to the Firm. In addition, each of the businesses is required by COR policy to maintain business control committees which are responsible for overseeing the operational risk management practices within their respective businesses.

Self-assessment process: In 2001, a revised, firm-wide self-assessment process was designed and implemented. The focus of the process is to identify the key risks specific to each business' operating environment, and for each business to assess the degree to which it is maintaining internal control procedures appropriate for its operating environment.

Year-end self-assessments were completed by the businesses in 2001 utilizing Horizon, an automated software application developed by the Firm. With the aid of Horizon, the Firm expects to move in 2002 from an annual, year-end self-assessment process to one that will be used by the businesses as an ongoing, dynamic risk management tool.

Risk event database: This database was extended firm-wide in 2001. The database enables the collection of operational event data thereby permitting analysis of errors and losses incurred (including analysis of trends and patterns), leading to a better understanding of the risk events faced by the businesses. Where available, the internal data can be supplemented with external data for comparative analysis with industry patterns. The data collected in the risk event database will also enable the Firm to back-test against self-assessment results.

Key risk indicators: Many of the businesses have incorporated "key risk indicators" for use as leading indicators in their operational risk management practices. This risk management tool will be further developed in 2002.

Audit alignment: Close collaboration between the COR team and the Firm's internal audit function has helped further the firm-wide implementation of the operational risk approach, which in turn has led to a stronger overall control environment.

Capital allocation methodology

A combined capital amount for operational risk and business risk is derived through top-down benchmarking, by business, against comparable financial institutions. Capital is allocated to each business based on its complexity, expense base and control quality.

Benefits of an integrated approach to operational risk management

- **Foundation for strong analysis of operational risk events**
- **Ability to understand causal factors, resulting in opportunity to mitigate future losses**
- **Consistent with approach and tools used by credit and market risk management**
- **Aligned with the Firm's internal audit activities and Six Sigma principles to achieve maximum efficiencies**
- **Designed to lead to a more efficient use of capital and improved financial performance**

2002 initiatives

Specific 2002 initiatives include:

- Developing a risk-adjusted framework for capital measurement and allocation based on specific business metrics and loss experience, that will provide direct incentives for active management of operational risks. This initiative will be guided by Six Sigma principles.
- Reviewing and standardizing, as appropriate, the roles and responsibilities of operational risk managers and key support functions throughout the Firm.
- Identifying "key risk indicators" to be used by the various businesses.
- Integrating operational risk management with the Firm's Six Sigma process improvement initiatives.
- Refining, as appropriate, the self-assessment process begun in 2001.

Impact of the events of September 11 on the operational risk practices of the Firm

The events of September 11th strongly tested the Firm's operational risk practices, and demonstrated the importance of its disaster recovery contingency planning. While the Firm's businesses were able successfully to implement their disaster recovery plans, and to avoid serious operational losses, there were nevertheless important lessons learned by the entire financial community. These lessons are currently under review for incorporation, as appropriate, into the Firm's ongoing contingency planning.

Liquidity risk management

The JPMorgan Chase liquidity risk management framework incorporates a Contingency Funding Plan and three main monitoring tools:

- **Cash capital surplus**
- **Basic surplus**
- **Holding company short-term surplus**

Liquidity risk management policy

Liquidity risk arises from the general funding needs of the Firm's activities and in the management of its assets. Liquidity risk management focuses on the risk that the Firm will be unable to replace maturing obligations when due or fund its assets at appropriate maturities and rates.

JPMorgan Chase recognizes the importance of sound liquidity management and has developed a liquidity framework intended to maximize liquidity access and minimize funding costs.

Liquidity risk management responsibilities

The Capital Committee sets the overall liquidity policy and oversees the contingency funding plan. The Capital Committee also reviews the Firm's exposure to special purpose entities ("SPE"), with particular focus on potential liquidity support requirements the Firm may have to such SPEs.

The Liquidity Risk Committee is responsible for policy adherence, developing contingency planning, and monitoring internal and external liquidity warning signals, such as unusual widening of spreads, to permit timely detection of liquidity issues.

Liquidity risk management framework

The contingency funding plan considers temporary and long-term stress scenarios, where access to unsecured funding is severely limited or nonexistent.

The plan forecasts potential funding needs, taking into account both on- and off-balance sheet exposures, evaluating separately access to funds by the parent holding company and JPMorgan Chase Bank.

The goals of the plan are intended to ensure:

- Maintenance of appropriate liquidity during normal and stress periods
- Measurement and projection of funding requirements during periods of stress
- Management of access to funding sources

The Firm's liquidity risk framework also incorporates tools to monitor three primary measures of liquidity. Each liquidity position is managed to provide sufficient surplus liquidity:

- **Cash capital surplus:** Measures the Firm's ability to fund assets on a fully collateralized basis, assuming access to unsecured funding is lost.
- **Basic surplus:** Measures JPMorgan Chase Bank's ability to sustain a 90-day stress event that is specific to the Firm where no new funding can be raised to meet obligations as they come due.
- **Holding company short-term surplus:** Measures the parent holding company's ability to repay all obligations with a maturity under one year at a time when the ability of the Firm's banks to pay dividends to the parent holding company is constrained.

All three measures involve estimates and rely on management's judgment about the Firm's ability to liquidate assets or use them as collateral for borrowings.

Each of the Firm's liquidity surplus positions, as of December 31, 2001, indicate that JPMorgan Chase's long-dated funding, including core deposits, exceeds illiquid assets and that the Firm's obligations can be met if access to funding is impaired.

The following table summarizes JPMorgan Chase's contractual cash obligations and off-balance sheet lending-related financial instruments by remaining maturity at December 31, 2001:

(in millions) **Contractual cash obligations**	Under 1 year	1-3 years	4-5 years	After 5 years	**Total**
Long-term debt	$ 10,414	$ 9,807	$ 5,522	$13,440	**$ 39,183**
Operating leases	615	1,145	960	4,336	**7,056**
Total	$ 11,029	$10,952	$ 6,482	$17,776	**$ 46,239**
Off-balance sheet lending-related commitments					
Credit card lines	$104,785	$ —	$ —	$ —	**$ 104,785**
Commercial-related:					
Other unfunded commitments to extend credit (a)	131,860	33,510	31,703	7,324	**204,397**
Standby letters of credit and guarantees	21,985	9,480	6,241	3,457	**41,163**
Other letters of credit	1,701	146	9	295	**2,151**
Total commercial-related	155,546	43,136	37,953	11,076	**247,711**
Total lending-related commitments	$260,331	$ 43,136	$ 37,953	$11,076	**$ 352,496**

(a) Includes $41.9 billion in unfunded commitments with commercial paper conduits. Such commitments may be drawn upon if the commercial paper market is not available to the issuer.

Sources of funds

JPMorgan Chase has access to diverse global funding sources. Liquidity is provided by a variety of both short-term and long-term instruments, including deposits, federal funds purchased, repurchase agreements, commercial paper, bank notes, medium- and long-term debt, capital securities, and stockholders' equity.

A major source of liquidity for the Firm's bank subsidiaries arises from their ability to generate core deposits. Core deposits include all domestic deposits, except noninterest-bearing time deposits and certificates of deposit of $100,000 or more. In addition to core deposits, the Firm generates substantial deposits from its Treasury & Securities Services business.

The ability to sell assets quickly is an important additional source of liquidity for the Firm. JPMorgan Chase holds marketable securities and other short-term investments that can be readily converted to cash. Loan syndication networks also are utilized to facilitate the disposition of assets when deemed desirable.

The Firm uses asset securitization programs as alternative funding sources, to provide liquidity and for asset/liability management purposes. In particular, securitization activities provide financing for credit cards, residential mortgages, auto loans, and commercial loans originated by JPMorgan Chase. SPEs are an integral part of securitization structures. Transactions between the Firm and these entities are reflected in JPMorgan Chase's financial statements; these relationships include retained interests in securitization trusts, derivative transactions, and liquidity facilities. For further details, see Notes 1, 9, and 25.

The diversity of the Firm's funding sources enhances funding flexibility, limits dependence on any one source of funds, and generally lowers the cost of funds. In making funding decisions, management considers market conditions, prevailing interest rates, liquidity needs, and the desired maturity profile of its liabilities.

Credit ratings

The cost and availability of unsecured financing are influenced by credit ratings. A reduction in these ratings could increase cost and limit market access.

JPMorgan Chase's parent holding company credit ratings as of December 31, 2001 were as follows:

	Short-term debt	Senior long-term debt
Fitch	F-1+	AA-
Moody's	P-1	Aa3
S&P	A-1+	AA-

The ratings of the senior obligations of JPMorgan Chase Bank are generally one notch higher than the parent holding company. At February 28, 2002, the ratings outlook for the parent holding company by Standard & Poor's and Fitch were negative, while the rating outlook from Moody's was stable.

Private equity risk management

Risk management

JPMorgan Partners employs processes for risk measurement and control that are similar to those employed for other businesses within the Firm. Risk is initially monitored through limits calculated on original investment cost for the privately-held securities in JPMP's portfolio through risk-based measures such as VAR and stress tests for the publicly-held securities in the portfolio.

JPMP's limits are also structured to monitor potential industry sector and regional concentration issues. Industry limits have been set limiting the portfolio's cost basis not to exceed 20% to any single sector. Regional limits have been set limiting the portfolio's cost basis in international investments not to exceed 40%. In addition, to manage the pace of new investment activity, a ceiling on the amount of annual direct private equity investment activity has been set.

JPMorgan Partners' holdings in public equities creates a significant exposure to general declines in the equity markets. To gauge that risk, VAR and stress test exposures are calculated in the same way as they are for the Firm's trading and investment and asset/liability portfolios. See the Market risk management section of the MD&A on pages 55-57. In addition, to reduce the revenue volatility that results from this exposure, the Firm entered into hedging transactions that were intended to partially offset public equity market movements. These hedges were initially entered into during the third quarter of 2001. At the end of 2001, cumulative losses from these hedges were $71 million, primarily as a result of a rise in equity market price levels while the hedges were in place. The Firm may change the nature and type of hedges it enters into, as well as close a hedging position altogether, at any point in time.

Capital allocation

Internal capital is allocated to JPMP's public equities portfolio based on stress scenarios that are similar to those applied to other businesses, and which reflect potential loss in the event of a large equity market decline. Capital is also allocated against illiquidity risk, which results from the trading restrictions to which some holdings are subject. For private equities, capital is allocated based on a long-term equity market stress scenario that is consistent with the investment horizons associated with these holdings. For these investments, additional capital is allocated against the risk of an unexpectedly large number of write-offs or write-downs.

For both public and private equities, the overall internal capital allocation exceeds 50% of the investments' carrying value. This is a significantly higher allocation than the amount that is currently required for regulatory capital.

Accounting and reporting developments

Business combinations and intangible assets

In June 2001, the FASB issued SFAS 141, which revises the financial accounting and reporting for business combinations, and SFAS 142, which revises the financial accounting and reporting for goodwill and other intangible assets. SFAS 141 requires that all business combinations be accounted for using the purchase method. Accounting for business combinations using the pooling of interests method no longer is allowed. SFAS 141 also requires that intangible assets acquired in a business combination be recognized apart from goodwill if the intangible assets meet one of two criteria — the contractual-legal criterion or the separability criterion. The provisions of SFAS 141 apply to all business combinations initiated after June 30, 2001 as well as business combinations accounted for by the purchase method for which the date of acquisition is July 1, 2001 or later.

SFAS 142 establishes how intangible assets (other than those acquired in a business combination) should be accounted for upon acquisition. It also addresses how goodwill and other intangible assets should be accounted for subsequent to their acquisition. Goodwill and intangible assets that have indefinite useful lives no longer will be amortized but will be tested at least annually for impairment. Intangible assets with finite lives will continue to be amortized over their useful lives. The provisions of SFAS 142 are required to be adopted January 1, 2002. Impairment losses that arise due to the initial application of SFAS 142 are required to be reported as a change in accounting principle.

The Firm has determined that the adoption of SFAS 142 will not result in an impairment of goodwill. Based on current levels of amortization expense, the Firm estimates that the elimination of goodwill amortization expense will reduce total noninterest expense by approximately $580 million during 2002 and that ongoing amortization expense will be approximately $150 million per year (prior to the Providian card acquisition in the first quarter of 2002).

Derivatives

JPMorgan Chase adopted SFAS 133, which establishes accounting and reporting standards for all derivative instruments, at January 1, 2001. For a further discussion on the adoption of SFAS 133, see Note 24.

Allowance for loan losses

In 1999, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants formed the Allowance for Loan Losses Task Force ("Task Force") to research current accounting guidance and practices as they relate to loan losses. It is currently expected that the Task Force will issue an exposure draft of a statement of position in the second half of 2002 that will provide additional accounting and reporting guidance and clarification of the factors to consider in determining the allowance for loan losses.

Comparison between 2000 and 1999

JPMorgan Chase's reported net income was $5.73 billion in 2000 compared with $7.50 billion in 1999. Diluted net income per share was $2.86 in 2000 compared with $3.69 in 1999.

Operating results Including JPMP

Operating earnings, including JPMorgan Partners, were $5.93 billion in 2000, a decrease of 20% from 1999. Diluted operating earnings per share decreased 19% when compared with the prior year.

Operating revenues in 2000 rose 3% to $32.8 billion reflecting the impact of the Hambrecht & Quist ("H&Q"), Flemings and The Beacon Group, LLC ("Beacon") acquisitions, which resulted in higher investment banking fees, trading-related revenue and fees and commissions. The increases in revenues were partially offset by lower private equity gains, which were significantly affected by the sharp decline in the NASDAQ during 2000 compared with 1999. Net interest income, on an operating basis, was $10.0 billion in 2000, remaining relatively stable with 1999.

Operating expenses were $21.4 billion in 2000, an increase of 20% from the prior year. The growth in expenses reflected, in particular, the investments in talent and infrastructure of the Investment Bank to deepen its product capabilities, and at Investment Management & Private Banking to broaden its geographic reach.

Credit costs during 2000 were $2.37 billion compared with $2.44 billion in 1999. The slight decrease was due to the impact of lower net charge-offs in both the commercial and consumer loan portfolios.

Income tax expense in 2000 on a reported basis was $3.01 billion compared with $3.99 billion in 1999. The effective tax rate was 34.4% for 2000 compared with 34.7% for 1999.

Operating results excluding JPMP

JPMorgan Chase's cash operating earnings, excluding JPMorgan Partners, were $6.2 billion in 2000, an increase of 4% from 1999. Diluted cash operating earnings per share increased 6%, when compared with 1999.

Segment results

Investment Bank cash operating earnings of $3.49 billion for 2000 were up 3% when compared with 1999. Revenue growth was driven by higher investment banking fees, trading-related revenue and fees and commissions attributable to the acquisitions of Flemings, H&Q, and Beacon. These acquisitions contributed to the advisory and securities underwriting business, in particular, within the media, telecommunications, healthcare and technology-related industries. Also an effect of the acquisitions was the significant increase in brokerage commissions associated with the strong market making volume.

Cash operating expenses rose during 2000 primarily due to the build up of the investment banking platform and the inclusion of Flemings and H&Q. In addition, incentive costs increased as a result of the growth in revenue and acquisition-related compensation commitments to retain key executives.

Treasury & Securities Services cash operating earnings in 2000 increased 28% when compared with 1999 reflecting revenue growth of 13% for the year. Broad-based growth in Investor Services and Institutional Trust Services revenues fueled the growth in revenue, with only a slight increase reflected at Treasury Services. Expenses rose more slowly than revenues primarily due to expense reduction efforts at Treasury Services. Total cash operating expense rose only 8% from 1999, and combined with the higher rate of revenue growth, operating margin improved significantly from last year.

Investment Management & Private Banking cash operating earnings in 2000 increased 67% from 1999 due to the acquisitions of Flemings and H&Q. IMPB's revenues increased 35% from 1999 due to the acquisitions. Pro forma for Flemings and H&Q, revenues increased primarily due to higher Private Banking revenues as a result of strong commission revenues and structuring fees during the first half of 2000. Cash operating expenses of $2.52 billion in 2000 rose 28% from the prior year primarily reflecting the aforementioned acquisitions.

Assets under management within Investment Management & Private Banking stood at $638 billion as of December 31, 2000, up from $543 billion at the end of 1999, primarily due to the acquisition of Flemings. This excludes assets attributable to JPMorgan Chase's 45% stake in American Century.

JPMorgan Partners cash operating earnings decreased by 86% when compared with the prior year primarily as a result of unrealized losses associated with the downward movement in the public equity markets in 2000. These losses were mostly for listed companies at the NASDAQ, and particularly those that belonged to the telecommunications and technology sectors. Many of these same investments contributed to the significant unrealized gains recognized in 1999. These were partially offset by record realized gains reflecting the sales of direct investments in companies that JPMorgan Partners had financed in prior years.

Retail & Middle Market Financial Services cash operating earnings rose 5% to $1.79 billion. The increase in 2000 reflected the improvement in credit quality from 1999. In addition, the solid growth in deposit volumes helped produce strong results at RBG and Middle Markets. Partially offsetting these favorable items were the impact of increased funding costs as a result of higher interest rates on the credit-related businesses, namely, Cardmember Services, Home Finance and Auto Finance, as well as the impact of a $100 million decrease in the estimated auto lease residual value recognized in the first quarter of 2000.

During 2000, Retail & Middle Market Financial Services initiated a number of business reorganizations that included the sale of the retail operations in Hong Kong and Panama.

management's report on responsibility for financial reporting and report of independent accountants

J.P. Morgan Chase & Co.

To our stockholders:

The management of J.P. Morgan Chase & Co. has the responsibility for preparing the accompanying consolidated financial statements and for their integrity and objectivity. The statements were prepared in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements include amounts that are based on management's best estimates and judgments. Management also prepared the other information in the Annual Report and is responsible for its accuracy and consistency with the consolidated financial statements.

Management maintains a comprehensive system of internal control to assure the proper authorization of transactions, the safeguarding of assets and the reliability of the financial records. The system of internal control provides for appropriate division of responsibility and is documented by written policies and procedures that are communicated to employees. J.P. Morgan Chase & Co. maintains a strong internal auditing program that independently assesses the effectiveness of the system of internal control and recommends possible improvements. Management believes that as of December 31, 2001, J.P. Morgan Chase & Co. maintained an effective system of internal control.

The Audit Committee of the Board of Directors reviews the systems of internal control and financial reporting. The Committee, which is comprised of directors who are independent from J.P. Morgan Chase & Co., meets and consults regularly with management, the internal auditors and the independent accountants to review the scope and results of their work.

The accounting firm of PricewaterhouseCoopers LLP has performed an independent audit of J.P. Morgan Chase & Co.'s financial statements. Management has made available to PricewaterhouseCoopers LLP all of J.P. Morgan Chase & Co.'s financial records and related data, as well as the minutes of stockholders' and directors' meetings. Furthermore, management believes that all representations made to PricewaterhouseCoopers LLP during its audit were valid and appropriate. The accounting firm's report appears below.

William B. Harrison, Jr.

Chairman and Chief Executive Officer

Marc J. Shapiro

Vice Chairman
Finance, Risk Management and Administration

Dina Dublon

Executive Vice President and Chief Financial Officer

January 15, 2002

PRICEWATERHOUSECOOPERS

PRICEWATERHOUSECOOPERS LLP • 1177 AVENUE OF THE AMERICAS • NEW YORK, NY 10036

To the Board of Directors and stockholders of J.P. Morgan Chase & Co.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of J.P. Morgan Chase & Co. and its subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of J.P. Morgan Chase & Co.'s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

January 15, 2002

consolidated statement of income

J.P. Morgan Chase & Co.

Year ended December 31, (in millions, except per share data)	**2001**	2000	1999
Revenue			
Investment banking fees	**$ 3,612**	$ 4,362	$ 3,517
Trading revenue	**4,918**	6,298	5,252
Fees and commissions	**9,208**	9,229	7,876
Private equity – realized gains	**651**	2,051	1,690
Private equity – unrealized gains (losses)	**(1,884)**	(1,036)	1,457
Securities gains (losses)	**866**	229	(192)
Other revenue	**877**	2,289	1,045
Total noninterest revenue	**18,248**	23,422	20,645
Interest income	**32,181**	36,643	31,207
Interest expense	**21,379**	27,131	20,922
Net interest income	**10,802**	9,512	10,285
Revenue before provision for loan losses	**29,050**	32,934	30,930
Provision for loan losses	**3,185**	1,377	1,446
Total net revenue	**25,865**	31,557	29,484
Expense			
Compensation expense	**11,944**	12,748	10,534
Occupancy expense	**1,348**	1,294	1,190
Technology and communications expense	**2,631**	2,454	2,179
Merger and restructuring costs	**2,523**	1,431	23
Amortization of intangibles	**729**	528	329
Other expense	**4,124**	4,369	3,740
Total noninterest expense	**23,299**	22,824	17,995
Income before income tax expense and effect of accounting change	**2,566**	8,733	11,489
Income tax expense	**847**	3,006	3,988
Income before effect of accounting change	**1,719**	5,727	7,501
Net effect of change in accounting principle	**(25)**	—	—
Net income	**$ 1,694**	$ 5,727	$ 7,501
Net income applicable to common stock	**$ 1,628**	$ 5,631	$ 7,395
Net income per common share(a)			
Basic	**$ 0.83**	$ 2.99	$ 3.87
Diluted	**0.80**	2.86	3.69

(a) Basic and diluted earnings per share have been reduced by $0.01 in 2001 due to the impact of the adoption of SFAS 133 relating to the accounting for derivative instruments and hedging activities.

The Notes to Consolidated financial statements are an integral part of these statements.

consolidated balance sheet

J.P. Morgan Chase & Co.

December 31, (in millions, except share data)	**2001**	2000
Assets		
Cash and due from banks	**$ 22,600**	$ 23,972
Deposits with banks	**12,743**	8,333
Federal funds sold and securities purchased under resale agreements	**63,727**	69,474
Securities borrowed	**36,580**	32,371
Trading assets:		
Debt and equity instruments (including assets pledged of $48,570 in 2001 and $53,592 in 2000)	**118,248**	139,249
Derivative receivables	**71,157**	76,373
Securities:		
Available-for-sale (including assets pledged of $30,178 in 2001 and $28,713 in 2000)	**59,284**	73,106
Held-to-maturity (fair value: $490 in 2001 and $593 in 2000)	**476**	589
Loans (net of allowance for loan losses of $4,524 in 2001 and $3,665 in 2000)	**212,920**	212,385
Private equity investments	**9,197**	11,428
Accrued interest and accounts receivable	**14,799**	20,618
Premises and equipment	**6,292**	7,087
Goodwill and other intangibles:		
Mortgage servicing rights	**6,579**	6,362
Purchased credit card relationships	**519**	596
Goodwill and other	**8,249**	8,875
Other assets	**50,205**	24,530
Total assets	**$ 693,575**	$ 715,348
Liabilities		
Deposits:		
Domestic:		
Noninterest-bearing	**$ 69,364**	$ 55,933
Interest-bearing	**105,058**	89,370
Foreign:		
Noninterest-bearing	**7,610**	6,780
Interest-bearing	**111,618**	127,282
Total deposits	**293,650**	279,365
Federal funds purchased and securities sold under repurchase agreements	**128,445**	131,738
Commercial paper	**18,510**	24,851
Other borrowed funds	**10,835**	19,840
Trading liabilities:		
Debt and equity instruments	**52,988**	52,157
Derivative payables	**56,063**	76,517
Accounts payable, accrued expenses and other liabilities (including the allowance for credit losses of $282 in 2001 and $283 in 2000)	**47,813**	40,754
Long-term debt	**39,183**	43,299
Guaranteed preferred beneficial interests in the Firm's junior subordinated deferrable interest debentures	**4,439**	3,939
Total liabilities	**651,926**	672,460
Commitments and contingencies (see Note 23)		
Preferred stock of subsidiary	**550**	550
Stockholders' equity		
Preferred stock	**1,009**	1,520
Common stock (authorized 4,500,000,000 shares, issued 1,996,929,012 shares in 2001 and 1,940,109,081 shares in 2000)	**1,997**	1,940
Capital surplus	**12,495**	11,598
Retained earnings	**26,993**	28,096
Accumulated other comprehensive income (loss)	**(442)**	(241)
Treasury stock, at cost (23,545,702 shares in 2001 and 11,618,856 shares in 2000)	**(953)**	(575)
Total stockholders' equity	**41,099**	42,338
Total liabilities, preferred stock of subsidiary and stockholders' equity	**$ 693,575**	$ 715,348

The Notes to Consolidated financial statements are an integral part of these statements.

consolidated statement of changes in stockholders' equity

J.P. Morgan Chase & Co.

Year ended December 31, (in millions, except per share data)	**2001**	2000	1999
Preferred stock			
Balance at beginning of year	**$ 1,520**	$ 1,622	$ 1,722
Redemption of stock	**(450)**	(100)	(100)
Retirement of treasury stock	**—**	(2)	—
Purchase of treasury stock	**(61)**	—	—
Balance at end of year	**1,009**	1,520	1,622
Common stock			
Balance at beginning of year	**1,940**	1,625	1,625
Issuance of common stock for a three-for-two stock split	**—**	441	—
Issuance of common stock	**55**	—	—
Issuance of common stock for purchase accounting acquisitions	**2**	—	—
Retirement of treasury stock	**—**	(126)	—
Balance at end of year	**1,997**	1,940	1,625
Capital surplus			
Balance at beginning of year	**11,598**	12,724	12,307
Issuance of common stock and options for purchase accounting acquisitions	**79**	136	215
Retirement of treasury stock	**—**	(237)	—
Issuance of common stock for a three-for-two stock split	**—**	(441)	—
Shares issued and commitments to issue common stock for employee stock-based awards and related tax effects	**818**	(584)	202
Balance at end of year	**12,495**	11,598	12,724
Retained earnings			
Balance at beginning of year	**28,096**	28,455	23,158
Net income	**1,694**	5,727	7,501
Retirement of treasury stock	**—**	(3,636)	—
Cash dividends declared:			
Preferred stock	**(66)**	(96)	(106)
Common stock ($1.36, $1.28 and $1.08 per share)	**(2,731)**	(2,354)	(2,098)
Balance at end of year	**26,993**	28,096	28,455
Accumulated other comprehensive income (loss)			
Balance at beginning of year	**(241)**	(1,428)	493
Other comprehensive income (loss)	**(201)**	1,187	(1,921)
Balance at end of year	**(442)**	(241)	(1,428)
Treasury stock, at cost			
Balance at beginning of year	**(575)**	(7,942)	(4,206)
Retirement of treasury stock	**—**	4,001	—
Purchase of treasury stock	**(871)**	(2,950)	(6,493)
Reissuance of treasury stock	**493**	2,901	2,545
Reissuance of treasury stock for purchase accounting acquisitions	**—**	3,415	212
Balance at end of year	**(953)**	(575)	(7,942)
Total stockholders' equity	**$ 41,099**	$ 42,338	$ 35,056

Comprehensive income			
Net income	**$ 1,694**	$ 5,727	$ 7,501
Other comprehensive income (loss)	**(201)**	1,187	(1,921)
Comprehensive income	**$ 1,493**	$ 6,914	$ 5,580

The Notes to Consolidated financial statements are an integral part of these statements.

consolidated statement of cash flows

J.P. Morgan Chase & Co.

Year ended December 31, (in millions)		2001	2000	1999
Operating activities				
Net income		**$ 1,694**	$ 5,727	$ 7,501
Adjustments to reconcile net income to net cash provided by Operating activities:				
Provision for loan losses		**3,185**	1,377	1,446
Merger and restructuring costs		**2,523**	1,431	23
Depreciation and amortization		**2,891**	2,545	1,945
Private equity unrealized losses (gains) and write-offs		**1,884**	1,036	(1,457)
Net change in:				
Trading-related assets		**26,217**	(34,761)	(8,721)
Securities borrowed		**(4,209)**	3,157	(3,926)
Accrued interest and accounts receivable		**5,819**	(64)	(2,627)
Other assets		**(26,756)**	(4,110)	(6,797)
Trading-related liabilities		**(20,143)**	9,684	9,823
Accounts payable and other liabilities		**4,308**	3,978	627
Other, net		**(520)**	(3,676)	2,213
Net cash (used in) provided by operating activities		**(3,107)**	(13,676)	50
Investing activities				
Net change in:				
Deposits with banks		**(4,410)**	22,088	(20,843)
Federal funds sold and securities purchased under resale agreements		**5,747**	(10,493)	(9,493)
Loans due to sales and securitizations		**69,575**	33,062	40,913
Other loans, net		**(72,149)**	(47,672)	(43,843)
Other, net		**3,431**	(2,210)	(5,039)
Held-to-maturity securities:	Proceeds	**113**	415	799
	Purchases	**(2)**	(114)	(21)
Available-for-sale securities:	Proceeds from maturities	**7,980**	9,393	16,821
	Proceeds from sales	**186,434**	104,322	118,538
	Purchases	**(182,920)**	(109,051)	(115,423)
Cash used in acquisitions		**(1,677)**	(2,195)	(3,142)
Proceeds from divestitures of nonstrategic businesses and assets		**196**	1,469	235
Net cash provided by (used in) investing activities		**12,318**	(986)	(20,498)
Financing activities				
Net change in:				
Domestic deposits		**29,119**	10,596	(7,686)
Foreign deposits		**(14,834)**	(18,295)	27,203
Federal funds purchased and securities sold under repurchase agreements		**(3,293)**	21,897	4,708
Commercial paper and other borrowed funds		**(15,346)**	8,925	687
Other, net		**(91)**	(436)	3,059
Proceeds from the issuance of long-term debt and capital securities		**8,986**	14,861	10,386
Repayments of long-term debt		**(12,574)**	(14,442)	(11,565)
Proceeds from the issuance of stock and stock-related awards		**1,429**	2,278	2,755
Redemption of preferred stock		**(511)**	(100)	(100)
Treasury stock purchased		**(871)**	(2,950)	(6,493)
Cash dividends paid		**(2,697)**	(2,282)	(2,133)
Net cash (used in) provided by financing activities		**(10,683)**	20,052	20,821
Effect of exchange rate changes on cash and due from banks		**100**	(110)	48
Net (decrease) increase in cash and due from banks		**(1,372)**	5,280	421
Cash and due from banks at the beginning of the year		**23,972**	18,692	18,271
Cash and due from banks at the end of the year		**$ 22,600**	$ 23,972	$ 18,692
Cash interest paid		**$ 22,987**	$ 27,217	$ 19,880
Taxes paid		**$ 479**	$ 3,396	$ 1,891

The Notes to Consolidated financial statements are an integral part of these statements.

1 Basis of presentation

Consolidation

On December 31, 2000, J.P. Morgan & Co. Incorporated ("J.P. Morgan") merged with and into The Chase Manhattan Corporation ("Chase"). Upon consummation of the merger, Chase changed its name to J.P. Morgan Chase & Co. ("JPMorgan Chase" or "the Firm"). The merger was accounted for as a pooling of interests and, accordingly, the information included in the financial statements and consolidated notes of JPMorgan Chase reflects the combined results of Chase and J.P. Morgan as if the merger had been in effect for all periods presented. In addition, certain amounts have been reclassified to conform to the current presentation.

JPMorgan Chase is a financial holding company for a group of subsidiaries that provide a wide range of services to a global client base that includes corporations, governments, institutions and individuals. For a discussion of JPMorgan Chase's business segment information, see Note 29.

The accounting and financial reporting policies of JPMorgan Chase and its subsidiaries conform to U.S. generally accepted accounting principles and prevailing industry practices. Additionally, where applicable, the policies conform to the accounting and reporting guidelines prescribed by bank regulatory authorities.

The consolidated financial statements include the accounts of JPMorgan Chase and its majority-owned subsidiaries after eliminating intercompany balances and transactions.

Investments in companies in which JPMorgan Chase has significant influence over operating and financing decisions (generally defined as owning a voting or economic interest of 20% to 50%) are accounted for in accordance with the equity method of accounting. These investments are generally included in Other assets and the Firm's share of income or loss is included in Other revenue.

Assets held in an agency or fiduciary capacity by JPMorgan Chase are not assets of JPMorgan Chase and are not included in the Consolidated balance sheet.

Special-purpose entities

(The terms special-purpose entity ("SPE") and special-purpose vehicle ("SPV") are used interchangeably in practice.)

Special-purpose entities are an important part of the financial markets, providing market liquidity by facilitating investors' access to specific portfolios of assets and risks. SPEs are typically set up for a single, discrete purpose. SPEs are not operating entities and usually have no employees and a limited life. The basic SPE structure involves a company selling assets to the SPE. The SPE funds the purchase of those assets by issuing securities to investors. The legal documents that govern the SPE transaction describe how the cash earned on the assets held in the SPE must be allocated to the investors and other parties that have rights to these cash flows.

SPEs can be structured to be bankruptcy remote, thereby insulating investors from the impact of the creditors of other entities, including the seller of the assets. They are critical to the functioning of several significant investor markets, including, for example, the mortgage-backed securities, asset-backed securities and commercial paper markets.

Where JPMorgan Chase is a transferor of assets to an SPE, the assets sold to the SPE are derecognized and the SPE is not consolidated on the balance sheet when the assets are legally isolated from the Firm's creditors and the SPE is a qualifying special-purpose entity ("QSPE"). SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, provides specific criteria for determining when an SPE meets the definition of a QSPE. When an SPE does not meet the formal definition of a QSPE, the decision whether or not to consolidate depends on the applicable accounting principles for non-QSPEs, including a determination regarding the nature and amount of investment made by third parties to the SPE. Consideration is given to, for example, whether a third party has made a substantive equity investment in the SPE; which party has voting rights, if any; who makes decisions about the assets in the SPE; and who is at risk for loss. The SPE is consolidated if JPMorgan Chase retains or acquires control over the risks and rewards of the assets in the SPE.

JPMorgan Chase is involved with SPEs in three broad categories of transactions: securitizations, conduits, and client intermediation. As part of JPMorgan Chase's securitization activity, consumer or commercial loans are sold to an SPE from the Firm's balance sheet (see Note 9, Loan securitizations). Consumer securitizations involve the sale of consumer receivables originated primarily in the Firm's residential mortgage, credit card, and auto loan businesses; for commercial securitizations, the Firm securitizes both Firm-originated and purchased commercial mortgages to facilitate the issuance of commercial mortgage-backed securities to investors. Assets sold to the SPEs as part of the securitization process are not reflected in JPMorgan Chase's balance sheet (except for retained interests as described below), but are included on the balance sheet of the SPE purchasing the assets. Assets held by securitization-related SPEs as of December 31, 2001 were as follows:

	(in billions)
Credit card receivables	$ 25.6
Home mortgage receivables	24.3
Commercial mortgage receivables	19.8
Auto loans	3.4
Other receivables	1.4

In credit card securitizations, the Firm retains some risk of loss with respect to the receivables held by the SPE to the extent of its subordinated retained interest as well as its undivided interest in the credit card master trust. This risk of loss is reflected as "managed" losses in the Firm's discussion of operating income. At December 31, 2001, the Firm's undivided interest in the credit card master trust totaled $3.9 billion and is accounted for as set forth in Note 9. Interest-only strips of $38 million are also retained and carried on the Firm's balance sheet at fair value. In home mortgage securitizations and in auto securitizations, JPMorgan Chase retains an interest-only strip (equal to $1.0 billion and $0.1 billion, respectively), which reflects first loss risk and is carried on the Firm's balance sheet at fair value. In commercial mortgage securitizations, JPMorgan Chase retains a subordinated interest (equal to $10 million), which is also carried at fair value. With respect to securitization transactions involving other Firm assets, the Firm holds retained interests ($56 million, which are fully hedged), and may be obligated to fund an additional $31.8 million of senior notes. JPMorgan Chase does not provide any other liquidity commitments to the SPEs utilized in its commercial or consumer securitization business. All amounts above are as of December 31, 2001.

For conduit transactions, JPMorgan Chase serves as the administrator and provides contingency liquidity support for several commercial paper conduits. Conduits provide clients with a way to access liquidity in the commercial paper markets by allowing clients to sell assets to the conduit, which then issues commercial paper to fund the purchases. Issuance of commercial paper by conduits aggregated $20.2 billion at December 31, 2001. The commercial paper issued by the conduits is supported with sufficient asset collateral, other credit enhancement, and liquidity support to receive at least an A-1 or P-1 rating. JPMorgan Chase Bank has commitments to provide liquidity to these conduits up to $26.2 billion of commercial paper issuances. JPMorgan Chase applies the same underwriting standards in making liquidity commitments to the conduits as the Firm would with other extensions of credit.

As a financial intermediary, JPMorgan Chase is involved in structuring SPE transactions to meet investor and client needs. In this capacity, JPMorgan Chase has created structured commercial loan vehicles managed by third parties in which loans are purchased from third parties or through the Firm's syndication and trading functions. Investors in these vehicles provide cash collateral and have a first risk of loss up to the amount of collateral committed. JPMorgan Chase retains a second risk of loss or has the option to sell loans from the vehicles if assets deteriorate below specified levels. Issuance of commercial paper by these vehicles as of December 31, 2001 was $9.1 billion. JPMorgan Chase Bank has a commitment to provide liquidity to these vehicles for up to $12.0 billion of commercial paper issuances.

As a financial intermediary, JPMorgan Chase also structures SPEs to modify the cash flows of third-party assets to create investments with specific risk profiles, or to assist clients in the efficient management of other risks. JPMorgan Chase may enter into derivative contracts with these SPEs to accomplish these ends. These derivative contracts are captured on the Firm's balance sheet in Trading assets or Trading liabilities in the same manner as other derivative contracts and are marked-to-market through Trading revenue. Fees received from any administrative functions related to SPEs (underwriter, trustee, custodian, etc.) are included when earned in Fees and commissions. Note 4 provides details on JPMorgan Chase's Noninterest revenue.

JPMorgan Chase's maximum liquidity commitment to the structured commercial loan vehicles, the commercial paper conduits and to other client transactions ($3.7 billion) totaled $41.9 billion at December 31, 2001. These commitments are included in the Firm's total of $248 billion in commitments to lend described in more detail in Note 25 and the Liquidity discussion on page 60 of the MD&A. The Firm would be required to fund these commitments in the event the commercial paper market were unavailable to these vehicles. In addition, if JPMorgan Chase Bank were downgraded below A-1 or P-1, the SPEs could draw on the commitments since asset-backed commercial paper rated below A-1 or P-1 would generally not be issuable by the vehicle. Under these circumstances, JPMorgan Chase Bank would have the option to replace itself as liquidity provider or the assets in the SPE could be sold or refinanced in other markets. In no circumstances is the Firm committed to issue its own stock to support an SPE transaction.

As noted above, all transactions and retained interests between the Firm and the SPEs are reflected in JPMorgan Chase's balance sheet or Notes to the financial statements. Internal economic capital is held against all residual exposures, derivative transactions and lending commitments, as appropriate. The Firm's policies require that transactions with SPEs be conducted at arms' length and reflect market pricing. Consistent with this policy, no JPMorgan Chase employee is permitted to invest in the SPEs with which JPMorgan Chase are involved.

Use of estimates in the preparation of consolidated financial statements

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect reported revenues, expenses, assets, liabilities, and disclosure of contingent assets and liabilities. Actual results could be different from these estimates.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars using applicable rates of exchange. JPMorgan Chase translates revenues and expenses using exchange rates at the transaction date.

Gains and losses from translating the financial statements of a foreign operation where the functional currency is not the U.S. dollar are included in Accumulated other comprehensive income (loss) within Stockholders' equity. For foreign operations where the functional currency is the U.S. dollar, which include operations in highly inflationary environments, transaction gains and losses are reported in the Consolidated statement of income.

Statement of cash flows

For JPMorgan Chase's Consolidated statement of cash flows, cash and cash equivalents is defined as those amounts included in Cash and due from banks.

Significant accounting policies

The following table identifies JPMorgan Chase's significant accounting policies and the Note and page where a detailed description of each policy can be found:

Trading assets and liabilities, including derivatives	Note 3	Page 71
Fee revenue	Note 4	Page 72
Securities	Note 7	Page 74
Resale and repurchase agreements	Note 7	Page 75
Securities borrowed and lent	Note 7	Page 75
Loans	Note 8	Page 75
Allowance for credit losses	Note 8	Page 76
Loan securitizations	Note 9	Page 77
Mortgage servicing rights	Note 10	Page 79
Income taxes	Note 17	Page 84
Premises and equipment	Note 22	Page 89
Goodwill and other intangibles	Note 22	Page 89
Derivatives used for nontrading purposes	Note 24	Page 90
Fair value of financial instruments	Note 27	Page 92
Private equity investments	Note 27	Page 94

2 Business changes and developments

Merger with J.P. Morgan on December 31, 2000

Under the terms of the merger agreement, 617 million shares of JPMorgan Chase's common stock were issued in exchange for all of the outstanding shares of J.P. Morgan's common stock (based on an exchange ratio of 3.7 shares of JPMorgan Chase's common stock for each share of J.P. Morgan's common stock). All of J.P. Morgan's series of preferred stock were exchanged on a one-for-one basis for a corresponding series of JPMorgan Chase's preferred stock having substantially the same terms.

Acquisition of the mortgage business of Advanta Corp.

In the first quarter of 2001, Chase Manhattan Mortgage Corporation, an indirect subsidiary of JPMorgan Chase, acquired all of the mortgage business of Advanta Corp. The acquisition included Advanta's origination capability, loan servicing and sub-servicing portfolio, and related securitization residual interests.

Sale of Hong Kong retail banking business

During the fourth quarter of 2000, Chase completed the sale of its Hong Kong-based retail banking business, including Chase Manhattan Card Company Limited, to Standard Chartered PLC for $1.3 billion in cash. The sale resulted in a pre-tax gain of $827 million ($537 million after-tax).

Transfer of Euroclear-related business

On December 31, 2000, J.P. Morgan and the Boards of Euroclear Clearance System PLC and Euroclear Clearance System Société Cooperative consummated their agreement and created a European-based bank in Brussels, known as Euroclear Bank, which assumed the operations of the Euroclear System from J.P. Morgan. The transfer resulted in a gain of $399 million ($267 million after-tax) in 2000, which reflected the impact of the minimum proceeds to be received from the Euroclear Bank over the next two years. In addition, under the agreement, the Firm could receive additional proceeds of up to $100 million per year for each of 2001 and 2002 based on the financial performance of the Euroclear Bank during those periods. The Firm received $16 million of additional proceeds in 2001.

Sale of ChaseMellon shareholder services

On October 16, 2000, Chase agreed to sell its interest in ChaseMellon Shareholder Services, then a 50-50 joint venture between Chase and Mellon Financial Corporation. The sale was completed during November 2000 and did not have a material impact on JPMorgan Chase's earnings.

Acquisition of Flemings

On August 1, 2000, Chase acquired Robert Fleming Holdings Limited ("Flemings"). The consideration issued to Flemings' shareholders consisted of £2.6 billion in cash and notes and 65.3 million shares of Chase common stock. Chase also established retention arrangements for key Flemings employees that aggregated approximately $220 million (after-tax) and are generally being expensed over the two years following the acquisition. The transaction was accounted for under the purchase method.

Acquisition of Beacon

Chase acquired The Beacon Group, LLC ("Beacon"), a privately held investment banking firm, on July 6, 2000. The acquisition was accounted for under the purchase method.

Acquisition of Hambrecht & Quist

Chase acquired Hambrecht & Quist ("H&Q") for $1.46 billion on December 9, 1999. The acquisition was accounted for under the purchase method.

3 Trading activities

Trading assets include debt and equity securities held for trading purposes that JPMorgan Chase owns ("long" positions). Trading liabilities include debt and equity securities that JPMorgan Chase has sold to other parties but does not own. These securities are "short" positions, and JPMorgan Chase is obligated to purchase these securities at a future date. Also included in Trading liabilities are structured notes that JPMorgan Chase transacts as part of its trading activity. Trading positions, as well as derivatives used for trading purposes, are carried at fair value on the Consolidated balance sheet, with changes in the fair value recorded in Trading revenue. Trading positions are recorded on a trade date basis. The reported receivables (unrealized gains) and payables (unrealized losses) related to derivatives include the effect of master netting agreements as permitted under FASB Interpretation No. 39.

Trading revenue

The following table sets forth the components of total trading-related revenue:

Year ended December 31, (in millions)	2001	2000	1999
Product diversification:			
Equities[(a)]	**$ 1,541**	$ 1,762	$ 1,194
Fixed income and other[(b)]	**3,377**	4,536	4,058
Trading revenue[(c)]	**$ 4,918**	$ 6,298	$ 5,252
Net interest income ("NII") impact[(d)]	**1,361**	844	1,556
Total trading-related revenue	**$ 6,279**	$ 7,142	$ 6,808

(a) Includes trading equity securities and equity derivatives.
(b) Includes bonds and commercial paper, various types of interest rate derivatives, as well as foreign exchange and commodities. Also includes trading gains or losses on certain assets received as part of troubled debt restructurings.
(c) Derivative and foreign exchange contracts are marked-to-market, and valuation adjustments are included in Trading-related revenue.
(d) Includes NII associated with trading activities, which includes interest recognized on interest-earning and interest-bearing trading-related positions, as well as management allocations reflecting the funding costs or benefits associated with trading positions. These amounts are included in NII on the Consolidated statement of income. Amounts have been restated in the prior periods to conform to the current presentation.

Trading assets and liabilities

The following table presents the fair value of Trading assets and Trading liabilities for the dates indicated:

December 31, (in millions)	2001	2000
Trading assets		
Debt and equity instruments:		
U.S. government, federal agencies and municipal securities	**$ 41,666**	$ 43,251
Certificates of deposit, bankers' acceptances and commercial paper	**8,492**	7,258
Debt securities issued by foreign governments	**22,465**	41,631
Corporate securities and other	**45,625**	47,109
Total trading assets – debt and equity instruments	**$ 118,248**	$139,249
Derivative receivables:		
Interest rate contracts	**$ 44,732**	$ 41,124
Foreign exchange contracts	**9,815**	15,484
Debt, equity, commodity and other contracts	**16,610**	19,765
Total trading assets – derivative receivables	**$ 71,157**	$ 76,373
Trading liabilities		
Total trading liabilities – debt and equity instruments[(a)]	**$ 52,988**	$ 52,157
Derivative payables:		
Interest rate contracts	**$ 33,066**	$ 42,313
Foreign exchange contracts	**9,410**	15,853
Debt, equity, commodity and other contracts	**13,587**	18,351
Total trading liabilities – derivative payables	**$ 56,063**	$ 76,517

Note: Amounts have been restated to conform to the current presentation.
(a) Primarily represents securities sold, not yet purchased.

Debt and equity instruments pledged as collateral that can be sold or repledged by the secured party amounted to $48.6 billion and $53.6 billion at December 31, 2001 and 2000, respectively.

Average Trading assets and liabilities were as follows for the periods indicated:

Year ended December 31, (in millions)	2001	2000
Trading assets – debt and equity instruments	**$ 145,364**	$ 122,063
Trading assets – derivative receivables	**$ 78,461**	$ 70,727
Trading liabilities – debt and equity instruments[(a)]	**$ 53,976**	$ 53,946
Trading liabilities – derivative payables	**$ 69,676**	$ 66,573

Note: Amounts have been restated to conform to the current presentation.
(a) Primarily represents securities sold, not yet purchased.

4 Noninterest revenue

Investment banking fees

Investment banking fees include advisory, equity and debt underwriting and other fees. Advisory fees are recognized as revenue when the related services are performed. Underwriting fees are presented net of syndicate expenses. In addition, JPMorgan Chase recognizes credit arrangement and syndication fees as revenue after satisfying certain retention, timing and yield criteria.

The following table presents the components of investment banking fees:

Year ended December 31, (in millions)	2001	2000	1999
Advisory	**$ 1,248**	$ 1,739	$ 1,091
Underwriting and other fees	**2,364**	2,623	2,426
Total	**$ 3,612**	$ 4,362	$ 3,517

Note: Amounts have been restated to conform to the current presentation.

Fees and commissions

Fees and commissions primarily include fees from investment management, custody and processing services, deposit accounts, brokerage services, mortgage servicing, loan commitments, standby letters of credit, compensating balances, insurance products and other financial service-related products. All of these fees are generally recognized over the period that the related service is provided. Also included are credit card revenues which primarily include interchange income, late fees, cash advance, and annual and overlimit fees, as well as servicing fees earned in connection with securitization activities. Credit card revenues are generally recognized as billed, except for annual fees, which are recognized over a 12-month period.

Details of Fees and commissions were as follows:

Year ended December 31, (in millions)	2001	2000	1999
Investment management, custody and processing services	**$ 3,774**	$ 3,628	$ 2,868
Credit card revenue	**2,108**	1,771	1,698
Brokerage and investment services	**1,244**	1,228	768
Mortgage servicing fees, net of amortization and write-downs	**(230)**	441	405
Other lending-related service fees	**495**	590	656
Deposit service fees	**1,023**	906	895
Other fees	**794**	665	586
Total fees and commissions	**$ 9,208**	$ 9,229	$ 7,876

Other revenue

Details of Other revenue were as follows:

Year ended December 31, (in millions)	2001	2000	1999
Other revenue			
Gains on sales of nonstrategic assets	**$ —**	$ 1,307	$ 166
Residential mortgage origination/sales activities	**552**	194	323
Loss on economic hedge of the Flemings purchase price	**—**	(176)	—
All Other revenue	**325**	964	556
Total Other revenue	**$ 877**	$ 2,289	$ 1,045

5 Interest income and interest expense

Details of interest income and expense were as follows:

Year ended December 31, (in millions)	2001	2000	1999
Interest income			
Loans	**$ 15,544**	$ 17,243	$ 14,783
Securities	**3,647**	4,422	4,804
Trading assets	**7,390**	7,160	5,432
Federal funds sold and securities purchased under resale agreements	**3,805**	4,751	3,305
Securities borrowed	**1,343**	2,294	1,877
Deposits with banks	**452**	773	1,006
Total interest income	**$ 32,181**	$ 36,643	$ 31,207
Interest expense			
Deposits	**$ 7,998**	$ 10,835	$ 8,845
Short-term and other liabilities	**11,098**	13,105	9,323
Long-term debt	**2,283**	3,191	2,754
Total interest expense	**$ 21,379**	$ 27,131	$ 20,922
Net interest income	**$ 10,802**	$ 9,512	$ 10,285
Provision for loan losses	**3,185**	1,377	1,446
Net interest income after provision for loan losses	**$ 7,617**	$ 8,135	$ 8,839

6 Noninterest expense

Merger and restructuring costs

The following table shows the components of these costs during 2001 and 2000:

(in millions)	2001	2000
Merger and restructuring costs		
Merger, right-sizing, and other restructuring costs	**$ 2,322**	$ 1,323
Relocation costs	**201**	108
Total merger and restructuring costs	**$ 2,523**	$ 1,431

The following table shows the utilization of the $1.25 billion merger liability during 2001 and 2000:

(in millions)	2001	2000
Merger liability		
Liability balance at January 1	**$ 917**	$ —
Merger charge	**—**	1,250
Liability utilized during year	**(763)**	(333)
Liability balance at December 31	**$ 154**(a)	$ 917

(a) The remaining balance consists primarily of facilities costs.

Management initially estimated that the Firm would incur one-time costs of $3.2 billion in connection with the merger of J.P. Morgan and Chase. These costs consisted of a $1.25 billion merger charge that was recorded on the December 31, 2000 merger date and $1.95 billion of other costs to be incurred in 2001 and 2002 that were not accruable under existing accounting pronouncements.

In September 2001, management estimated that $650 million of additional nonaccruable merger costs would be incurred in 2001 and 2002. These costs consisted primarily of systems integration costs, facilities costs and retention payments. In September 2001, management estimated that the Firm would also incur one-time costs of $400 million in connection with the right-sizing of employee levels of certain businesses (2,000 employee reductions) beyond that planned at the time of the merger. These severance costs consisted of a $300 million charge that was recorded on September 30, 2001 and $100 million of costs to be incurred in 2001 and 2002 that were not accruable under existing accounting pronouncements. In 2001, $259 million of the right-sizing liability was utilized resulting in a remaining balance of $41 million at December 31, 2001.

In connection with several strategic restructuring initiatives in the fourth quarter of 1999, JPMorgan Chase incurred a charge of $175 million for planned consolidation actions in certain businesses, planned staff reductions, and the disposition of premises and equipment resulting from the relocation of several businesses to Florida, Texas and Massachusetts. At December 31, 2001, the related restructuring liability was fully utilized. Additionally, in December 1999, $152 million of costs were reversed, primarily relating to occupancy costs not fully utilized under a restructuring charge incurred in 1998.

Other expense

Details of Other expense were as follows:

Year ended December 31, (in millions)	2001	2000	1999
Other expense			
Professional services	**$ 1,139**	$ 1,203	$ 1,012
Outside services	**669**	648	584
Marketing	**601**	595	503
Travel and entertainment	**453**	490	350
All other[(a)]	**1,262**	1,433	1,291
Total Other expense	**$ 4,124**	$ 4,369	$ 3,740

(a) Includes a $100 million special contribution to The Chase Manhattan Foundation in 1999.

7 Securities

Securities are classified as Available-for-sale ("AFS"), Held-to-maturity ("HTM"), or trading. Securities are classified as AFS when, in management's judgment, they may be sold in response to or in anticipation of changes in market conditions. AFS securities are carried at fair value on the Consolidated balance sheet. Unrealized gains and losses after application of hedge accounting are reported net as increases or decreases to Accumulated other comprehensive income (loss). The specific identification method is used to determine realized gains and losses on AFS securities, which are included in Securities gains (losses) on the Consolidated statement of income. Securities that JPMorgan Chase has the positive intent and ability to hold to maturity are classified as HTM and are carried at amortized cost on the Consolidated balance sheet.

The following table presents realized gains and losses from AFS securities:

Year ended December 31, (in millions)	2001	2000[(a)]	1999[(a)]
Realized gains	**$ 1,438**	$ 727	$ 555
Realized losses	**(572)**	(498)	(747)
Net realized gains (losses)	**$ 866**	$ 229	$ (192)

(a) Includes the impact of related derivatives.

AFS securities pledged as collateral that can be sold or repledged by the secured party amounted to $30.2 billion and $28.7 billion at December 31, 2001 and 2000, respectively.

In the calculation of effective yield for mortgage-backed securities ("MBS") and collateralized mortgage obligations ("CMO"), JPMorgan Chase actively monitors the likelihood of prepayment of principal through its portfolio management function. Management regularly performs simulation testing to determine the impact that market conditions would have on its MBS and CMO portfolios. MBSs and CMOs that management believes have high prepayment risk are included in the AFS portfolio and reported at fair value.

The amortized cost and estimated fair value of AFS and HTM securities were as follows for the dates indicated:

	2001				2000[(d)]			
December 31, (in millions)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale securities								
U.S. government and federal agency/corporation obligations:								
Mortgage-backed securities	**$ 30,192**	**$ 115**	**$ 417**	**$ 29,890**	$ 38,107	$ 26	$ 965	$ 37,168
Collateralized mortgage obligations	**2,295**	**91**	**89**	**2,297**	5,130	93	8	5,215
U.S. treasuries	**9,987**	**73**	**157**	**9,903**	16,250	309	265	16,294
Obligations of state and political subdivisions	**2,429**	**86**	**15**	**2,500**	896	95	24	967
Debt securities issued by foreign governments	**11,636**	**65**	**24**	**11,677**	10,749	76	25	10,800
Corporate debt securities	**108**	**35**	**1**	**142**	1,080	5	13	1,072
Equity securities	**1,102**	**4**	**9**	**1,097**	1,111	240	28	1,323
Other, primarily asset-backed securities[(a)]	**1,785**	**3**	**10**	**1,778**	243	38	14	267
Total Available-for-sale securities[(b)]	**$ 59,534**	**$ 472**	**$ 722**	**$ 59,284**	$ 73,566	$ 882	$ 1,342	$ 73,106
Held-to-maturity securities								
Total Held-to-maturity securities[(b)(c)]	**$ 476**	**$ 14**	**$ —**	**$ 490**	$ 589	$ 4	$ —	$ 593

(a) Includes CMOs of private issuers, which generally have underlying collateral consisting of obligations of U.S. government and federal agencies and corporations.
(b) As of December 31, 2001, there were no securities of a single issuer, excluding the U.S. Treasury and U.S. government agencies, whose fair value exceeded 10% of JPMorgan Chase's Stockholders' equity.
(c) Primarily mortgage-backed securities.
(d) Includes the impact of related derivatives. Prior to adoption of SFAS 133, related hedges were carried at fair value and unrealized gains and losses were recorded in Accumulated other comprehensive income (loss).

The following table presents the amortized cost, estimated fair value and average yield at December 31, 2001 of JPMorgan Chase's AFS and HTM securities by contractual maturity range:

	Available-for-sale securities			Held-to-maturity securities		
Maturity schedule of securities December 31, 2001 (in millions)	Amortized cost	Fair value	Average yield[(a)]	Amortized cost	Fair value	Average yield[(a)]
Due in one year or less	**$ 5,961**	**$ 6,034**	**5.85%**	**$ 33**	**$ 33**	**4.56%**
Due after one year through five years	**14,653**	**14,761**	**5.75**	**—**	**—**	**—**
Due after five years through 10 years	**4,628**	**4,590**	**5.16**	**3**	**3**	**7.03**
Due after 10 years[(b)]	**34,292**	**33,899**	**5.85**	**440**	**454**	**6.86**
Total securities	**$ 59,534**	**$ 59,284**	**5.77%**	**$ 476**	**$ 490**	**6.71%**

(a) The average yield is based on amortized cost balances at year-end. Yields are derived by dividing interest income (including the effect of related derivatives on AFS securities and the amortization of premiums and accretion of discounts) by total amortized cost. Taxable-equivalent yields are used where applicable.

(b) Securities with no stated maturity are included with securities with a contractual maturity of 10 years or more. Substantially all of JPMorgan Chase's MBSs and CMOs are due in 10 years or more based on contractual maturity. The estimated duration, which reflects anticipated future prepayments based on a consensus of dealers in the market, is approximately three years for MBSs and less than one year for CMOs.

Securities purchased under resale agreements ("resale agreements") and securities sold under repurchase agreements ("repurchase agreements") are generally treated as collateralized financing transactions and are carried on the Consolidated balance sheet at the amounts the securities will be subsequently sold or repurchased, plus accrued interest. Similar transactions that do not meet the SFAS 140 definition of a repurchase agreement are accounted for as "buys" and "sells" rather than financing transactions. Where appropriate, resale and repurchase agreements with the same counterparty are reported on a net basis. JPMorgan Chase takes possession of securities purchased under resale agreements. On a daily basis, JPMorgan Chase monitors the market value of the underlying collateral, which consists primarily of U.S. government and agency securities, and requests additional collateral from its counterparties when necessary.

Securities borrowed and securities lent (recorded in Other borrowed funds) are recorded at the amount of cash collateral advanced or received. Securities borrowed consist primarily of government and equity securities. JPMorgan Chase monitors the market value of the securities borrowed and lent on a daily basis and calls for additional collateral when appropriate. Fees received or paid are recorded in Interest income or Interest expense.

8 Loans

Loans are generally reported at the principal amount outstanding, net of the allowance for loan losses, unearned income and any net deferred loan fees (nonrefundable yield-related loan fees, net of related direct origination costs). Loans held for sale are carried at the lower of aggregate cost or fair value. Loans held for trading purposes are included in Trading assets and are carried at fair value, with the gains and losses included in Trading revenue. Interest income is recognized using the interest method or on a basis approximating a level rate of return over the term of the loan.

Nonaccrual loans are those loans on which the accrual of interest is discontinued. Loans (other than certain consumer loans discussed below) are placed on nonaccrual status immediately if, in the opinion of management, full payment of principal or interest is in doubt or when principal or interest is past due 90 days or more and collateral, if any, is insufficient to cover principal and interest. Interest accrued but not collected at the date a loan is placed on nonaccrual status is reversed against Interest income. In addition, the amortization of net deferred loan fees is suspended when a loan is placed on nonaccrual status. Interest income on nonaccrual loans is recognized only to the extent it is received in cash. However, where there is doubt regarding the ultimate collectibility of the loan principal, all cash receipts thereafter are applied to reduce the carrying value of the loan. Loans are restored to accrual status only when interest and principal payments are brought current and future payments are reasonably assured.

Consumer loans are generally charged to the allowance for loan losses upon reaching specified stages of delinquency in accordance with the Federal Financial Institutions Examination Council's ("FFIEC") policy. For example, credit card loans are charged off at the earlier of 180 days past due or within 60 days from receiving notification of the filing of bankruptcy. Residential mortgage products are generally charged off to net realizable value at 180 days past due. Other consumer products are generally charged off (to net realizable value if collateralized) at 120 days past due. Accrued interest on residential mortgage products, auto financings and certain other consumer loans are accounted for in accordance with the nonaccrual loan policy discussed above. Accrued interest on all other loans is generally reversed against interest income when the consumer loan is charged off.

A collateralized loan is considered an in-substance foreclosure and is reclassified to assets acquired as loan satisfactions, within Other assets, only when JPMorgan Chase has taken physical possession of the collateral, regardless of whether formal foreclosure proceedings have taken place.

The composition of the loan portfolio at each of the dates indicated was as follows:

	2001			2000		
December 31, (in millions)	**Domestic**	**Foreign**	**Total**	Domestic	Foreign	Total
Commercial loans:						
Commercial and industrial	**$ 56,680**	**$ 33,530**	**$ 90,210**	$ 64,031	$ 37,002	$ 101,033
Commercial real estate:						
Commercial mortgage	**3,533**	**16**	**3,549**	4,109	834	4,943
Construction	**615**	**151**	**766**	725	636	1,361
Financial institutions	**5,608**	**3,570**	**9,178**	7,342	3,976	11,318
Foreign governments	**—**	**1,161**	**1,161**	—	805	805
Total commercial loans	**66,436**	**38,428**	**104,864**	76,207	43,253	119,460
Consumer loans:						
1-4 family residential mortgages	**59,430**	**506**	**59,936**	50,302	292	50,594
Credit card	**19,387**	**7**	**19,394**	18,495	6	18,501
Auto financings	**25,667**	**38**	**25,705**	19,802	22	19,824
Other consumer	**7,366**	**179**	**7,545**	7,361	310	7,671
Total consumer loans	**111,850**	**730**	**112,580**	95,960	630	96,590
Total loans(a)	**$ 178,286**	**$ 39,158**	**$ 217,444**	$ 172,167	$ 43,883	$ 216,050

(a) Loans are presented net of unearned income of $1,825 million and $1,571 million at December 31, 2001 and 2000, respectively.

Impaired loans

JPMorgan Chase accounts for and discloses nonaccrual commercial loans as impaired loans. JPMorgan Chase recognizes interest income on impaired loans as discussed previously for nonaccrual loans. JPMorgan Chase excludes from impaired loans its small-balance homogeneous consumer loans, loans carried at fair value or the lower of cost or fair value, debt securities and leases.

The table below sets forth information about JPMorgan Chase's impaired loans. JPMorgan Chase uses the discounted cash flow method as its primary method for valuing its impaired loans:

December 31, (in millions)	**2001**	2000
Impaired loans with an allowance	**$ 1,523**	$ 986
Impaired loans without an allowance(a)	**457**	444
Total impaired loans	**$ 1,980**	$ 1,430
Allowance for impaired loans under SFAS 114(b)	**$ 448**	$ 344
Average balance of impaired loans during the year	**$ 1,840**	$ 1,450
Interest income recognized on impaired loans during the year	**$ 18**	$ 13

(a) When the discounted cash flows, collateral value or market price equals or exceeds the carrying value of the loan, then the loan does not require an allowance under SFAS 114.
(b) The allowance for impaired loans under SFAS 114 is included in JPMorgan Chase's allowance for loan losses.

Allowance for credit losses

JPMorgan Chase's Allowance for loan losses is intended to cover probable credit losses for which either the asset is not specifically identified or the size of the loss has not been fully determined. Within the allowance, there are specific and expected loss components and a residual component.

The **specific loss component** covers those commercial loans deemed by JPMorgan Chase to be criticized. JPMorgan Chase internally categorizes its criticized commercial loans into three groups: doubtful, substandard and special mention.

Nonperforming commercial loans (excluding leases) are considered to be impaired loans. The allowance for impaired loans is computed using the methodology under SFAS 114. An allowance is established when the discounted cash flows (or collateral value or observable market price) of an impaired loan is lower than the carrying value of that loan. For the purposes of computing the specific loss component of the allowance, larger impaired loans are evaluated individually, and smaller impaired loans are evaluated as a pool using historical loss experience for the respective class of assets. The criticized but still performing loans also are evaluated as a pool using historical loss rates.

The **expected loss component** covers performing commercial loans (except criticized loans) and consumer loans.

Expected losses are the product of default probability and loss severity. The computation of the expected loss component of the allowance is based on estimates of these factors in JPMorgan Chase's credit risk capital model. These estimates are differentiated by risk rating and maturity for commercial loans.

The expected loss estimates for each consumer loan portfolio are based primarily on JPMorgan Chase's historical loss experience for the applicable product portfolio.

Finally, a **residual component** is maintained to cover uncertainties that could affect management's estimate of probable losses. The residual component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific losses and expected losses in both the commercial and consumer portfolios. It is anticipated that the residual component of the allowance will range between 10% and 20% of the total Allowance for loan losses.

Factors affecting the uncertainty of specific loss and expected loss estimates include the volatility of default probabilities, rating migrations and loss severity. These uncertainties also could relate to current macroeconomic and political conditions, the impact of currency devaluations on cross-border exposures, changes in underwriting standards, unexpected correlations within the portfolio or other factors.

JPMorgan Chase's Risk Management Committee reviews, at least quarterly, the Allowance for loan losses relative to the risk profile of the Firm's credit portfolio and current economic conditions. The allowance is adjusted based on that review if, in management's judgment, changes are warranted. As of December 31, 2001, JPMorgan Chase deemed the allowance to be adequate (i.e., sufficient to absorb losses that currently may exist but are not yet identifiable).

To provide for risk of losses inherent in the credit extension process, management also computes specific and expected loss components as well as a residual component for lending-related commitments, using a methodology similar to that used for the loan portfolio.

JPMorgan Chase maintains an allowance for credit losses as follows:

	Reported in:	
Allowance for credit losses on:	**Balance sheet**	**Income statement**
Loans	Allowance for loan losses	Provision for loan losses
Lending-related commitments	Other liabilities	Other revenue

The table below summarizes the changes in the Allowance for loan losses:

Year ended December 31, (in millions)	2001	2000	1999
Allowance at January 1	**$ 3,665**	$ 3,738	$ 4,022
Provision for loan losses	**3,185**	1,377	1,446
Charge-offs	**(2,582)**	(1,634)	(2,034)
Recoveries	**247**	234	287
Net charge-offs	**(2,335)**	(1,400)	(1,747)
Charge to conform to FFIEC revised policy	**—**	(80)	—
Allowance related to purchased portfolios	**—**	29	18
Foreign exchange translation adjustment	**9**	1	(1)
Allowance at December 31	**$ 4,524**	$ 3,665	$ 3,738

9 Loan securitizations

JPMorgan Chase securitizes, sells and services residential mortgage, credit card, automobile and commercial loans. Interests in the securitized and sold loans are generally retained in the form of senior or subordinated interest-only strips, subordinated tranches, escrow accounts and servicing rights. JPMorgan Chase's undivided interest in its credit card master trust is recorded in and accounted for as Loans. This undivided interest represents credit card receivables owned by JPMorgan Chase within the master trust that have not been sold. JPMorgan Chase's interest in these receivables rank pari-passu with the investors' interests in the master trust. Other retained interests are primarily recorded in Other assets.

JPMorgan Chase retains the servicing responsibilities for all of its residential mortgage, credit card and automobile loan securitizations and for certain of its commercial loan securitizations and receives annual servicing fees based on the securitized loan balance plus certain ancillary fees. JPMorgan Chase also retains the right to service the residential mortgage loans sold as a result of mortgage-backed security transactions with the Government National Mortgage Association ("GNMA"), Federal National Mortgage Association ("FNMA") and Federal Home Loan Mortgage Corporation ("Freddie Mac"). For a discussion of mortgage servicing rights, see Note 10.

Gains or losses on securitizations and sales depend, in part, on the previous carrying amount of the loans involved in the transfer and are allocated between the loans sold and the retained interests based on their relative fair values at the date of sale. Since quoted market prices are generally not available, JPMorgan Chase usually estimates fair value of these retained interests by determining the present value of future expected cash flows using modeling techniques that incorporate management's best estimates of key variables, including credit losses, prepayment speeds and discount rates commensurate with the risks involved. Gains on securitizations and sales are reported in Other revenue. Retained interests that are subject to prepayment risk such that JPMorgan Chase may not recover substantially all of its investment are recorded at fair value with subsequent adjustments reflected in Other comprehensive income or in earnings if the fair value of the retained interest has declined below its carrying amount and such decline has been determined to be other-than-temporary.

During 2001, JPMorgan Chase securitized approximately $7.9 billion of residential mortgage loans, $6.0 billion of credit card loans, $2.5 billion of automobile loans and $5.5 billion of commercial loans, resulting in pre-tax gains on securitizations of $242 million, $42 million, $17 million and $40 million, respectively. During 2000, JPMorgan Chase securitized approximately $2.7 billion of residential mortgage loans, $2.9 billion of credit card loans, $1.3 billion of automobile loans and $4.7 billion of commercial loans, resulting in pre-tax gains (losses) on securitizations of $46 million, $7 million, $(1) million and $53 million, respectively. In addition, JPMorgan Chase sold residential mortgage loans totaling $45.8 billion and $21.5 billion during 2001 and 2000, respectively, primarily as GNMA, FNMA and Freddie Mac mortgage-backed securities, which sales resulted in gains of $262 million in 2001 and $106 million in 2000.

The following table summarizes certain cash flows received from securitization trusts for sales that were completed during 2001 and 2000 and the key economic assumptions used in measuring the retained interests as of the dates of such sales:

	2001				2000			
($ in millions)	Mortgage	Credit card	Auto	Commercial	Mortgage	Credit card	Auto	Commercial
Cash flow information:								
Proceeds from securitizations	**$ 7,932**	**$ 6,038**	**$ 2,496**	**$ 5,543**	$ 2,725	$ 2,857	$ 1,278	$ 4,746
Servicing fees collected	**12**	**36**	**5**	**—**	5	30	—	1
Other cash flows received	**99**	**101**	**3**	**2**	13	68	—	8
Proceeds from collections reinvested in previous revolving securitizations	**—**	**31,191**	**—**	**2,164**	—	29,844	—	1,031
Key assumptions (rates per annum):								
Annual prepayment rate(a)	**8.5-34.0% CPR**	**14.0-14.4%**	**1.47% WAC/WAM**	**NA**(b)	10.5-29.3% CPR 22.5% HEP	12.8-13.7%	1.50% WAC/WAM	NA(b)
Weighted average life	**2.6-8.5 years**	**7 months**	**1.8 years**	**1.1 years**	6.6-12.6 years	8 months	1.8 years	2.1-9.7 years
Expected credit losses	**0.1-0.8%**	**5.5-6.0%**	**0.4-0.5%**	**NA**(c)	0.2-0.4%	5.7-5.9%	0.4%	NA(c)
Discount rate	**15.0-19.0%**	**3.5-6.5%**	**5.3-7.0%**	**5.0%**	15.0%	7.2-7.8%	8.5%	6.9-20.4%

(a) WAC/WAM: Weighted average coupon/weighted average maturity; HEP: Home equity prepayment curve; CPR: Constant prepayment rate.
(b) Not applicable since these retained interests are not subject to prepayment risk.
(c) Not applicable due to collateral coverage on loans in commercial securitizations.

At December 31, 2001 and 2000, JPMorgan Chase had $3.9 billion and $6.7 billion, respectively, related to its undivided interest in its credit card master trusts. JPMorgan Chase also maintains escrow accounts up to predetermined limits for some of its residential mortgage, credit card and automobile securitizations in the unlikely event that deficiencies in cash flows owed to investors occur. The amounts available in such escrow accounts are recorded in Other assets and totaled $1 million, $341 million and $79 million as of December 31, 2001 for residential mortgage, credit card and automobile securitizations, respectively, and $7 million, $297 million and $81 million as of December 31, 2000, respectively. In addition, the Firm had other retained interests as of December 31, 2001 and 2000 totaling $1.0 billion and $363 million from its residential mortgage, $38 million and $2 million from its credit card, $141 million and $87 million from its automobile securitizations, and $66 million and $138 million from its commercial securitizations, respectively. These retained interests are primarily subordinated or residual interests.

The table below outlines the key economic assumptions and the sensitivity of the fair value at December 31, 2001 of the remaining retained interests to immediate 10% and 20% adverse changes in those assumptions:

($ in millions)	Mortgage(c)	Credit card	Auto	Commercial
Carrying value / fair value of retained interests(d)	$1,011	$ 38	$141	$ 66
Weighted average life	2.2-6.3 years	5 months	1.7 years	9 months-11.4 years
Annual prepayment rate	10.8-32.5% CPR	14.5%	1.94% WAC/WAM	NA(a)
Impact of 10% adverse change	$ (35)	$ (9)	$ (6)	—
Impact of 20% adverse change	(64)	(9)	(13)	—
Loss assumption	0.1-2.5%	5.9%	0.50%	NA(b)
Impact of 10% adverse change	$ (29)	$ (6)	$ (3)	—
Impact of 20% adverse change	(58)	(12)	(9)	—
Discount rate	12.9-19.0%	3.4%	5.9%	4.0-18.7%
Impact of 10% adverse change	$ (27)	—	$ (1)	$ (2)
Impact of 20% adverse change	(54)	—	(2)	(3)

(a) Not applicable since these retained interests are not subject to prepayment risk.
(b) Not applicable due to collateral coverage on loans in commercial securitizations.
(c) Includes approximately $416 million of retained interests resulting from the acquisition of Advanta's mortgage operations.
(d) Unrealized gains recorded in Stockholders' equity that relate to these retained interests totaled $159.6 million, $5.6 million and $6.8 million for residential mortgage, credit card and automobile, respectively.

The sensitivity analysis in the preceding table is hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot easily be extrapolated because the relationship of the change in the assumptions to the change in fair value may not be linear. Also, in this table, the effect that a change in a particular assumption may have on the fair value is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

Expected static pool net credit losses include actual incurred losses plus projected net credit losses divided by the original balance of the outstandings comprising the securitization pool. The table below displays the expected static pool net credit losses for 2001 and 2000 based on securitizations occurring in that year.

	Loans securitized in:(a)(b)			
	2001		2000	
	Mortgage	**Auto**	Mortgage	Auto
December 31, 2001	**0.1-2.3%**	**0.8%**	0.1-2.7%(c)	0.8%
December 31, 2000	**NA**	**NA**	0.1-2.3%	0.7%

(a) No expected static pool net credit losses on commercial securitizations due to collateral coverage on loans in commercial securitizations.
(b) Static pool losses not applicable to credit card securitizations due to their revolving structure.
(c) Excludes expected static pool losses associated with the acquisition of Advanta's mortgage operations. Expected static pool losses, as of December 31, 2001, would be 8.24% for the three securitization transactions completed by Advanta during 2000.
NA- Not applicable.

The table below presents information about delinquencies, net credit losses, and components of reported and securitized financial assets at December 31, 2001:

Type of loan	Total loans		Loans 90 days or more past due		Net charge-offs	
(in millions)	**2001**	2000	**2001**	2000	**2001**	2000
Mortgage	**$ 82,546**	$ 63,836	**$ 374**	$ 298	**$ 252**	$ 79
Credit card	**40,811**	36,366	**928**	740	**2,038**	1,695
Auto	**28,950**	22,398	**129**	82	**149**	135
Other(a)	**8,096**	7,991	**115**	84	**176**	185
Consumer loans	**160,403**	130,591	**1,546**	1,204	**2,615**	2,094
Commercial loans	**107,468**	124,972	**2,046**	1,551	**982**	400
Total loans reported and securitized(b)	**267,871**	255,563	**3,592**	2,755	**3,597**	2,494(c)
Less: Loans securitized	**(50,427)**	(39,513)	**(575)**	(437)	**(1,262)**	(1,014)
Reported	**$ 217,444**	$ 216,050	**$ 3,017**	$ 2,318	**$ 2,335**	$ 1,480

(a) Includes foreign consumer loans.
(b) Reported and securitized basis represents loans on the balance sheet or that have been securitized, but exclude securitized loans that JPMorgan Chase continues to service but as to which it has no other continuing involvement.
(c) Includes a $93 million charge to conform to the FFIEC's revised policy establishing uniform guidelines for charge-offs on consumer loans to delinquent, bankrupt, deceased and fraudulent borrowers. Of this total amount, $80 million relates to reported loans, and the remaining $13 million relates to securitized loans.

10 Mortgage servicing rights

JPMorgan Chase capitalizes the value that is expected to be realized from performing specified residential mortgage servicing activities for others as Mortgage servicing rights ("MSRs"). Such capitalized servicing rights are purchased or retained upon sales or securitization of mortgages. These rights are amortized in proportion to, and over the period of, the estimated future net servicing income stream of the underlying mortgage loans as a reduction of the actual servicing income received. MSRs are periodically evaluated for impairment based on their current fair values, which are estimated using a discounted future cash flow model that considers portfolio characteristics and assumptions regarding prepayment speeds, delinquency rates, ancillary revenues and other economic factors. For purposes of evaluating and measuring impairment of MSRs, the Firm stratifies its portfolio on the basis of the predominant risk characteristics: loan type and interest rate. Any indicated impairment is recognized as a reduction in revenue through a valuation allowance to the extent that the carrying value of an individual stratum exceeds its estimated fair value. Management has used its best judgment in estimating fair value. Since many economic factors can affect the estimate of the fair value of MSRs, the Firm closely assesses the major assumptions and modeling techniques used in its estimate of the fair value of its MSRs and reviews such assumptions against market comparables, if available. To mitigate the effect of changes in revenue from the interest rate risk inherent in the MSRs, the Firm uses both interest rate derivatives and AFS securities.

The following table summarizes mortgage servicing rights activity and related amortization. It also includes the key assumptions and the sensitivity of the fair value of MSRs at December 31, 2001 to immediate 10% and 20% adverse changes in each of those assumptions:

Year ended December 31, (in millions)	**2001**	2000	1999
Balance at beginning of year	**$ 6,362**	$ 5,187	$ 3,039
Additions	**3,394**	2,194	3,611
Sales	**(103)**	(290)	(1,071)
SFAS 133 hedge valuation adjustments	**(880)**	—	—
Pre-SFAS 133 hedging activities	**—**	78	150
Amortization	**(1,123)**	(708)	(542)
Valuation allowance	**(1,071)**	(99)	—
Balance at end of year	**$ 6,579**	$ 6,362	$ 5,187
Estimated fair value at year-end	**$ 6,579**	$ 6,411	$ 5,748

	2001
Weighted average prepayment speed assumption	**13.38% CPR**
Impact on fair value with 10% adverse change	**$ (348)**
Impact on fair value with 20% adverse change	**$ (665)**
Weighted average discount rate	**8.16%**
Impact on fair value with 10% adverse change	**$ (190)**
Impact on fair value with 20% adverse change	**$ (367)**

CPR: Constant prepayment rate.

The sensitivity analysis in the preceding table is hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% and 20% variation in assumptions generally cannot be easily extrapolated because the relationship of the change in the assumptions to the change in fair value may not be linear. Also, in this table, the effect that a change in a particular assumption may have on the fair value is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

As of January 1, 2001, certain interest rate derivatives that qualify as fair value hedges under SFAS 133 and the related hedged MSRs are accounted for at fair value in accordance with SFAS 133.

For the year ended December 31, 2001, the decrease in revenue resulting from SFAS 133 valuation adjustments and the change in the valuation allowance due to impairment totaled $1,951 million. These losses were substantially offset by total gains of $1,773 million relating to a combination of derivative gains, including those that qualify as SFAS 133 hedges, and realized gains from sales of AFS securities. Prior to January 1, 2001, realized gains and losses from the settlement or termination of derivative contracts that qualified as hedges were deferred as adjustments to the carrying value and amortized over the remaining life of the MSRs. At December 31, 2000 and 1999, net deferred hedge gains of $152 million and $193 million, respectively, were included as an adjustment to the carrying value of the MSRs.

11 Long-term debt

The following table is a summary of long-term debt (net of unamortized original issue debt discount):

By remaining contractual maturity at December 31, (in millions)		Under 1 year	1-5 years	After 5 years	2001 total	2000 total
Parent company						
Senior debt:	Fixed rate	$ 979	$ 4,897	$ 803	$ 6,679	$ 6,683
	Variable rate	6,513	4,571	693	11,777	15,168
	Interest rates(a)	0.20% – 7.36%	1.22% – 7.50%	0.96% – 8.00%	0.20% – 8.00%	1.00% – 8.56%
Subordinated debt:	Fixed rate	653	2,790	9,008	12,451	11,875
	Variable rate	446	750	1,129	2,325	1,749
	Interest rates(a)	5.00% – 8.63%	2.56% – 8.50%	5.25% – 8.25%	2.56% – 8.63%	1.60% – 9.75%
	Subtotal	$ 8,591	$13,008	$ 11,633	$ 33,232	$ 35,475
Subsidiaries						
Senior debt:	Fixed rate	$ 172	$ 1,151	$ 1,084	$ 2,407	$ 3,470
	Variable rate	1,117	389	424	1,930	2,434
	Interest rates(a)	1.62% – 6.80%	2.06% – 10.95%	1.06% – 26.97%	1.06% – 26.97%	2.03% – 13.95%
Subordinated debt:	Fixed rate	500	350	299	1,149	1,495
	Variable rate	34	431	—	465	425
	Interest rates(a)	7.25% – 7.38%	4.12% – 7.04%	6.13% – 6.70%	4.12% – 7.38%	6.13% – 9.25%
	Subtotal	$ 1,823	$ 2,321	$ 1,807	$ 5,951	$ 7,824
Total long-term debt		$ 10,414	$15,329	$ 13,440	$39,183(b)(c)(d)	$ 43,299

(a) The interest rates shown are the range of contractual rates in effect at year-end, including non-U.S. dollar fixed and variable rate issuances which excludes the effects of related derivative instruments. The use of these derivative instruments modifies JPMorgan Chase's exposure to the contractual interest rates disclosed in the table above. The modified weighted average interest rate for total long-term debt, including the effects of related derivative instruments, was 4.64% at December 31, 2001.

(b) At December 31, 2001, long-term debt aggregating $3.1 billion was redeemable at the option of JPMorgan Chase, in whole or in part, prior to maturity, based on the terms specified in the respective notes.

(c) The aggregate principal amount of debt that matures in each of the five years subsequent to 2001 is $10,414 million in 2002, $5,758 million in 2003, $4,049 million in 2004, $2,879 million in 2005 and $2,643 million in 2006.

(d) Includes $1.2 billion of outstanding zero-coupon notes at December 31, 2001. The aggregate principal amount of these notes at their respective maturities is $4.7 billion.

JPMorgan Chase issues long-term debt denominated in various currencies, although predominately U.S. dollars, with both fixed and variable interest rates.

The weighted-average contractual interest rate for total long-term debt was 5.12% and 6.52% as of December 31, 2001 and 2000, respectively. In order to modify exposure to interest rate and currency exchange rate movements, JPMorgan Chase utilizes derivative instruments, primarily interest rate and currency swaps, in conjunction with some of its debt issues. The use of these instruments modifies the Firm's interest expense on the associated debt. The modified weighted average interest rate for total long-term debt, including the effects of related derivative instruments, was 4.64% and 6.70% as of December 31, 2001 and 2000, respectively.

JPMorgan Chase has guaranteed several long-term debt issues of its subsidiaries. Guaranteed debt totaled $180 million and $195 million at December 31, 2001 and 2000, respectively.

Guaranteed preferred beneficial interests in the Firm's junior subordinated deferrable interest debentures

At December 31, 2001, 11 wholly owned Delaware statutory business trusts established by JPMorgan Chase had issued an aggregate $4,439 million in capital securities, net of discount. The capital securities qualify as Tier 1 capital of the Firm. The proceeds from each issuance were invested in a corresponding series of junior subordinated deferrable interest debentures of JPMorgan Chase. The sole asset of each statutory business trust is the relevant debenture. The Firm has fully and unconditionally guaranteed each of the business trust's obligations under each trust's capital securities to the extent set forth in the guarantee. Each trust's capital securities are subject to mandatory redemption, in whole or in part, upon repayment of the debentures at their stated maturity or earlier redemption.

The following is a summary of the outstanding capital securities, net of discount, issued by each trust and the junior subordinated deferrable interest debenture issued by JPMorgan Chase to each trust as of December 31, 2001:

($ in millions)

Name of trust	Amount of capital securities, net of discount issued by trust[(a)]	Principal amount of debenture, held by trust[(b)]	Stated maturity of capital securities and debentures	Interest rate of capital securities and debentures	Interest payment/distribution dates
Chase Capital I	$ 600	$ 619	2026	7.67%	Semiannual - Commencing 1997
Chase Capital II	495	516	2027	LIBOR + 0.50%	Quarterly - Commencing 1997
Chase Capital III	296	309	2027	LIBOR + 0.55%	Quarterly - Commencing 1997
Chase Capital IV	350	361	2027	7.34%	Quarterly - Commencing 1998
Chase Capital V	200	206	2028	7.03%	Quarterly - Commencing 1998
Chase Capital VI	248	258	2028	LIBOR + 0.625%	Quarterly - Commencing 1998
Chase Capital VII	350	361	2029	7.00%	Quarterly - Commencing 1999
Chase Capital VIII	250	258	2030	8.25%	Quarterly - Commencing 2000
JPM Capital Trust I	750	773	2027	7.54%	Semiannual - Commencing 1997
JPM Capital Trust II	400	412	2027	7.95%	Semiannual - Commencing 1997
JPMorgan Chase Capital IX	500	515	2031	7.50%	Quarterly - Commencing 2001
Total	$ 4,439	$ 4,588			

(a) Represents the amount of capital securities issued to the public by each trust. These amounts are reflected as liabilities of JPMorgan Chase.
(b) Represents the principal amount of JPMorgan Chase debentures held as assets by each trust. These amounts represent intercompany transactions and are eliminated in JPMorgan Chase's Consolidated financial statements.

12 Preferred stock of subsidiary

Chase Preferred Capital Corporation ("Chase Preferred Capital"), a wholly owned subsidiary of JPMorgan Chase Bank, a bank subsidiary of JPMorgan Chase, is a real estate investment trust ("REIT") established for the purpose of acquiring, holding and managing real estate mortgage assets. At December 31, 2001, there were 22 million shares of 8.10% cumulative preferred stock, Series A ("Series A preferred shares") issued and outstanding (liquidation preference, $25 per share). Dividends on the Series A preferred shares are cumulative and are payable quarterly. The dividends are recorded as minority interest expense by JPMorgan Chase. The Series A preferred shares are treated as Tier 1 capital of JPMorgan Chase and Tier 2 capital of JPMorgan Chase Bank. The total amount of Series A preferred shares outstanding at both December 31, 2001 and 2000 was $550 million.

13 Preferred stock

JPMorgan Chase is authorized to issue 200 million shares of preferred stock, in one or more series, with a par value of $1 per share. Outstanding shares of preferred stock at December 31, 2001 and 2000 were 17.8 million and 26.2 million, respectively. During 2001, the Firm redeemed its 10.84% cumulative preferred stock, its variable cumulative preferred stock, Series B, C, D, E and F and repurchased 0.12 million shares of its 6.63% Series H cumulative preferred stock.

Dividends on shares of each outstanding series of preferred stock are payable quarterly. All the preferred stock outstanding have preference over JPMorgan Chase's common stock for the payment of dividends and the distribution of assets in the event of a liquidation or dissolution of JPMorgan Chase.

The following is a summary of JPMorgan Chase's preferred stock outstanding:

	Stated value and redemption price per share[a]	Shares (in millions)	Outstanding at December 31, **2001** (in millions)	2000	Earliest redemption date	Rate in effect at December 31, 2001
Adjustable rate, Series A cumulative	$ 100.00	2.42	**$ 242**	$ 242	See Note[b]	5.00%[c]
Variable, Series B, C, D, E and F cumulative	1,000.00	0.25	**—**	250	—	—
Adjustable rate, Series L cumulative	100.00	2.00	**200**	200	See Note[b]	4.54[c]
Adjustable rate, Series N cumulative	25.00	9.10	**228**	228	See Note[b]	4.59[c]
10.84% cumulative	25.00	8.00	**—**	200	—	—
Fixed/adjustable rate, noncumulative	50.00	4.00	**200**	200	6/30/2003	4.96[c]
6.63% Series H cumulative	500.00	0.28	**139**	200	3/31/2006	6.63
Total preferred stock			**$ 1,009**	$ 1,520		

(a) Redemption price includes amount shown in the table plus any accrued but unpaid dividends.
(b) The shares are redeemable at any time with not less than 30 nor more than 60 days' notice.
(c) Floating rates are based on certain U.S. Treasury rates. The minimum and maximum rates for Series A are 5.00% and 11.50% and for Series L and Series N are 4.50% and 10.50%, respectively. The fixed/adjustable rate preferred stock remains fixed at 4.96% through June 30, 2003; thereafter, the minimum and maximum rates are 5.46% and 11.46%, respectively.

14 Common stock

JPMorgan Chase is authorized to issue 4.5 billion shares of common stock, with a $1 par value per share. The number of shares of common stock issued and outstanding were as follows:

December 31, (in millions)	**2001**	2000	1999
Issued	**1,996.9**	1,940.1[a]	2,066.5
Held in treasury	**(23.5)**	(11.6)[a]	(216.0)
Outstanding	**1,973.4**	1,928.5	1,850.5

(a) Under the terms of the merger agreement, on December 31, 2000, all 126.4 million treasury shares of J.P. Morgan were canceled and retired.

On July 19, 2001, JPMorgan Chase's Board of Directors authorized the repurchase of up to $6 billion of the Firm's common stock, net of issuance for employee benefit plans. As of December 31, 2001, the Firm had repurchased 21.9 million shares of common stock under this authorization. During 2001, approximately 65.0 million shares were issued, under various employee stock option and other stock-based plans, and approximately 1.8 million shares were issued in connection with purchase accounting acquisitions.

During 2000, approximately 20.3 million shares of outstanding common stock were repurchased by JPMorgan Chase under a stock repurchase plan which began on January 19, 2000 and was formally terminated on October 17, 2000.

JPMorgan Chase shareholders approved a three-for-two stock split at their annual meeting on May 16, 2000. The record date for the split was May 17, 2000, and the additional shares of the Firm's common stock issued as a result of the split were distributed on June 9, 2000.

As of December 31, 2001, approximately 399 million unissued shares of common stock were reserved for issuance under various employee incentive, option and stock purchase plans.

Common shares issued (newly issued or distributed from treasury) by JPMorgan Chase during 2001, 2000 and 1999 were as follows:

Year ended December 31, (in millions)	**2001**	2000	1999
Employee benefit and compensation plans[a]	**64.4**	79.4	71.7
Dividend reinvestment and stock purchase plans	**0.6**	2.4	1.3
Purchase accounting acquisitions and other	**1.8**	69.0	0.1
Total shares newly issued or distributed from treasury[b]	**66.8**	150.8	73.1

(a) See Note 19 for a discussion of JPMorgan Chase's employee stock option plans.
(b) Shares distributed from treasury were 10.0 million in 2001, 150.8 million in 2000 and 72.4 million in 1999.

15 Earnings per share

SFAS 128 requires the presentation of basic and diluted earnings per share ("EPS") in the income statement. Basic EPS is computed by dividing net income applicable to common stock by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed using the same method as basic EPS, but, in the denominator, common shares outstanding reflect the potential dilution that could occur if convertible securities or other contracts to issue common stock were converted or exercised into common stock. Net income available for common stock is the same computation for basic EPS and diluted EPS as JPMorgan Chase had no convertible securities, and, therefore, no adjustments to net income available for common stock were necessary.

Basic and diluted earnings per share were as follows for the dates indicated:

Year ended December 31, (in millions, except per share data)	**2001**	2000	1999
Basic earnings per share			
Net income	**$ 1,694**	$ 5,727	$ 7,501
Less: Preferred stock dividends	**66**	96	106
Net income applicable to common stock	**$ 1,628**	$ 5,631	$ 7,395
Weighted-average basic shares outstanding	**1,972.4**	1,884.1	1,912.9
Net income per share	**$ 0.83**	$ 2.99	$ 3.87
Diluted earnings per share			
Net income applicable to common stock	**$ 1,628**	$ 5,631	$ 7,395
Weighted-average basic shares outstanding	**1,972.4**	1,884.1	1,912.9
Add: Broad-based options	**6.6**	10.1	13.8
Options to key employees	**44.6**	74.8	78.1
Weighted-average diluted shares outstanding	**2,023.6**	1,969.0	2,004.8
Net income per share	**$ 0.80**	$ 2.86	$ 3.69

16 Comprehensive income

Comprehensive income is composed of net income and other comprehensive income, which includes the after-tax change in unrealized gains and losses on AFS securities, cash flow hedging activities and foreign currency translation adjustments (including the impact of related derivatives).

The following table presents other comprehensive income balances:

Year ended December 31, (in millions)	Unrealized gains (losses) on AFS securities(a)	Translation adjustments	Cash flow hedges	Accumulated other comprehensive income (loss)
Balance December 31, 1998	$ 522	$ (29)	NA	$ 493
Net change	(1,949)	28	NA	(1,921)
Balance December 31, 1999	(1,427)	(1)	NA	(1,428)
Net change	1,183	4	NA	1,187
Balance December 31, 2000	(244)	3	NA	(241)
Net change	**109**	**(5)**(b)	**$ (305)**	**(201)**
Balance December 31, 2001	**$ (135)**	**$ (2)**(c)	**$ (305)**(d)	**$ (442)**

(a) Primarily represents the after-tax difference between the fair value and amortized cost of the Available-for-sale securities portfolio. Net changes for years 2000 and 1999 include unrealized gains and losses on related hedges.
(b) Includes $316 million of after-tax losses on foreign currency translation from operations for which the functional currency is other than the U.S. dollar, which are offset by $311 million of after-tax gains on hedges.
(c) Includes after-tax gains and losses on foreign currency translation including related hedge results from operations for which the functional currency is other than the U.S. dollar.
(d) Includes $51 million of after-tax losses reclassified to income and $356 million of after-tax losses representing the net change in derivative fair values and the impact of the adoption of SFAS 133 that were recorded in other comprehensive income.
NA-Not applicable as SFAS 133 was adopted effective January 1, 2001.

The net change amount, in the following table, represents the sum of net unrealized holding gains (losses) and reclassification adjustments of AFS securities. Reclassification adjustments are amounts recognized in net income during the current year that had been part of other comprehensive income in previous years.

Year ended December 31, (in millions)	**2001**	2000	1999
Net unrealized holdings gains (losses) arising during the period, net of taxes(a)	**$ 443**	$1,212	$ (2,071)
Reclassification adjustment for (gains) losses included in net income, net of taxes(b)	**(334)**	(29)	122
Net change	**$ 109**	$1,183	$ (1,949)

(a) Net of tax expense of $308 million for 2001 and $808 million for 2000, and net of tax benefit of $1,412 million for 1999.
(b) Net of tax expense of $232 million for 2001 and $20 million for 2000, and net of tax benefit of $64 million in 1999.

17 Income taxes

JPMorgan Chase and its eligible subsidiaries file a consolidated U.S. federal income tax return. JPMorgan Chase uses the asset and liability method required by SFAS 109 to provide income taxes on all transactions recorded in the consolidated financial statements. This requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for book purposes and for tax purposes. Accordingly, a deferred tax liability or asset for each temporary difference is determined based on the tax rates that JPMorgan Chase expects to be in effect when the underlying items of income and expense are to be realized. JPMorgan Chase's expense for income taxes includes the current and deferred portions of that expense. A valuation allowance is established to reduce deferred tax assets to the amount JPMorgan Chase expects to be realized.

Deferred income tax expense (benefit) results from differences between assets and liabilities measured for financial reporting purposes and for income tax return purposes. The significant components of deferred tax assets and liabilities are reflected in the following table:

December 31, (in millions)	**2001**	2000
Deferred tax assets		
Allowance for loan losses	**$ 1,502**	$ 1,058
Allowance other than loan losses	**768**	1,048
Employee benefits	**2,748**	2,599
Foreign operations	**632**	418
Fair value adjustments	**384**	—
Foreign tax credit carryforward	**100**(a)	225
Gross deferred tax assets	**$ 6,134**	$ 5,348
Deferred tax liabilities		
Leasing transactions	**$ 2,700**	$ 2,570
Depreciation and amortization	**773**	815
Fair value adjustments	**—**	367
Other	**255**	68
Gross deferred tax liabilities	**$ 3,728**	$ 3,820
Valuation allowance	**$ 165**	$ 165
Net deferred tax asset	**$ 2,241**	$ 1,363

(a) Includes $80 million expiring in 2004 and $20 million expiring in 2005.

A valuation allowance has been recorded in accordance with SFAS 109, primarily relating to tax benefits associated with foreign operations and with state and local deferred tax assets. The components of income tax expense included in the Consolidated statement of income were as follows:

Year ended December 31, (in millions)	**2001**	2000	1999
Current income tax expense			
U.S.	**$ 598**	$ 1,976	$ 1,220
Foreign	**822**	1,224	1,420
State and local	**65**	356	284
Total current expense	**1,485**	3,556	2,924
Deferred income tax expense (benefit)			
U.S.	**(618)**	(695)	998
Foreign	**(73)**	187	18
State and local	**53**	(42)	48
Total deferred expense (benefit)	**(638)**	(550)	1,064
Total income tax expense	**$ 847**	$ 3,006	$ 3,988

The preceding table does not reflect the tax effects of unrealized gains and losses on AFS securities, SFAS 133 transactions and certain tax benefits associated with JPMorgan Chase's employee stock plans. The tax effect of these items is recorded directly in Stockholders' equity. Stockholders' equity increased by $541 million and $1,860 million in 2001 and 1999, respectively, and decreased by $281 million in 2000 as a result of these tax effects.

Federal income taxes have not been provided on the undistributed earnings of certain foreign subsidiaries, to the extent such earnings have been reinvested abroad for an indefinite period of time. For 2001, such earnings approximated $263 million on a pre-tax basis. At December 31, 2001, the cumulative amount of undistributed earnings in these subsidiaries approximated $1,667 million. It is not practicable at this time to determine the income tax liability that would result upon repatriation of these earnings.

The tax expense (benefit) applicable to securities gains and losses for the years 2001, 2000 and 1999 was $286 million, $78 million and $(84) million, respectively.

A reconciliation of the applicable statutory U.S. income tax rate to the effective tax rate for the past three years is shown in the following table:

Year ended December 31,	**2001**	2000	1999
Statutory U.S. federal tax rate	**35.0%**	35.0%	35.0%
Increase (decrease) in tax rate resulting from:			
State and local income taxes, net of federal income tax benefit	**3.0**	2.3	1.9
Tax-exempt income	**(5.8)**	(2.1)	(1.1)
Foreign subsidiary earnings	**(3.1)**	(1.1)	(0.7)
Other, net	**3.9**	0.3	(0.4)
Effective tax rate	**33.0%**	34.4%	34.7%

The following table presents the domestic and foreign components of income before income tax expense:

Year ended December 31, (in millions)	**2001**	2000	1999
Domestic	**$ 1,258**	$ 5,844	$ 7,821
Foreign(a)	**1,308**	2,889	3,668
Income before income tax expense	**$ 2,566**	$ 8,733	$ 11,489

(a) For purposes of this table, foreign income is defined as income generated from operations located outside the United States.

18 Postretirement employee benefit plans

New domestic postretirement plans were approved in 2001, and the prior plans of Chase and J.P. Morgan were merged as of December 31, 2001.

Pension plans

JPMorgan Chase has a noncontributory domestic pension plan that provides defined benefits to substantially all domestic employees. The domestic plan employs a cash balance defined benefit formula that provides for benefits based on salary and service. For J.P. Morgan employees who were earning benefits under a prior plan formula as of December 31, 1998, the plan also provides a minimum benefit based on eligible compensation and service through December 31, 2003. The following table presents the funded status and actuarial assumptions for the domestic plan.

Domestic pension plan

As of or for the year ended December 31, (in millions)	2001	2000
Benefit obligation	$ (4,007)	$ (3,898)
Plan assets at fair value	4,048	4,314
Funded status	41	416
Unrecognized amounts	376	(212)
Prepaid pension cost reported in Other assets	$ 417	$ 204
Employer contributions to trust	$ 326	$ 9
Benefits paid out of trust	352	324
Weighted-average annualized actuarial		
Assumptions as of December 31:		
Discount rate	7.25%	7.5-7.75%(a)
Assumed rate of long-term return on plan assets	9.25%	9.0-9.50%(a)
Rate of increase in future compensation	4.5%	3.6-5.66%(a)

(a) Range of assumptions in 2000 of individual predecessor plans.

The periodic domestic pension plan expense (reported in Compensation expense) totaled $113 million in 2001, $76 million in 2000 and $75 million in 1999.

JPMorgan Chase also has a number of other defined benefit pension plans (i.e., domestic plans not subject to Title IV of the Employee Retirement Income Security Act) and several foreign pension plans. Compensation expense related to these plans totaled $50 million in 2001, $45 million in 2000 and $48 million in 1999. At December 31, 2001 and 2000, JPMorgan Chase's liability (included in Accrued expenses) related to plans that JPMorgan Chase elected not to prefund fully totaled $249 million and $234 million, respectively. A prepaid asset of $184 million was included in Other assets at December 31, 2001, as the Firm elected to fund certain plans during the year.

Compensation expense related to defined contribution plans totaled $208 million in 2001, $213 million in 2000 and $195 million in 1999.

Postretirement medical and life insurance

JPMorgan Chase provides postretirement medical and life insurance benefits to qualifying domestic and foreign employees. These benefits vary with length of service and date of hire and provide for limits on JPMorgan Chase's share of covered medical benefits. The medical benefits are contributory, while the life insurance benefits are noncontributory.

JPMorgan Chase's postretirement benefit obligations are funded with corporate-owned life insurance ("COLI") purchased on the lives of eligible employees and retirees. Assets of the COLI policies are held in a separate account with the insurance company. The insurance company invests the cash value of the policies in equities, bonds and other debt securities. While JPMorgan Chase owns the COLI policies, COLI proceeds (death benefits, withdrawals and other distributions) may be used only to reimburse the Firm for its net postretirement benefit claim payments and related administrative expenses.

Postretirement medical and life insurance liability

As of or for the year ended December 31, (in millions)	2001	2000
Benefit obligation	$ (1,056)	$ (918)
Plan assets at fair value	1,089	358
Funded status	33	(560)
Unrecognized amounts	(105)	(278)
Accrued postretirement medical and life insurance cost	$ (72)	$ (838)
Benefits paid(a)	$ 72	$ 66

(a) Net of $13 million and $12 million of retiree contributions in 2001 and 2000, respectively.

Postretirement medical and life insurance expense (reported in Compensation expense) totaled $27 million in 2001, $32 million in 2000 and $44 million in 1999.

The discount rates and rates of increase for future compensation used to determine the actuarial values for postretirement medical and life insurance benefits are generally consistent with those used for the domestic pension plan. At December 31, 2001, JPMorgan Chase's assumed weighted-average medical benefits cost trend rate used to measure the expected cost of benefits covered was 8.75% for 2001, declining gradually over seven years to a floor of 5.0%. The effect of a 1% change in the assumed medical cost trend rate would result in a corresponding change in the December 31, 2001 benefit obligation and 2001 periodic expense by up to 5.2%.

19 Employee stock-based incentives

Key employee stock-based awards

JPMorgan Chase has long-term stock-based incentive plans (the "LTI Plans") that provide for grants of common stock-based awards, including stock options, restricted stock and restricted stock units ("RSU") to certain key employees.

Under the LTI Plans, stock options are granted with exercise prices equal to JPMorgan Chase's common stock price on the grant date. Generally, options cannot be exercised until at least one year after the grant date and become exercisable over various periods as determined at the time of the grant. Options generally expire ten years after the grant date.

In January 2001, JPMorgan Chase granted 82.2 million options under the LTI Plans pursuant to a growth performance incentive program ("GPIP"). The exercise price of all GPIP awards is $51.22, the price of JPMorgan Chase's common stock on the grant date. One half of the GPIP options are exercisable after two years if a firm-wide performance target ("corporate performance goal") is achieved, with the remaining 50% exercisable after two years if certain business specific performance targets are achieved. The corporate performance goal will be achieved if cumulative diluted cash operating earnings per share for 2001 and 2002, excluding JPMorgan Partners, equals or exceeds $8.50. Business specific performance targets are based primarily on SVA. If the targets are not achieved, options will be exercisable after six years. As of December 31, 2001, 4.8 million GPIP options had been forfeited. All GPIP options expire ten years after the grant date.

The following table presents a summary of JPMorgan Chase's option activity under the LTI Plans, excluding GPIP, during the last three years.

Year ended December 31, (Amounts in thousands, except per share amounts)	**2001** Number of options	**2001** Weighted-average exercise price	2000 Number of options	2000 Weighted-average exercise price	1999 Number of options	1999 Weighted-average exercise price
Options outstanding, January 1	**175,232**	**$ 31.52**	183,456	$ 27.99	169,119	$ 23.28
Granted	**54,709**	**50.85**	22,488	48.24	45,361(a)	38.87
Exercised	**(28,954)**	**25.69**	(25,106)	20.25	(28,134)	17.72
Canceled	**(6,035)**	**48.92**	(5,606)	34.29	(2,890)	33.67
Options outstanding, December 31	**194,952**	**$ 37.26**	175,232	$ 31.52	183,456	$ 27.99
Options exercisable, December 31	**123,045**	**$ 30.34**	130,479	$ 27.46	100,702	$ 21.06

(a) Includes 5,124,000 options at a weighted-average exercise price of $15.61 related to the acquisition of H&Q.

The following table details the distribution of options outstanding under the LTI Plans, excluding GPIP, at December 31, 2001.

	Options outstanding			Options exercisable	
Range of exercise prices	Options outstanding	Weighted-average exercise price	Weighted-average remaining contractual life (in years)	Options exercisable	Weighted-average exercise price
$3.41 – $20.00	35,114	$ 15.66	2.4	34,855	$ 15.66
$20.01 – $35.00	32,695	27.61	4.8	31,107	27.49
$35.01 – $50.00	78,880	42.28	7.0	53,531	40.14
$50.01 – $65.58	48,263	51.32	8.9	3,552	51.68
Total	194,952	$ 37.26	6.3	123,045	$ 30.34

Restricted stock and RSUs are granted by JPMorgan Chase under the LTI Plans at no cost to the recipient. Restricted stock/units are subject to forfeiture until certain restrictions have lapsed, including continued employment for a specified period. The recipient of a share of restricted stock is entitled to voting rights and dividends on the common stock. An RSU entitles the recipient to receive a share of common stock after the applicable restrictions lapse; the recipient is entitled to receive cash payments equivalent to dividends on the underlying common stock during the period the RSU is outstanding.

During 2001, 25.9 million restricted stock/unit awards (all payable solely in stock) were granted by JPMorgan Chase. Of the 25.9 million restricted stock/unit awards granted, vesting of 1.3 million of such awards also is conditioned upon certain vesting periods being met and JPMorgan Chase's stock price reaching and sustaining target prices (the "targets") during the service period. The awards are forfeited in their entirety if the targets are not achieved ("forfeitable awards"). Half of the 2001 forfeitable awards have a target price of $75, which exceeded the stock price on the grant date by 46%. The other half have a target price of $85, which exceeded the stock price on the grant date by 66%.

Under the LTI Plans, in 2000 and 1999, 36.1 million and 26.2 million awards (all payable solely in stock), respectively, were granted by JPMorgan Chase. In both years, 1.3 million of the restricted stock/unit awards that were granted are forfeitable if target prices are not achieved. None of the 2000 and 1999 forfeitable awards have vested as the target prices have not been achieved.

A portion of certain employees' incentive compensation that exceeds specified levels is awarded in restricted stock or RSUs (the "required deferral plan") that are issued under the LTI Plans. These restricted stock/units vest solely based on continued employment. During 2001, 2000 and 1999, 137,500, 160,000 and 149,000, respectively, of such awards were granted.

Broad-based employee stock options

In January 2001, JPMorgan Chase granted Value Sharing Plan awards, under which 26.0 million options to purchase common stock were granted to all eligible full-time (375 options each) and part-time (188 options each) employees. This award is the second of three equal annual grants to eligible active employees. The exercise price for each annual grant is equal to JPMorgan Chase's common stock price on the grant date. The options become exercisable after five years, or earlier if JPMorgan Chase's stock price reaches and sustains a target price for a minimum period. The 2000 and 2001 grants have not achieved their price targets.

Under the Value Sharing Plan adopted by JPMorgan Chase in December 1996, annual awards were granted in December of 1996, 1997 and 1998. The 1996, 1997 and 1998 awards became exercisable in 1997, 1998 and 1999, respectively, as a result of the target prices having been achieved. All outstanding options expire ten years after their respective grant dates.

The following table presents a summary of JPMorgan Chase's broad-based employee stock option plan activity during the past three years:

Year ended December 31,	**2001**		2000		1999	
(Amounts in thousands, except per share amounts)	**Number of options**	**Weighted-average exercise price**	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price
Options outstanding, January 1	**67,237**	**$ 38.17**	50,937	$ 31.66	78,810	$ 33.10
Granted	**26,042**	**51.22**	28,054	49.79	—	—
Exercised	**(2,267)**	**27.65**	(8,019)	31.44	(24,858)	35.24
Canceled	**(3,619)**	**49.54**	(3,735)	51.15	(3,015)	39.85
Options outstanding, December 31	**87,393**	**$ 41.86**	67,237	$ 38.17	50,937	$ 31.66
Options exercisable, December 31	**40,390**	**$ 31.76**	42,768	$ 31.51	50,937	$ 31.66

The following table details the distribution of broad-based employee stock options outstanding at December 31, 2001.

	Options outstanding			Options exercisable	
Range of exercise prices	Options outstanding	Weighted-average exercise price	Weighted-average remaining contractual life (in years)	Options exercisable	Weighted-average exercise price
$10.26 – $20.00	7,763	$ 12.81	2.3	7,763	$ 12.81
$20.01 – $35.00	8,145	28.79	5.0	8,145	28.79
$35.01 – $50.00	47,101	44.06	7.3	24,482	38.76
$50.01 – $51.50	24,384	51.22	9.1	—	—
Total	87,393	$ 41.86	7.1	40,390	$ 31.76

Comparison of the fair and intrinsic value based measurement methods

JPMorgan Chase accounts for its employee stock-based compensation plans under the intrinsic value based method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." There is no expense recognized for stock options, as they have no intrinsic value on the grant date. Forfeitable restricted stock and RSUs are expensed based upon the target prices. The expense for restricted stock and RSUs other than forfeitable awards is measured by the grant-date stock price. Pre-tax stock compensation expense recognized in reported earnings totaled $0.8 billion in 2001, $1.1 billion in 2000 and $1.0 billion in 1999.

If JPMorgan Chase had adopted the fair value based method pursuant to SFAS 123, options would be valued using a Black-Scholes model. The following table presents net income and basic and diluted earnings per share as reported and after the impact of applying SFAS 123. The higher impact from applying SFAS 123 in 2001 reflects the lower level of net income and increased options granted during 2001.

Year ended December 31, (in millions, except per share data)		2001	2000	1999
Net income	As reported	**$ 1,694**	$ 5,727	$ 7,501
	After applying SFAS 123	**1,072**	5,371	7,073
Basic earnings per share	As reported	**$ 0.83**	$ 2.99	$ 3.87
	After applying SFAS 123	**0.51**	2.80	3.64
Diluted earnings per share	As reported	**$ 0.80**	$ 2.86	$ 3.69
	After applying SFAS 123	**0.50**	2.68	3.47

The following table presents JPMorgan Chase's weighted-average grant-date fair value and assumptions used to value the options using a Black-Scholes model for equity awards granted:

Year ended December 31,	2001	2000	1999
Weighted-average grant-date fair value			
Options granted to:			
Key employees	**$ 18.39**	$ 18.79	$ 12.99
All other employees	**14.60**	17.66	—
All restricted stock and RSUs payable in stock	**49.21**	42.88	39.25
Weighted-average annualized option valuation assumptions			
Risk-free interest rate	**5.08%**	6.65%	5.14%
Expected dividend yield(a)	**2.51**	2.25	2.41
Expected common stock price volatility	**37**	38	30
Assumed weighted-average expected life of options (in years)			
Key employee stock options	**6.8**	6.8	6.7
Broad-based employee stock options	**3.8**	5.5	—

(a) The expected dividend yield is based primarily on historical data at the grant dates.

20 Restrictions on cash and intercompany funds transfers

The Federal Reserve Board requires depository institutions to maintain cash reserves with a Federal Reserve Bank. The average amount of reserve balances deposited by JPMorgan Chase's bank subsidiaries with various Federal Reserve Banks was approximately $1.1 billion in 2001 and $0.6 billion in 2000.

Restrictions imposed by federal law prohibit JPMorgan Chase and certain other affiliates from borrowing from banking subsidiaries unless the loans are secured in specified amounts. Such secured loans to JPMorgan Chase or to other affiliates generally are limited to 10% of the banking subsidiary's total capital, as determined by the risk-based capital guidelines; the aggregate amount of all such loans is limited to 20% of the banking subsidiary's total capital. JPMorgan Chase and its affiliates were well within these limits throughout the year.

The principal sources of JPMorgan Chase's income (on a parent company-only basis) are dividends and interest from JPMorgan Chase Bank and the other banking and nonbanking subsidiaries of JPMorgan Chase. In addition to dividend restrictions set forth in statutes and regulations, the Federal Reserve Board, the Office of the Comptroller of the Currency ("OCC") and the Federal Deposit Insurance Corporation ("FDIC") have authority under the Financial Institutions Supervisory Act to prohibit or to limit the payment of dividends by the banking organizations they supervise, including JPMorgan Chase and its subsidiaries that are banks or bank holding companies, if, in the banking regulator's opinion, payment of a dividend would constitute an unsafe or unsound practice in light of the financial condition of the banking organization.

At December 31, 2001 and 2000, JPMorgan Chase's bank subsidiaries could pay, in the aggregate, $2.2 billion and $2.1 billion, respectively, in dividends to their respective bank holding companies without prior approval of their relevant banking regulators.

In compliance with rules and regulations established by domestic and foreign regulators, cash of $2.0 billion and $1.6 billion and securities with a market value of $4.4 billion and $6.2 billion were segregated in special bank accounts for the benefit of securities and futures brokerage customers as of December 31, 2001 and 2000, respectively.

21 Capital

There are two categories of risk-based capital: core capital (referred to as Tier 1 capital) and supplementary capital (referred to as Tier 2 capital). Tier 1 capital includes common stockholders' equity, qualifying preferred stock and minority interest less goodwill and other adjustments. Tier 2 capital consists of preferred stock not qualifying as Tier 1, long-term debt and other instruments qualifying as Tier 2, the aggregate allowance for credit losses up to a certain percentage of risk-weighted assets, less investments in certain subsidiaries. Under the risk-based capital guidelines of the Federal Reserve Board, JPMorgan Chase is required to maintain minimum ratios of Tier 1 and total (Tier 1 plus Tier 2) capital to risk-weighted assets. Failure to meet these minimum requirements could result in actions taken by the Federal Reserve Board. Bank subsidiaries also are subject to these capital requirements by their respective primary regulators. Management believes that as of December 31, 2001, JPMorgan Chase met all capital requirements to which it was subject and is not aware of any subsequent events that would alter this classification.

The following table presents the risk-based capital ratios for JPMorgan Chase and its significant banking subsidiaries:

December 31, 2001 (in millions)	Tier 1 capital[b][c]	Total capital[c]	Risk-weighted assets[d]	Adjusted average assets	Tier 1 capital[c][e] ratio	Total capital[c][e] ratio	Tier 1 leverage[c][f] ratio
J.P. Morgan Chase & Co.[a]	**$37,713**	**$54,073**	**$455,123**	**$729,931**	**8.29%**	**11.88%**	**5.17%**
JPMorgan Chase Bank	**31,556**	**42,560**	**379,885**	**583,008**	**8.31%**	**11.20%**	**5.41%**
Chase Manhattan Bank USA, N.A.	**3,885**	**5,727**	**48,025**	**48,970**	**8.09%**	**11.93%**	**7.93%**
Well capitalized ratios[g]					**6.00%**	**10.00%**	**5.00%**[h]
Minimum capital ratios[g]					**4.00%**	**8.00%**	**3.00%**

(a) Assets and capital amounts for JPMorgan Chase's banking subsidiaries reflect intercompany transactions, whereas the respective amounts for JPMorgan Chase reflect the elimination of intercompany transactions.
(b) In accordance with Federal Reserve Board risk-based capital guidelines, minority interest for JPMorgan Chase includes preferred stock instruments issued by subsidiaries of JPMorgan Chase. For a further discussion, see Notes 11 and 12.
(c) The provisions of SFAS 115 do not apply to the calculations of the Tier 1 capital and Tier 1 leverage ratios. The risk-based capital guidelines permit the inclusion of 45% of the pre-tax unrealized gain on certain equity securities in the calculation of Tier 2 capital.
(d) Includes off-balance sheet risk-weighted assets in the amounts of $155,191 million, $144,794 million and $4,816 million, respectively, at December 31, 2001.
(e) Tier 1 capital or total capital, as applicable, divided by risk-weighted assets. Risk-weighted assets include assets and off-balance sheet positions, weighted by the type of instruments and the risk weight of the counterparty, collateral or guarantor.
(f) Tier 1 capital divided by adjusted average assets (net of allowance for loan losses, goodwill and certain intangible assets).
(g) As defined by the regulations issued by the Federal Reserve Board, the FDIC and the OCC.
(h) Represents requirements for bank subsidiaries pursuant to regulations issued under the Federal Deposit Insurance Corporation Improvement Act. There is no Tier 1 leverage component in the definition of a well capitalized bank holding company.

The following table shows the components of the Firm's Tier 1 and total capital.

December 31, (in millions)	2001	2000
Tier 1 capital		
Common stockholders' equity	**$40,530**	$41,062
Nonredeemable preferred stock	**1,009**	1,271
Minority interest[a]	**5,084**	4,662
Less: Goodwill and investments in certain subsidiaries	**8,231**	8,783
Nonqualifying intangible assets	**679**	631
Tier 1 capital	**$37,713**	$37,581
Tier 2 capital		
Long-term debt and other instruments qualifying as Tier 2	**12,051**	12,833
Qualifying allowance for credit losses	**4,759**	3,955
Less: Investment in certain subsidiaries	**450**	917
Tier 2 capital	**16,360**	15,871
Total qualifying capital	**$54,073**	$53,452

(a) Minority interest includes trust preferred stocks of certain business trust subsidiaries and the preferred stock of a Real Estate Investment Trust subsidiary of JPMorgan Chase. For a further discussion, see Notes 11 and 12.

22 Premises and equipment, goodwill and other intangibles

Premises and equipment, including leasehold improvements, are carried at cost less accumulated depreciation and amortization. JPMorgan Chase generally computes depreciation using the straight-line method over the estimated useful life of an asset. For leasehold improvements, the Firm uses the straight-line method over the lesser of the remaining term of the leased facility or the estimated economic life of the improvement. JPMorgan Chase capitalizes certain costs associated with the acquisition or development of internal-use software. Once the software is ready for its intended use, these costs are amortized on a straight-line basis over the software's expected useful life.

Goodwill and other acquired intangibles, such as core deposits and credit card relationships, are amortized over the estimated periods to be benefited, generally ranging from 7 to 25 years. An impairment review is performed periodically on these assets.

Capitalized mortgage servicing assets consist of purchased and originated servicing rights. These rights are amortized in proportion to, and over the period of, the estimated future net servicing income stream of the underlying mortgage loans. Mortgage servicing rights are periodically evaluated for impairment based on their current fair values. For purposes of evaluating and measuring impairment of MSRs, the Firm stratifies its portfolio on the basis of the predominant risk characteristics: loan type and interest rate.

23 Commitments and contingencies

At December 31, 2001, JPMorgan Chase and its subsidiaries were obligated under a number of noncancelable operating leases for premises and equipment used primarily for banking purposes. Certain leases contain rent escalation clauses for real estate taxes and other operating expenses and renewal option clauses calling for increased rents. No lease agreement imposes any restrictions on JPMorgan Chase’s ability to pay dividends, engage in debt or equity financing transactions, or enter into further lease agreements. Future minimum rental payments required under operating leases with noncancelable lease terms that expire after December 31, 2001 were as follows:

Year ended December 31, (in millions)	
2002	$ 615
2003	596
2004	549
2005	494
2006	466
After	4,336
Total minimum payments required	7,056
Less: Sublease rentals under noncancelable subleases	139
Net minimum payment required	$ 6,917

Total rental expense was as follows:

Year ended December 31, (in millions)	**2001**	2000	1999
Gross rentals	**$ 804**	$ 716	$ 654
Sublease rentals	**(135)**	(79)	(133)
Net rent expense	**$ 669**	$ 637	$ 521

At December 31, 2001, assets were pledged to secure public deposits and for other purposes. The significant components of the assets pledged were as follows:

At December 31, (in billions)	**2001**	2000
Securities	**$ 50**	$ 44
Loans	**31**	20
Other[(a)]	**188**	177
Total assets pledged	**$269**	$ 241

(a) Primarily composed of trading assets and reverse repurchase agreements.

Collateral that can be sold or repledged was composed as follows:

At December 31, (in billions)	**2001**	2000
Collateral received[(a)]	**$166**	$ 147
Collateral used[(b)]	**134**	136

(a) Generally obtained under resale and securities borrowing agreements.
(b) Generally as collateral under repurchase agreements or to cover short sales.

JPMorgan Chase and its subsidiaries are defendants in a number of legal proceedings. After reviewing with counsel all such actions and proceedings pending against or involving JPMorgan Chase and its subsidiaries, management does not expect the aggregate liability or loss, if any, resulting from such proceedings to have a material adverse effect on the consolidated financial condition of JPMorgan Chase although the outcome of a particular proceeding may be material to JPMorgan Chase’s results of operations for any particular period depending on the size of the loss or liability relative to JPMorgan Chase’s income for that period.

The Firm has $1,130 million of nonperforming Enron-related other receivables, which represent surety receivables and a letter of credit that are the subject of litigation with insurance companies and a foreign bank.

JPMorgan Chase may guarantee the obligations of its subsidiaries. These guarantees rank on a parity with all other unsecured and unsubordinated indebtedness of JPMorgan Chase. See Note 11 for a discussion of JPMorgan Chase’s guarantees of long-term debt-related instruments of its subsidiaries.

24 Accounting for derivative instruments and hedging activities

On January 1, 2001, JPMorgan Chase adopted SFAS 133, which establishes accounting and reporting standards for derivative instruments, including derivative instruments embedded in other contracts used for trading and hedging activities. All derivatives, whether designated for hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, all changes in the fair value of the derivative and changes in the fair value of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portion of the change in the fair value of the derivative is recorded in other comprehensive income (“OCI”) and recognized in the income statement when the hedged item affects earnings. The ineffective portions of cash flow hedges are immediately recognized in earnings.

The majority of JPMorgan Chase's derivatives are entered into for trading purposes and were not affected by the adoption of SFAS 133. The Firm also uses derivatives as an end user to hedge market exposures, modify the interest rate characteristics of related balance sheet instruments or meet longer-term investment objectives. Both trading and end-user derivatives are recorded at fair value in Trading assets and Trading liabilities.

The adoption of SFAS 133 resulted in an after-tax reduction to net income of $25 million and an after-tax reduction to OCI of $36 million. The impact of reclassifying certain SFAS 115 securities from AFS to trading was not material at the adoption date.

Due to SFAS 133, JPMorgan Chase changed certain hedging strategies and elected not to designate some derivatives utilized to manage economic exposure as accounting hedges. For example, to moderate its use of derivatives, the mortgage business began using AFS securities as economic hedges of mortgage servicing rights.

Certain interest rate derivatives are recorded in Trading revenue due to operational and cost constraints of applying hedge accounting. Changes in the fair value of credit derivatives used to manage the Firm's credit risk are recorded in Trading revenue because of the difficulties in qualifying such contracts as hedges of loans and commitments. Because of hedge ineffectiveness and management's decision to no longer apply hedge accounting but to continue to enter into economic hedges to support certain business strategies, the application of SFAS 133 may cause volatility in quarterly earnings and equity.

Prior to the adoption of SFAS 133, derivatives used for hedging purposes generally were not recorded on the Consolidated balance sheet and the unrealized gains and losses were deferred on those contracts.

Derivatives used as hedges must be considered to be highly effective at reducing the risk associated with the exposure being hedged. Each derivative must be designated as a hedge, with documentation of the risk management objective and strategy for the hedge, including identification of the hedging instrument, the hedged item and the risk exposure, and how effectiveness is assessed prospectively and retrospectively.

JPMorgan Chase's fair value hedges primarily include hedges of fixed rate long-term debt, loans, AFS securities and mortgage servicing rights. Interest rate swaps are the most common type of derivative contract used to modify exposure to interest rate risk by converting fixed rate assets and liabilities to a floating rate. All amounts have been included in earnings consistent with the hedged transaction, primarily net interest income, Fees and commissions and Other revenue. JPMorgan Chase did not recognize any gains or losses during 2001 on firm commitments that no longer qualify as fair value hedges.

JPMorgan Chase enters into derivative contracts to hedge exposure to variability in cash flows for floating rate financial instruments and forecasted transactions, that primarily include the rollover of short-term assets and liabilities, loan sales and anticipated securities transactions. Interest rate swaps, futures and options are the most common instruments used to reduce the impact of interest rate changes on future earnings. All amounts have been included in earnings consistent with the hedged transaction, primarily net interest income.

JPMorgan Chase primarily uses forward foreign exchange contracts and foreign currency denominated debt instruments to protect the value of its net investments in its foreign subsidiaries in foreign currencies. The portion of the hedging instruments excluded from the assessment of hedge effectiveness (forward points) is recorded in Net interest income.

The following table presents derivative instrument and hedging related activities for the period indicated.

Year ended December 31, (in millions)	2001
Fair value hedge ineffective net gains[a]	$ 386
Cash flow hedge ineffective net losses[a]	(7)
Cash flow hedging gains on forecasted transactions that failed to occur	40[b]
Expected reclassifications from OCI to earnings[c]	(177)

(a) Includes ineffectiveness and the components of hedging instruments that have been excluded from the assessment of hedge effectiveness.
(b) Represents recognized gains in net interest income for cash flow hedges of AFS security purchases that were discontinued because the forecasted transaction failed to occur.
(c) Represents the reclassification of net losses on derivative instruments from OCI to earnings that are expected to occur over the next 12 months. The maximum length of time over which forecasted transactions are hedged is ten years, related to core lending activities.

25 Off-balance sheet lending-related financial instruments

JPMorgan Chase utilizes lending-related financial instruments as one method by which to meet the financing needs of its customers. JPMorgan Chase issues commitments to extend credit, standby letters of credit and guarantees and also provides securities-lending services. For lending-related financial instruments, the contractual amount of the financial instrument represents the maximum potential credit risk if the counterparty does not perform according to the terms of the contract. A large majority of these commitments expire without being drawn upon. As a result, total contractual amounts are not representative of the Firm's actual future credit exposure or liquidity requirements for these commitments.

Additionally, to provide for risk of losses inherent in the credit extension process, management computes specific and expected loss components as well as a residual component for lending-related commitments. At December 31, 2001 and 2000, the Allowance for credit losses on lending-related commitments, which is reported in Other liabilities, was $282 million and $283 million, respectively.

The following table summarizes the contract amounts relating to JPMorgan Chase's lending-related financial instruments at December 31, 2001 and 2000:

Off-balance sheet lending-related financial instruments

December 31, (in millions)	2001	2000
Credit card lines	$ 104,785	$ 93,273
Other unfunded commitments to extend credit[a]	204,397	217,547
Standby letters of credit and guarantees[a]	41,163	43,091
Other letters of credit[a]	2,151	2,516
Customers' securities lent	111,167	95,040

(a) Net of risk participations totaling $13,935 million and $10,203 million at December 31, 2001 and 2000, respectively.

Unfunded commitments to extend credit are agreements to lend to a customer who has complied with predetermined contractual conditions. Commitments generally have fixed expiration dates. Unfunded commitments to extend credit include $41.9 billion of commitments to SPEs.

Standby letters of credit and guarantees are conditional commitments issued by JPMorgan Chase generally to guarantee the performance of a customer to a third party in borrowing arrangements, such as commercial paper issuances, bond financing, construction and similar transactions. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loan facilities to customers and may be reduced by participations to third parties. JPMorgan Chase holds collateral to support those standby letters of credit and guarantees when deemed necessary.

Customers' securities lent are customers' securities held by JPMorgan Chase, as custodian, which are lent to third parties. JPMorgan Chase obtains collateral, with a market value exceeding 100% of the contract amount, for customers' securities lent, which is used to indemnify customers against possible losses resulting from third-party defaults.

26 Credit risk concentrations

Concentrations of credit risk arise when a number of customers are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions.

JPMorgan Chase regularly monitors various segments of its credit risk portfolio to assess potential concentration risks and to obtain collateral when deemed necessary.

JPMorgan Chase's exposures within these major segments are diversified, and these diversification factors reduce concentration risk. More information about geographic and other concentrations can be found at the following tables in the MD&A:

Industry diversification profile	Page 50
Derivative and foreign exchange contracts	Page 52
Selected country exposure	Page 52
Residential mortgage loans by geographic region	Page 53
Managed credit card loans by geographic region	Page 53
Auto financings by geographic region	Page 53

The table below indicates major product and industry segments, including both on-balance sheet (principally loans) and off-balance sheet (principally unfunded commitments to extend credit) exposures:

	2001 distributions			2000 distributions		
December 31, (in billions)	**Credit exposure**	**On-balance sheet**	**Off-balance sheet**	Credit exposure	On-balance sheet	Off-balance sheet
Credit cards	**$ 124.2**	**$ 19.4**	**$ 104.8**	$ 111.8	$ 18.5	$ 93.3
Depository institutions	**65.2**	**43.3**	**21.9**	68.1	47.3	20.8
Residential mortgages	**64.0**	**59.9**	**4.1**	54.2	50.6	3.6
Auto financings	**26.0**	**25.7**	**0.3**	20.0	19.8	0.2
Commercial real estate	**9.1**	**4.3**	**4.8**	9.7	6.3	3.4
Total	**$ 288.5**	**$ 152.6**	**$ 135.9**	$ 263.8	$ 142.5	$ 121.3

27 Fair value of financial instruments

Fair value is defined as the value at which positions could be closed out or sold in a transaction with a willing and knowledgeable counterparty over a period of time consistent with JPMorgan Chase's trading or investment strategy.

The accounting for an asset or liability may differ based on the type of instrument and/or its use in a trading or investing strategy. Generally, the measurement framework recorded in financial statements is one of the following:

- Recorded at fair value on the balance sheet with changes in fair value recorded each period in the Consolidated statement of income;
- Recorded at fair value on the balance sheet with changes in fair value recorded each period in a separate component of Stockholders' equity and as part of other comprehensive income;
- Recorded at cost (less other-than-temporary impairments) with changes in fair value not recorded in the financial statements but disclosed in the notes thereto; or
- Recorded at the lower-of-cost or market.

Fair value is based on quoted market prices, where available. If listed prices or quotes are not available, fair value is based on internally developed models that primarily use market-based or independent information as inputs. These methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Valuation adjustments are made, at times, based on defined methodologies that are applied consistently over time and that are intended to ensure that positions are carried at the best estimate of fair value. Valuation adjustments include amounts to reflect counterparty credit quality, liquidity and concentration concerns, and ongoing servicing costs. JPMorgan Chase's valuation process is continually subject to a rigorous review, which includes valuation model and methodology reviews and price testing with independent sources where appropriate.

Certain financial instruments and all nonfinancial instruments are excluded from the scope of SFAS 107. Accordingly, the fair value disclosures required by SFAS 107 provide only a partial estimate of the fair value of JPMorgan Chase. For example, JPMorgan Chase has developed long-term relationships with its customers through its deposit base and its credit card accounts, commonly referred to as core deposit intangibles and credit card relationships. In the opinion of management, these items in the aggregate add significant value to JPMorgan Chase, but their fair value is not disclosed in this Note.

The following captions describe the methodologies and assumptions used, by financial instrument, to determine fair value.

Financial assets

Assets for which fair value approximates carrying value

Fair values of certain financial assets carried at cost, including cash and due from banks, deposits with banks, Federal funds sold and securities purchased under resale agreements, securities borrowed, short-term receivables and accrued interest receivable are considered to approximate their respective carrying values due to their short-term nature and generally negligible credit losses.

Assets where fair value differs from cost

JPMorgan Chase's debt, equity and derivative instruments are carried at their estimated fair value. Quoted market prices, when available, are used to determine the fair value of trading instruments. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of instruments with similar characteristics or discounted cash flows.

Securities

Fair values of actively-traded securities are determined by the secondary market, while the fair values for nonactively traded securities are based on independent broker quotations.

Derivatives

Fair value for derivatives is determined based on the following:

- Position valuation principally based on liquid market pricing as evidenced by exchange traded prices, broker-dealer quotations or related input factors which assume all counterparties have the same credit rating;
- Adjustments to the resulting portfolio valuation to reflect the credit quality of individual counterparties that are principally based on market prices for credit risk; and
- Other pricing adjustments to take into consideration are liquidity, ongoing servicing costs, transaction hedging costs and other factors.

Loans

Fair value for loans is determined using methodologies suitable for each type of loan:

- Fair value for the commercial loan portfolio is based on the assessment of the two main risk components of the portfolio: credit and interest. The estimated cash flows are adjusted to reflect the inherent credit risk and then are discounted using a rate appropriate for each maturity that incorporates the effects of interest rate changes.
- Fair values for consumer installment loans (including auto financings) and residential mortgages for which market rates for comparable loans are readily available are based on discounted cash flows, adjusted for prepayments. The discount rates used for consumer installment loans are current rates offered by commercial banks. For residential mortgages, secondary market yields for comparable mortgage-backed securities, adjusted for risk, are used.
- Fair value for credit card receivables is based on discounted expected cash flows. The discount rates used for credit card receivables incorporate the effects of interest rate changes only since the estimated cash flows are adjusted for credit risk.
- The fair value of loans, in the held-for-sale and trading portfolios, is generally based on observable market prices and prices of similar instruments, including bonds and credit derivatives. Otherwise, if market prices are not available, the fair value is based on the estimated cash flows adjusted for credit risk that is discounted using a rate appropriate for each maturity that incorporates the effects of interest rate changes.

Other assets

This caption includes private equity investments and mortgage servicing rights.

The fair value of public securities held by JPMP are marked-to-market at the quoted public value. To determine the carrying value, JPMP's valuation policy for public securities incorporates the use of liquidity discounts and price averaging methodologies in certain circumstances to take into account the fact that JPMP cannot immediately realize the quoted public values as a result of the regulatory, corporate, or other contractual sales restrictions generally imposed on these holdings. Private investments are initially carried at cost, which is viewed as an approximation of fair value. The carrying value of private investments is adjusted to reflect valuation changes resulting from unaffiliated party transactions and for evidence of a decline in value.

Fair value for mortgage servicing rights is estimated using a discounted future cash flow model that considers portfolio characteristics and assumptions regarding prepayment speeds, delinquency rates, ancillary revenues and other economic factors. The Firm reviews such assumptions against market comparables, if available.

Financial liabilities

Liabilities for which fair value approximates carrying value

SFAS 107 requires that the fair value disclosed for deposit liabilities with no stated maturity (i.e., demand, savings and certain money market deposits) be equal to the carrying value. SFAS 107 does not allow for the recognition of the inherent funding value of these instruments.

Fair value of federal funds purchased and securities sold under repurchase agreements, commercial paper, other borrowed funds, accounts payable and accrued liabilities is considered to approximate their respective carrying values due to their short-term nature.

Interest-bearing deposits

Fair value of interest-bearing deposits is estimated by discounting cash flows based on contractual maturities of funds having similar interest rates and similar maturities.

Long-term debt-related instruments

Fair value for long-term debt, including the guaranteed preferred beneficial interests in the Firm's junior subordinated deferrable interest debentures, is based on current market rates and is adjusted for JPMorgan Chase's credit quality.

Commitments to extend credit

JPMorgan Chase has reviewed the unfunded portion of its commitments to extend credit as well as its standby and other letters of credit and, based on market prices observed at the point of origination to extend undrawn credit, has determined that the fair value of such financial instruments is not material.

The following table presents the carrying value and estimated fair value of financial assets and liabilities valued under SFAS 107. Accordingly, certain amounts which are not considered financial instruments are excluded from the table.

	2001			2000		
December 31, (in billions)	Carrying value	Estimated fair value	Appreciation/ (depreciation)	Carrying value	Estimated fair value	Appreciation/ (depreciation)
Financial assets						
Assets for which fair value approximates carrying value	**$ 150.4**	**$ 150.4**	**$ —**	$ 154.8	$ 154.8	$ —
Trading assets	**189.4**	**189.4**	**—**	215.6	215.6	—
Securities available-for-sale	**59.3**	**59.3**	**—**	73.1	73.1	—
Securities held-to-maturity	**0.5**	**0.5**	**—**	0.6	0.6	—
Loans, net of allowance for loan losses	**212.9**	**218.6**	**5.7**	212.4	213.6	1.2
Related derivatives	**NA**	**NA**	**NA**	—	(0.1)	(0.1)
Other assets	**65.5**	**65.8**	**0.3**	34.5	35.2	0.7
Related derivatives	**NA**	**NA**	**NA**	—	0.3	0.3
Total financial assets	**$ 678.0**	**$ 684.0**	**$ 6.0**	$ 691.0	$ 693.1	$ 2.1
Financial liabilities						
Liabilities for which fair value approximates carrying value	**$ 282.0**	**$ 282.0**	**$ —**	$ 277.7	$ 277.7	$ —
Interest-bearing deposits	**216.7**	**216.8**	**(0.1)**	216.7	217.0	(0.3)
Trading liabilities	**109.1**	**109.1**	**—**	128.7	128.7	—
Long-term debt-related instruments	**43.6**	**44.4**	**(0.8)**	47.2	47.2	—
Related derivatives	**NA**	**NA**	**NA**	—	(0.3)	0.3
Total financial liabilities	**$ 651.4**	**$ 652.3**	**$ (0.9)**	$ 670.3	$ 670.3	$ —
Net appreciation (depreciation)			**$ 5.1**			$ 2.1

NA- Not applicable as SFAS 133 was adopted effective January 1, 2001.

28 International operations

The following table presents income statement information of JPMorgan Chase by major geographic areas. JPMorgan Chase defines international activities as business transactions that involve customers residing outside the U.S., and the information presented below is based primarily on the domicile of the customer. However, many of the Firm's domestic operations service international businesses.

As these operations are highly integrated, estimates and subjective assumptions have been made to apportion revenue and expense between domestic and international operations. The estimates and assumptions used to apportion revenue and expense are consistent with the allocations used for JPMorgan Chase's segment reporting as set forth in Note 29.

JPMorgan Chase's long-lived assets for the periods presented are not considered by management to be significant in relation to total assets. The majority of its long-lived assets are located domestically.

For the year ended December 31, (in millions)	Revenue[a]	Expense[b]	Income (loss) before income taxes	Net income (loss)
2001				
Europe/Middle East and Africa	**$ 6,725**	**$ 5,128**	**$ 1,597**	**$ 1,054**
Asia and Pacific	**1,934**	**2,229**	**(295)**	**(195)**
Latin America and the Caribbean	**686**	**703**	**(17)**	**(11)**
Other	**43**	**38**	**5**	**3**
Total international	**9,388**	**8,098**	**1,290**	**851**
Total domestic	**19,662**	**18,386**	**1,276**	**843**
Total	**$ 29,050**	**$ 26,484**	**$ 2,566**	**$ 1,694**
2000				
Europe/Middle East and Africa	$ 7,466	$ 4,259	$ 3,207	$ 1,980
Asia and Pacific	3,194	1,906	1,288	837
Latin America and the Caribbean	995	737	258	153
Other	41	48	(7)	(7)
Total international	11,696	6,950	4,746	2,963
Total domestic	21,238	17,251	3,987	2,764
Total	$ 32,934	$ 24,201	$ 8,733	$ 5,727
1999				
Europe/Middle East and Africa	$ 5,899	$ 3,267	$ 2,632	$ 1,612
Asia and Pacific	1,853	1,647	206	137
Latin America and the Caribbean	1,696	794	902	555
Other	65	29	36	21
Total international	9,513	5,737	3,776	2,325
Total domestic	21,417	13,704	7,713	5,176
Total	$ 30,930	$ 19,441	$11,489	$ 7,501

(a) Revenue is composed of net interest income and noninterest revenue.
(b) Expense is composed of noninterest expense and provision for loan losses.

29 Segment information

JPMorgan Chase is organized into five major businesses. These businesses are segmented based on the products and services provided, or the type of customer serviced, and reflect the manner in which financial information is evaluated by management.

JPMorgan Chase uses SVA, operating earnings and cash operating earnings as its principal measures of segment profitability. For a definition of these measurements, see the Glossary of terms on pages 100 and 101.

Operating revenues and expenses directly associated with each segment are included in determining the segment's operating earnings. Guidelines exist for assigning those remaining expenses that are not directly incurred by the segments, such as overhead and taxes. In addition, management has developed a risk-adjusted

Segment results and reconciliation (table continued on next page)

Year ended December 31,	Investment Bank			Treasury & Securities Services			Investment Management & Private Banking		
(in millions, except ratios)	**2001**	2000	1999	**2001**	2000	1999	**2001**	2000	1999
Operating net interest income	**$ 3,092**	$ 2,596	$ 2,507	**$ 1,391**	$ 1,403	$ 1,230	**$ 547**	$ 645	$ 549
Operating noninterest revenue	**11,893**	13,644	11,354	**2,078**	1,968	1,818	**2,393**	2,472	1,778
Equity-related income(b)	**(6)**	16	1	**—**	22	12	**36**	106	72
Intersegment revenue(c)	**(80)**	(293)	(264)	**163**	171	96	**109**	139	100
Total revenue	**14,899**	15,963	13,598	**3,632**	3,564	3,156	**3,085**	3,362	2,499
Noninterest expense	**8,978**	10,064	7,878	**2,563**	2,489	2,307	**2,486**	2,516	1,958
Amortization of intangibles	**142**	93	7	**82**	70	68	**289**	144	37
Total expense	**9,120**	10,157	7,885	**2,645**	2,559	2,375	**2,775**	2,660	1,995
Operating margin	**5,779**	5,806	5,713	**987**	1,005	781	**310**	702	504
Credit costs	**1,155**	255	175	**8**	4	8	**16**	26	30
Operating earnings (loss) before taxes	**4,624**	5,551	5,538	**979**	1,001	773	**294**	676	474
Income taxes (benefit)	**1,805**	2,142	2,151	**361**	372	293	**113**	251	172
Operating earnings (loss)	**$ 2,819**	$ 3,409	$ 3,387	**$ 618**	$ 629	$ 480	**$ 181**	$ 425	$ 302
Restructuring costs and special items	**(1,240)**	(150)	(23)	**(166)**	(61)	(1)	**(371)**	(21)	—
Net income (loss)	**1,579**	3,259	3,364	**452**	568	479	**(190)**	404	302
Cash operating earnings (loss)	**$ 2,945**	$ 3,486	$ 3,392	**$ 693**	$ 693	$ 542	**$ 467**	$ 567	$ 339
Average common equity	**$ 19,312**	$ 18,796	$ 16,140	**$ 2,912**	$ 2,855	$ 2,784	**$ 6,077**	$ 4,283	$ 2,473
Average managed assets(d)	**$ 511,034**	$ 471,283	$ 452,218	**$ 18,053**	$ 16,591	$ 16,947	**$ 34,149**	$ 30,472	$ 21,419
Shareholder value added	**$ 601**	$ 1,187	$ 1,407	**$ 339**	$ 344	$ 199	**$ (272)**	$ 44	$ 35
Cash return on common equity	**15.1%**	18.3%	20.7%	**23.6%**	24.0%	19.2%	**7.5%**	13.0%	13.4%
Cash overhead ratio	**60%**	63%	58%	**71%**	70%	73%	**81%**	75%	78%

(a) Corporate/reconciling items includes Support Units, Corporate and the net effect of management accounting policies.
(b) Equity-related income includes equity income of investees accounted for by the equity method.
(c) Intersegment revenue includes intercompany revenue and revenue sharing agreements, net of intersegment expenses. Transactions between business segments are primarily conducted at fair value.
(d) Excludes the impact of credit card securitizations. The impact of securitizations on total average assets was $17,975 million in 2001, $18,775 million in 2000 and $17,711 million in 1999.
NM-Not meaningful

capital methodology that quantifies different types of risk – credit, market, operational and private equity – within the various businesses and assigns capital accordingly. The provision for loan losses is allocated to the segments utilizing a credit risk methodology and a risk grading system appropriate for each segment's portfolio.

A summary of the business segment results is shown in the following table. The Corporate/reconciling items column reflects revenues and expenses excluded from the determination of the segment's operating earnings. This column includes the effects remaining at the corporate level after the application of management accounting policies, including income tax expenses (the difference between the amounts allocated to business units and JPMorgan Chase's consolidated income tax expense).

For a further discussion concerning JPMorgan Chase's business segments, see Segment results in the MD&A on pages 28 and 29. Additionally, financial information relating to JPMorgan Chase's operations by geographic area is provided in Note 28.

(table continued from previous page)

JPMorgan Partners			Retail & Middle Market Financial Services			Corporate/ reconciling items[a]			Total		
2001	2000	1999	**2001**	2000	1999	**2001**	2000	1999	**2001**	2000	1999
$ (335)	$ (309)	$ (163)	**$ 6,947**	$ 6,319	$ 6,469	**$ (796)**	$ (636)	$ (589)	**$ 10,846**	$ 10,018	$ 10,003
(1,110)	1,084	3,247	**3,921**	3,803	3,511	**40**	(338)	(141)	**19,215**	22,633	21,567
(1)	(1)	—	**47**	37	69	**(39)**	(38)	(29)	**37**	142	125
(11)	15	(5)	**—**	17	15	**(181)**	(49)	58	**—**	—	—
(1,457)	789	3,079	**10,915**	10,176	10,064	**(976)**	(1,061)	(701)	**30,098**	32,793	31,695
326	405	340	**5,468**	5,274	5,102	**226**	117	(42)	**20,047**	20,865	17,543
27	21	1	**181**	196	211	**8**	4	5	**729**	528	329
353	426	341	**5,649**	5,470	5,313	**234**	121	(37)	**20,776**	21,393	17,872
(1,810)	363	2,738	**5,266**	4,706	4,751	**(1,210)**	(1,182)	(664)	**9,322**	11,400	13,823
—	—	—	**2,803**	2,083	2,248	**251**	(1)	(22)	**4,233**	2,367	2,439
(1,810)	363	2,738	**2,463**	2,623	2,503	**(1,461)**	(1,181)	(642)	**5,089**	9,033	11,384
(641)	119	958	**947**	1,024	995	**(905)**	(802)	(618)	**1,680**	3,106	3,951
$ (1,169)	$ 244	$ 1,780	**$ 1,516**	$ 1,599	$ 1,508	**$ (556)**	$ (379)	$ (24)	**$ 3,409**	$ 5,927	$ 7,433
(21)	(20)	—	**(199)**	87	(1)	**282**	(35)	93	**(1,715)**	(200)	68
(1,190)	224	1,780	**1,317**	1,686	1,507	**(274)**	(414)	69	**1,694**	5,727	7,501
$ (1,148)	$ 258	$ 1,781	**$ 1,688**	$ 1,785	$ 1,707	**$ (507)**	$ (334)	$ 1	**$ 4,138**	$ 6,455	$ 7,762
$ 6,377	$ 7,526	$ 5,188	**$ 8,582**	$ 8,556	$ 8,610	**$ (1,736)**	$ (5,840)	$ (2,264)	**$ 41,524**	$ 36,176	$ 32,931
$ 11,665	$13,319	$ 9,712	**$ 165,432**	$ 148,283	$ 133,306	**$ 13,615**	$ 15,632	$ 14,146	**$ 753,948**	$ 695,580	$ 647,748
$ (2,114)	$ (888)	$ 987	**$ 645**	$ 738	$ 648	**$ (110)**	$ 593	$ 428	**$ (911)**	$ 2,018	$ 3,704
NM	3.2%	34.0%	**19.5%**	20.6%	19.5%	**NM**	NM	NM	**9.8%**	17.6%	23.2%
NM	51%	11%	**50%**	52%	51%	**NM**	NM	NM	**67%**	64%	55%

The tables below present reconciliations of the combined segment information included in the preceding table to JPMorgan Chase's reported revenue and net income as included in the Consolidated statement of income.

Year ended December 31, (in millions)	2001	2000	1999
Segments' operating revenue	**$ 31,074**	$ 33,854	$ 32,396
Corporate/reconciling items	**(976)**	(1,061)	(701)
Consolidated operating revenue	**30,098**	32,793	31,695
Impact of securitizations	**(1,048)**	(990)	(993)
Special items	**—**	1,131	228
Consolidated revenue	**$ 29,050**	$ 32,934	$ 30,930

Year ended December 31, (in millions)	2001	2000	1999
Segments' cash operating earnings	**$ 4,645**	$ 6,789	$ 7,761
Corporate/reconciling items	**(507)**	(334)	1
Consolidated cash operating earnings	**4,138**	6,455	7,762
Amortization of intangibles	**(729)**	(528)	(329)
Consolidated operating earnings	**3,409**	5,927	7,433
Special items and restructuring costs	**(1,715)**	(200)	68
Consolidated net income	**$ 1,694**	$ 5,727	$ 7,501

30 Parent company

Parent company – balance sheet

December 31, (in millions)	2001	2000
Assets		
Cash with banks	$ 412	$ 27
Deposits with banking subsidiaries	6,239	8,796
Securities purchased under resale agreements	344	1,297
Trading assets	1,106	1,949
Securities-AFS	1,692	65
Advances to subsidiaries	36,499	40,430
Investment (at equity) in subsidiaries	47,989	46,578
Other assets	9,274	14,203
Total assets	$103,555	$113,345
Liabilities and stockholders' equity		
Other borrowed funds, primarily commercial paper	$ 20,703	$ 25,016
Other liabilities	3,805	6,316
Long-term debt[a]	37,948	39,675
Total liabilities	62,456	71,007
Stockholders' equity	41,099	42,338
Total liabilities and stockholders' equity	$103,555	$113,345

(a) Includes long-term debt, net of discount, with subsidiaries of $4,716 million and $4,200 million at December 31, 2001 and 2000, respectively. At December 31, 2001, aggregate principal amount of all debt that contractually matures in the years 2002 through 2006 were $8,591 million, $4,923 million, $3,563 million, $2,368 million and $2,154 million, respectively.

Parent company – statement of income

Year ended December 31, (in millions)	2001	2000	1999
Income			
Dividends from subsidiaries[a]	$10,554	$5,404	$6,049
Interest from subsidiaries	2,090	3,038	2,474
All other income	563	664	680
Total income	$13,207	$9,106	$9,203
Expense			
Interest expense	$ 2,927	$3,859	$3,065
Noninterest expense	526	922	520
Total expense	$ 3,453	$4,781	$3,585
Income before income tax benefit and equity in undistributed net income of subsidiaries	9,754	4,325	5,618
Income tax benefit	394	602	233
Equity in undistributed net income (loss) of subsidiaries	(8,458)	800	1,650
Income before effect of accounting change	1,690	5,727	7,501
Net effect of change in accounting principle	4	—	—
Net income	$ 1,694	$5,727	$7,501

(a) Includes $7,904 million from nonbank subsidiaries in 2001.

Parent company – statement of cash flows

Year ended December 31, (in millions)	2001	2000	1999
Operating activities			
Net income	$ 1,694	$ 5,727	$ 7,501
Less – Net income of subsidiaries	2,096	6,204	7,699
Parent company net loss	(402)	(477)	(198)
Add – Dividends from subsidiaries	10,554	5,404	6,049
Other, net	(926)	(1,712)	(296)
Net cash provided by operating activities	9,226	3,215	5,555
Investing activities			
Net change in:			
Deposits with banking subsidiaries	2,557	(1,907)	(1,004)
Advances to subsidiaries	3,931	(347)	(9,506)
Investment (at equity) in subsidiaries[a]	(5,303)	(3,305)	(1,188)
Securities purchased under resale agreements, primarily with bank subsidiaries	953	372	842
Investment securities	(1,605)	1,186	(68)
Other, net	—	(295)	(260)
Net cash provided by (used in) investing activities	533	(4,296)	(11,184)
Financing activities			
Net change in other borrowed funds	(4,313)	3,195	7,683
Proceeds from the issuance of long-term debt	7,773	11,127	8,463
Repayments of long-term debt	(10,184)	(10,208)	(5,126)
Proceeds from the issuance of stock and stock-related awards	1,429	2,278	2,755
Redemption of preferred stock	(511)	(100)	(100)
Treasury stock purchased	(871)	(2,950)	(6,493)
Cash dividends paid	(2,697)	(2,282)	(2,133)
Net cash (used in) provided by financing activities	(9,374)	1,060	5,049
Net increase (decrease) in cash with banks	385	(21)	(580)
Cash with banks at the beginning of the year	27	48	628
Cash with banks at the end of the year, primarily with bank subsidiaries	$ 412	$ 27	$ 48
Cash interest paid	$ 3,411	$ 3,927	$ 3,048
Taxes paid (refund received)	$ (250)	$ 1,694	$ 448

(a) Includes investment in Flemings and Beacon in 2000 and investment in H&Q in 1999.

supplementary information

Selected quarterly financial data (unaudited)

As of or for the period ended	2001				2000			
(in millions, except per share and ratio data)	**4th**	**3rd**	**2nd**	**1st**	4th	3rd	2nd	1st
REPORTED BASIS								
Revenue	**$ 6,577**	**$ 7,349**	**$ 6,871**	**$ 8,253**	$ 8,543	$ 7,723	$ 7,899	$ 8,769
Noninterest expense (excluding restructuring costs)	**4,836**	**5,059**	**5,283**	**5,598**	5,742	5,273	5,025	5,353
Merger and restructuring costs	**841**	**876**	**478**	**328**	1,302	79	50	—
Provision for loan losses	**1,468**	**745**	**525**	**447**	409	298	328	342
Net income (loss)	**$ (332)**	**$ 449**	**$ 378**	**$ 1,199**	$ 708	$ 1,398	$ 1,633	$ 1,988
Net income (loss) per share:[a]								
Basic	**$ (0.18)**	**$ 0.22**	**$ 0.18**	**$ 0.60**	$ 0.36	$ 0.73	$ 0.87	$ 1.06
Diluted	**(0.18)**	**0.22**	**0.18**	**0.58**	0.34	0.69	0.83	1.01
Return on average common equity	**NM**	**4.17%**	**3.45%**	**11.58%**	6.77%	14.65%	19.12%	23.82%
Cash dividends declared per share	**$ 0.34**	**$ 0.34**	**$ 0.34**	**$ 0.34**	$ 0.32	$ 0.32	$ 0.32	$ 0.32
Book value per share	**20.32**	**21.15**	**20.81**	**21.17**	21.17	20.98	19.19	18.49
Return on average assets	**NM**	**0.24%**	**0.21%**	**0.67%**	0.40%	0.81%	0.98%	1.23%
Total assets	**$ 693,575**	**$ 799,300**	**$ 712,702**	**$ 713,624**	$ 715,348	$ 707,497	$ 662,368	$ 676,046
Long-term debt[b]	**43,622**	**46,754**	**45,356**	**47,048**	47,238	49,573	48,217	49,513
Total stockholders' equity	**41,099**	**42,735**	**42,426**	**43,366**	42,338	41,402	36,635	35,596
Share price[a]								
High	**$ 40.95**	**$ 46.01**	**$ 50.60**	**$ 59.19**	$ 48.13	$ 58.38	$ 62.00	$ 67.17
Low	**31.30**	**29.04**	**39.21**	**37.58**	32.38	44.56	44.13	45.50
Close	**36.35**	**34.15**	**44.60**	**44.90**	45.44	46.19	46.06	58.13
OPERATING BASIS[c]								
Including JPMP[d]								
Revenue	**$ 6,841**	**$ 7,619**	**$ 7,144**	**$ 8,494**	$ 7,575	$ 7,913	$ 8,282	$ 9,023
Noninterest expense	**4,836**	**5,059**	**5,283**	**5,598**	5,742	5,273	5,025	5,353
Credit costs[e]	**1,732**	**1,015**	**798**	**688**	667	534	570	596
Earnings	**$ 247**	**$ 1,036**	**$ 690**	**$ 1,436**	$ 763	$ 1,419	$ 1,757	$ 1,988
Earnings per share – diluted[a]	**0.12**	**0.51**	**0.33**	**0.70**	0.37	0.70	0.89	1.01
Return on average common equity	**2.23%**	**9.78%**	**6.45%**	**13.91%**	7.31%	14.87%	20.60%	23.82%
Common dividend payout ratio	**292**	**66**	**102**	**48**	85	42	33	29
Cash operating basis[f]								
Cash earnings	**$ 434**	**$ 1,218**	**$ 873**	**$ 1,613**	$ 949	$ 1,576	$ 1,849	$ 2,081
Cash earnings per share – diluted[a]	**0.21**	**0.60**	**0.42**	**0.78**	0.46	0.78	0.94	1.06
Shareholder value added	**(837)**	**(50)**	**(394)**	**370**	(290)	426	814	1,068
Cash return on average common equity	**4.01%**	**11.52%**	**8.21%**	**15.65%**	9.14%	16.54%	21.69%	24.95%
Cash overhead ratio	**68**	**64**	**71**	**64**	73	65	60	58
OPERATING BASIS[c]								
Excluding JPMP[d]								
Revenue	**$ 7,286**	**$ 7,798**	**$ 8,037**	**$ 8,434**	$ 7,711	$ 7,986	$ 7,888	$ 8,419
Earnings	**598**	**1,198**	**1,319**	**1,463**	907	1,545	1,553	1,678
Earnings per share – diluted[a]	**0.29**	**0.59**	**0.64**	**0.71**	0.44	0.77	0.79	0.85
Return on average common equity	**6.54%**	**13.26%**	**14.84%**	**17.11%**	10.75%	20.45%	23.50%	25.92%
Cash operating basis[f]								
Cash earnings	**$ 780**	**$ 1,375**	**$ 1,497**	**$ 1,634**	$ 1,088	$ 1,697	$ 1,643	$ 1,769
Cash earnings per share – diluted[a]	**0.38**	**0.67**	**0.73**	**0.80**	0.53	0.85	0.84	0.90
Cash return on average common equity	**8.57%**	**15.24%**	**16.86%**	**19.14%**	12.93%	22.48%	24.87%	27.35%
Cash overhead ratio	**63**	**62**	**63**	**63**	71	63	62	61

(a) JPMorgan Chase's common stock is listed and traded on the New York Stock Exchange, the London Stock Exchange Limited and the Tokyo Stock Exchange. The high, low and closing prices of JPMorgan Chase's common stock are from the New York Stock Exchange Composite Transaction Tape. Share-related data have been restated to reflect a three-for-two stock split effective as of the close of business on June 9, 2000.
(b) Includes Guaranteed preferred beneficial interests in the Firm's junior subordinated deferrable interest debentures.
(c) Excludes the impact of credit card securitizations, merger and restructuring costs, special items and the net effect of a change in accounting principle. For a list of special items, see Glossary of terms on page 101.
(d) JPMP represents JPMorgan Partners, JPMorgan Chase's private equity investment business. See pages 36 and 37 for JPMP's results.
(e) Includes provision for loan losses and credit costs related to the securitized credit card portfolio.
(f) Excludes the impact of the amortization of intangibles.
NM-Not meaningful

Glossary of terms

Asset capital tax: The tax which is included in each of the business unit's capital charge, recognizing the need for the Firm to maintain certain capital ratios to meet bank regulatory definitions of "well capitalized."

Basis point value ("BPV"): This measurement quantifies the change in the market value of JPMorgan Chase's assets and liabilities (that are not part of its trading activities) that would result from a one basis point change in interest rates or one basis point widening of interest rate spreads. BPV shows whether an increase of 1/100 of 1% (or one basis point) in a market rate will yield a profit or loss, and of what magnitude.

CAGR: "Compound annual growth rate."

Cash operating earnings: Operating earnings excluding the impact of the amortization of intangibles.

Cash overhead ratio: Noninterest expense, excluding amortization of intangibles, as a percentage of the total of net interest income and noninterest revenue (excluding merger and restructuring costs and special items).

Credit derivatives are contractual agreements that provide insurance against a credit event of one or more referenced credits. The nature of the credit event is established by the buyer and seller at the inception of the transaction, and such events include bankruptcy, insolvency and failure to meet payment obligations when due. The buyer of the credit derivative pays a periodic fee in return for a contingent payment by the seller (insurer) following a credit event.

Credit risk: The risk of loss due to borrower or counterparty default.

Cross-currency interest rate swaps are contracts that generally involve the exchange of both interest and principal amounts in two different currencies. Also see interest rate swaps in this glossary.

Debt, equity, commodity and other contracts include swaps and options and are similar to interest rate contracts except the underlying instrument is debt-, equity- or commodity-related.

FASB: Financial Accounting Standards Board.

Foreign currency options are similar to interest rate options except they are based on foreign exchange rates. Also see interest rate options in this glossary.

Foreign exchange contracts are contracts that provide for the future receipt or delivery of foreign currency at previously agreed-upon terms.

Forward rate agreements are contracts to exchange payments on a specified future date, based on a market change in interest rates from trade date to contract settlement date.

Interest rate futures and forwards are contracts for the delayed delivery of securities or money market instruments. The selling party agrees to deliver, on a specified future date, a specified instrument at a specified price or yield.

Interest rate options, including caps and floors, are contracts to modify interest rate risk in exchange for the payment of a premium when the contract is initiated. As a writer of interest rate options, JPMorgan Chase receives a premium in exchange for bearing the risk of unfavorable changes in interest rates. Conversely, as a purchaser of an option, JPMorgan Chase pays a premium for the right, but not the obligation, to buy or sell a financial instrument or currency at predetermined terms in the future.

Interest rate swaps are contracts in which a series of interest rate flows in a single currency is exchanged over a prescribed period. Interest rate swaps are the most common type of derivative contract that JPMorgan Chase uses in its A/L activities. An example of a situation in which JPMorgan Chase would utilize an interest rate swap would be to convert its fixed-rate debt to a variable rate. By entering into the swap, the principal amount of the debt would remain unchanged, but the interest streams would change.

Investment grade equivalent: JPMorgan Chase's internal risk assessment which generally represents a risk profile similar to that of a BBB-/Baa3 or better rating as defined by independent rating agencies, such as Standard & Poor's or Moody's.

Liquidity risk: The risk of being unable to fund JPMorgan Chase's portfolio of assets at appropriate maturities and rates, and the risk of being unable to liquidate a position in a timely manner at a reasonable price.

Managed credit card receivables or managed basis: JPMorgan Chase uses this terminology to refer to its credit card receivables on the balance sheet plus securitized credit card receivables.

Mark-to-market exposure: Mark-to-market exposure is a measure, at a point in time, of the value of a derivative or foreign exchange contract in the open market. When the mark-to-market is positive, it indicates the counterparty owes JPMorgan Chase and, therefore, creates a repayment risk for JPMorgan Chase. When the mark-to-market is negative, JPMorgan Chase owes the counterparty. In this situation, JPMorgan Chase does not have repayment risk.

Market risk: The potential loss in value of portfolios and financial instruments caused by movements in market variables, such as interest and foreign-exchange rates, credit spreads, and equity and commodity prices.

Merger: The term refers to the December 31, 2000 merger of The Chase Manhattan Corporation and J.P. Morgan & Co. Incorporated.

Net yield on interest-earning assets: The average rate for interest-earning assets less the average rate paid for all sources of funds.

Operating basis or operating earnings: Reported results excluding the impact of merger and restructuring costs, special items and credit card securitizations.

Operational risk: The risk of loss resulting from inadequate or failed processes or systems, human factor, or external events.

SFAS: Statement of Financial Accounting Standards.

SFAS 107: "Disclosures about Fair Value of Financial Instruments."

SFAS 109: "Accounting for Income Taxes."

SFAS 114: "Accounting by Creditors for Impairment of a Loan."

SFAS 115: "Accounting for Certain Investments in Debt and Equity Securities."

SFAS 123: "Accounting for Stock-Based Compensation."

SFAS 128: "Earnings per Share."

SFAS 133: "Accounting for Derivative Instruments and Hedging Activities."

SFAS 140: "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a replacement of FASB Statement No. 125."

SFAS 141: "Business Combinations."

SFAS 142: "Goodwill and Other Intangible Assets."

Shareholder value added ("SVA"): Represents cash operating earnings minus preferred dividends and an explicit charge for capital.

Six sigma: Represents a business management approach that enables firms to improve the quality of products and services delivered to clients through understanding client priorities, and then eliminating process defects and failures. "Sigma's" (or standard deviations) are statistical measures of the defects or failures generated by a business process.

Special items: All amounts are on a pre-tax basis. There were no special items in 2001. Special items in 2000 include a gain on the sale of the Hong Kong retail banking business ($827 million), a gain from the transfer of Euroclear-related business ($399 million), gain from the sale of the Panama operations ($81 million) and loss resulting from the economic hedge of the purchase price of Flemings prior to its acquisition ($176 million). The 1999 special items were interest income from prior-years' tax refunds ($62 million), gains from sales of nonstrategic assets ($166 million) and a special contribution to The Chase Manhattan Foundation ($100 million). In 1998, special items were interest income from prior-years' tax refunds ($191 million), sale of a global trust and agency services business ($131 million), sale of an investment management business in Australia ($56 million) and costs incurred for accelerated vesting of stock-based incentive awards ($37 million). In 1997, special items were gains on the sales of JPMorgan Chase's remaining interests in The CIT Group Holdings, Inc. ($58 million) and a partially owned foreign investment ($44 million), as well as costs incurred for accelerated vesting of stock-based incentive awards ($135 million).

Stress testing: Discloses market risk under plausible events in abnormal markets.

Value-at-risk ("VAR"): A measure of the dollar amount of potential loss from adverse market moves in an everyday market environment.

community advisory board

The Community Advisory Board was formed in 1991 to provide advice and counsel in the areas of Housing, Economic Development, Faith-Based Community Development and Human Services. The 47 members are senior officials of major not-for-profit organizations in the communities they serve. The Board meets quarterly and has proven invaluable to the Firm in the fulfillment of its community development mission.

Janie Barrera
President & CEO
ACCION Texas
San Antonio, TX

Florence E. Baugh
Director
Neighborhood Services
Community Action Organization
of Erie County
Buffalo, NY

Pascual Blanco
Executive Director
La Fuerza Unida de Glen Cove
Glen Cove, NY

Sylvia K. Brooks
President & CEO
Houston Area Urban League
Houston, TX

James Buckley
Executive Director
University Neighborhood
Housing Program
Bronx, NY

Joseph M. Carbone
President & COO
The WorkPlace, Inc.
Bridgeport, CT

Edwina P. Carrington
Chief Executive Officer
Texas Housing Finance Corporation
Austin, TX

David Chen
Executive Director
Chinese American Planning Council
New York, NY

William Clark
President & CEO
Urban League of Rochester
Rochester, NY

Frederick A. Davie, Jr.
Vice President
Faith-Based Programs
Public/Private Ventures
Philadelphia, PA

Harold DeRienzo
President & CEO
Parodneck Foundation for Self-Help
Housing & Community Development
New York, NY

William Frey
Vice President & Director
New York City Office
Enterprise Foundation
New York, NY

David Gallagher
Executive Director
Center for Neighborhood
Economic Development
Long Island City, NY

Luther Gatling
President
Budget & Credit Counseling Services
New York, NY

Ernest Gonzalez
Corporate Chair
Long Island Hispanic
Chamber of Commerce
Holbrook, NY

Colvin Grannum
President
Bedford-Stuyvesant
Restoration Corporation
Brooklyn, NY

Roy Hastick
President & CEO
Caribbean American Chamber
of Commerce & Industry
Brooklyn, NY

Lynda Ireland
Executive Director
New York/New Jersey
Minority Purchasing Council
New York, NY

Kim Jacobs
Executive Director
Hudson Valley Affordable
Housing Finance Corporation
Hawthorne, NY

Marc Jahr
Vice President
New York City Local Initiatives
Support Corporation
New York, NY

Erma C. Johnson Hadley
Vice Chancellor
Tarrant County College
Fort Worth, TX

Francine Justa
Executive Director
Neighborhood Housing Services
of New York City
New York, NY

Christopher Kui
Executive Director
Asian Americans for Equality
New York, NY

Martha Lewin
Director
WomenRising
Jersey City, NJ

William Linder
Chief Executive Officer
New Community Corporation
Newark, NJ

Fred Lucas
President & CEO
Faith Center for Community
Development, Inc.
New York, NY

John Madeo
President
Fairfield 2000 Homes Corporation
Southport, CT

Ghebre Selassie Mehreteab
President & CEO
The NHP Foundation
Washington, DC

Luis Miranda
Chairman
Audubon Partnership
for Economic Development
New York, NY

James Morgo
President
Long Island Housing Partnership
Hauppauge, NY

David Pagan
Executive Director
Southside United Housing
Development Fund Corporation
Brooklyn, NY

James Paley
Executive Director
Neighborhood Housing Services
of New Haven
New Haven, CT

Karen Phillips
Chief Executive Officer
Abyssinian Development Corporation
New York, NY

Ralph Porter
President
MBD Community Housing Corporation
Bronx, NY

Edwin Reed
Chief Financial Officer
Allen AME Church
Jamaica, NY

Marcos Ronquillo
General Partner
The Ronquillo Law Firm, P.C.
Dallas, TX

Clifford Rosenthal
Executive Director
National Federation of Community
Development Credit Unions
New York, NY

Winston A. Ross
Executive Director
Westchester Community
Opportunity Program
Elmsford, NY

David Scheck
Executive Director
New Jersey Community Loan Fund
Trenton, NJ

Roberta Schofield
Executive Director
Salvation Army
Syracuse, NY

Carlisle Towery
President
Greater Jamaica
Development Corporation
Jamaica, NY

Terry Troia
Executive Director
Project Hospitality
Staten Island, NY

Reginald Tuggle
Pastor
Memorial Presbyterian Church
Roosevelt, NY

Donna Wertenbach
President
Community Economic Development Fund
Hartford, CT

Lloyd Williams
President & CEO
Greater Harlem Chamber of Commerce
New York, NY

Kathryn Wylde
President & CEO
New York City Partnership and
New York City Investment Fund
New York, NY

Johnny Ray Youngblood
Senior Pastor
St. Paul Community Baptist Church
Brooklyn, NY

regional advisory board

The heritage Chase, Chemical and Manufacturers Hanover institutions each had long-standing regional advisory boards. In late 2001, the Metropolitan Regional Advisory Board and the Northeast Regional Advisory Board were combined into the newly created Regional Advisory Board. The Board is composed of a diverse group of prominent regional business people who offer advice and counsel to senior management on market strategies for providing consumer and commercial products and services to the regional banking sector, as well as insight on JPMorgan Chase's role and responsibility in the community.

Philip C. Ackerman
Chairman, President
and Chief Executive Officer
National Fuel Gas Company

Richard A. Bernstein
Chairman and Chief Executive Officer
R.A.B. Holdings, Inc.

Robert B. Catell
Chairman and Chief Executive Officer
KeySpan Corporation

Joseph P. Clayton
President and Chief Executive Officer
Sirius Satellite Radio Inc.

Eugene R. Corasanti
Chairman and Chief Executive Officer
CONMED Corporation

Charles F. Fortgang
Chairman
M. Fabrikant & Sons, Inc.

Arnold B. Glimcher
Chairman
PaceWildenstein

Lewis Golub
Chairman of the Board
The Golub Corporation

Wallace A. Graham
Chairman of the Board
and Chief Executive Officer
Schenectady International, Inc.

Joel J. Horowitz
Chief Executive Officer
Tommy Hilfiger Corporation

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Peter J. Kallet
Chairman, President
and Chief Executive Officer
Oneida Ltd.

Dr. Shirley Strum Kenny
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Stony Brook University

Charles A. Krasne
President and Chief Executive Officer
Krasdale Foods, Inc.

Richard S. LeFrak
President
Lefrak Organization, Inc.

Leo Liebowitz
President and Chief Executive Officer
Getty Realty Corp.

Brian J. Lipke
Chairman and Chief Executive Officer
Gibraltar Steel Corporation

Kenneth Lipper
Chairman
Lipper & Company, L.P.

William L. Mack
Founder and Managing Partner
Apollo Real Estate Advisors, L.P.

Theodore Markson
Chairman
Paris Accessories, Inc.

Herman I. Merinoff
Chairman of the Executive Committee
Charmer Industries, Inc.

John Morphy
Vice President and Chief Financial Officer
Paychex, Inc.

Dennis M. Mullen
President and Chief Executive Officer
Agrilink Foods, Inc.

Michael C. Nahl
Senior Vice President
and Chief Financial Officer
Albany International Corp.

Samuel I. Newhouse III
Advance Publications

Thomas S. Richards
Chairman, President
and Chief Executive Officer
Rochester Gas & Electric Corporation
RGS Energy Group, Inc.

William C. Rudin
President
Rudin Management Company, Inc.

John Shalam
Chairman and Chief Executive Officer
Audiovox Corporation

Arthur T. Shorin
Chairman and Chief Executive Officer
The Topps Company, Inc.

Charles R. Trego, Jr.
Executive Vice President
and Chief Financial Officer
Rich Products Corporation

Kenneth L. Wallach
Chairman, President
and Chief Executive Officer
Central National-Gottesman Inc.

Fred Wilpon
Chairman
Sterling Equities, Inc.

Judith D. Zuk
President and Chief Executive Officer
Brooklyn Botanic Garden

national advisory board

The heritage Chase National Advisory Board was established in 1986. The JPMorgan National Advisory Board is composed of a geographically and functionally diverse group of prominent business executives. The Board meets twice a year and provides a forum to discuss current business issues and to exchange ideas for the purpose of offering advice, counsel and business development expertise to senior management of JPMorgan on the investment bank's affairs in the United States.

J.T. Battenberg III
Chairman of the Board,
Chief Executive Officer and President
Delphi Automotive Systems

Richard I. Beattie, Esq.
Chairman, Executive Committee
Simpson Thacher & Bartlett

Leon D. Black
Founding Partner
Apollo Management, L.P.

Richard J. Bressler
Senior Executive Vice President
and Chief Financial Officer
Viacom Inc.

David F. DeVoe
Chief Financial Officer
News Corporation

William T. Dillard II
Chief Executive Officer
Dillard Department Stores, Inc.

Archie W. Dunham
Chairman, President
and Chief Executive Officer
Conoco Inc.

Charles E. Golden
Executive Vice President
and Chief Financial Officer
Eli Lilly and Company

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Chairman of the Board
and Chief Executive Officer
Amerada Hess Corporation

Thomas O. Hicks
Chairman of the Board
and Chief Executive Officer
Hicks, Muse, Tate & Furst Incorporated

John W. Kluge
Chairman and President
Metromedia Company

Thomas H. Lee
Chairman and Chief Executive Officer
The Thomas H. Lee Partners, LP

David C. McCourt
Chairman and Chief Executive Officer
RCN Corporation

Darla D. Moore
President
Rainwater, Inc.

J. Pedro Reinhard
Executive Vice President
and Chief Financial Officer
The Dow Chemical Company

Joseph L. Rice III
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Vice Chairman and Chief Financial Officer
Verizon Communications

Stephen A. Schwarzman
President and Chief Executive Officer
The Blackstone Group

David L. Shedlarz
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and Chief Financial Officer
Pfizer Inc.

Henry R. Silverman
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and Chief Executive Officer
Cendant Corporation

Scott D. Sullivan
Chief Financial Officer
WorldCom, Inc.

Mortimer B. Zuckerman
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Boston Properties, Inc.

JPMorgan international council

The heritage Chase and J.P. Morgan international advisory councils were established in 1965 and 1967, respectively. With the creation of J.P. Morgan Chase & Co., a new council drawing on the membership of the two predecessor councils was formed in January 2001. The JPMorgan International Council, like its predecessors, is composed of business leaders and prominent individuals from public life and advises senior management on matters relating to the Firm's global business. The Council meets approximately every eight months to discuss relevant issues of international concern and interest. Early in 2001, David J. O'Reilly, Chairman and Chief Executive Officer of ChevronTexaco Corp., joined the Council. At year-end, The Rt. Hon. The Lord Howe of Aberavon and Peter K.C. Woo retired from the Council.

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Chairman of the Council
Distinguished Fellow
Hoover Institution, Stanford University
Stanford, California

Mohammed Ali Abalkhail
Former Minister of Finance & Economy
Riyadh, Saudi Arabia

Giovanni Agnelli
Honorary Chairman
FIAT S.p.A.
Turin, Italy

Jean-Louis Beffa
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Compagnie de Saint-Gobain
Paris-La Défense, France

Bill Bradley
Allen & Company
New York, New York

Martin Feldstein
President and Chief Executive Officer
National Bureau of Economic Research Inc.
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Chairman
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Alain A. Joly
Chairman of the Supervisory Board
L'Air Liquide S.A.
Paris, France

Karen Katen
President, Global Pharmaceuticals
Pfizer Inc.
New York, New York

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Kissinger Associates, Inc.
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Chairman-Board of Directors
Koç Holding A.Ş.
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Senior Minister
Republic of Singapore
Singapore

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Chairman of the Board and
Chief Executive Officer
SANLUIS Corporación, S.A. de C.V.
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Vice President
Organizações Globo
Rio de Janeiro, Brazil

The Rt. Hon. Brian Mulroney
Senior Partner
Ogilvy Renault
Montreal, Canada

Shijuro Ogata
Former Deputy Governor
for International Relations
Bank of Japan
Tokyo, Japan

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Chairman and Chief Executive Officer
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San Francisco, California

John B. Prescott, A.C.
Executive Chairman
Australian Submarine Corporation Pty Ltd.
South Australia

David Rockefeller
Former Chairman
The Chase Manhattan Bank, N.A.
New York, New York

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Chairman of the Board of Management
DaimlerChrysler A.G.
Stuttgart, Germany

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Former Chairman of the Board
The Chase Manhattan Corporation
New York, New York

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Partner and Chief Executive Officer
A.P. Møller
Copenhagen, Denmark

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Chairman of the Board
The Dow Chemical Company
Midland, Michigan

Ratan Naval Tata
Chairman
Tata Sons Limited
Mumbai, India

Marco Tronchetti Provera
Chairman and Chief Executive Officer
Pirelli S.p.A.
Milan, Italy

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Chairman, Board of Management
Akzo Nobel
Arnhem, The Netherlands

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Former Chairman of the Board
J.P. Morgan Chase & Co.
New York, New York

L.R. Wilson, O.C.
Chairman of the Board
Nortel Networks Corporation
Brampton, Canada

Jaime Augusto Zobel de Ayala
President
Ayala Corporation
Makati City, Philippines

Frederick H.S. Allen
Executive Secretary of the Council
New York, New York

Ex-Officio Member

William B. Harrison, Jr.
Chairman and
Chief Executive Officer
J.P. Morgan Chase & Co.

international locations

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Melbourne
Perth
Sydney

Austria
Vienna

Bahamas
Nassau

Bahrain
Manama

Belgium
Brussels

Brazil
Rio de Janeiro
São Paulo

Canada
Calgary
Montreal
Toronto
Vancouver

Cayman Islands
Georgetown

Channel Islands
Jersey

Chile
Santiago

China (People's Republic of)
Beijing
Hong Kong
Shanghai
Shenzhen
Tianjin

Colombia
Bogotá

Czech Republic
Prague

Egypt
Cairo

France
Paris

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Frankfurt
Munich

Greece
Piraeus

India
Mumbai
New Delhi

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Jakarta

Ireland
Dublin

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Tel Aviv

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Milan
Rome

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Osaka
Tokyo

Lebanon
Beirut

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Malaysia
Kuala Lumpur
Labuan
Selangor

Mexico
Mexico City
Monterrey

The Netherlands
Amsterdam

New Zealand
Auckland

Nigeria
Lagos

Norway
Oslo

Pakistan
Karachi

Peru
Lima

Philippines
Manila

Poland
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Bangkok

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Edinburgh
Essex
Glasgow
Isle of Man
London

Uzbekistan
Tashkent

Venezuela
Caracas

Vietnam
Hanoi
Ho Chi Minh City

J.P. Morgan Chase & Co.

Corporate headquarters

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New York, New York 10017-2070
Telephone: 212-270-6000
http://www.jpmorganchase.com

Principal subsidiaries

JPMorgan Chase Bank
Chase Manhattan Bank USA,
National Association
J.P. Morgan Securities Inc.

Annual report on Form 10-K

The Annual Report on Form 10-K of J.P. Morgan Chase & Co. as filed with the Securities and Exchange Commission will be made available upon request to:

Office of the Secretary
J.P. Morgan Chase & Co.
270 Park Avenue
New York, New York 10017-2070

Stock listing

New York Stock Exchange, Inc.
London Stock Exchange Limited
Tokyo Stock Exchange

The New York Stock Exchange ticker symbols for stock of J.P. Morgan Chase & Co. are as follows:

JPM (Common Stock)
JPM pfr A (Adjustable Rate Cumulative Preferred Stock, Series A)
JPM pfr H (Depositary Shares Each Representing a One-Tenth Interest in 6 5/8% Cumulative Preferred Stock)
JPM pfr L (Adjustable Rate Cumulative Preferred Stock, Series L)
JPM pfr N (Adjustable Rate Preferred Stock, Series N)

Financial information about J.P. Morgan Chase & Co. can be accessed by visiting the investor relations site of www.jpmorganchase.com. Additional questions should be addressed to:

Investor Relations
J.P. Morgan Chase & Co.
270 Park Avenue
New York, New York 10017-2070
Telephone: 212-270-6000

Transfer agent and registrar

Mellon Investor Services LLC
Overpeck Center
85 Challenger Road
Ridgefield Park, New Jersey 07660-2108
Telephone: 1-800-758-4651
https://vault.mellon-investor.com/isd

Stockholder inquiries

Contact Mellon Investor Services LLC:

By telephone:

Within the United States, Canada and Puerto Rico: 1-800-758-4651 (toll free)

From all other locations:
1-201-329-8660 (collect)

TDD service for the hearing impaired within the United States, Canada and Puerto Rico: 1-800-231-5469 (toll free)

All other locations:
1-201-329-8354 (collect)

By mail:

Mellon Investor Services LLC
Overpeck Center
85 Challenger Road
Ridgefield Park, New Jersey 07660

Dividend reinvestment plan

Shareholders of J.P. Morgan Chase & Co. may use their dividends to purchase shares of J.P. Morgan Chase & Co. common stock through the Dividend Reinvestment Plan. A prospectus and enrollment card may be obtained by calling 1-800-758-4651 or by writing to Mellon Investor Services LLC, the reinvestment agent for the plan, at the address indicated above.

Direct deposit of dividends

For information about direct deposit of dividends, please contact Mellon Investor Services LLC.

Duplicate mailings

If you receive duplicate mailings because you have more than one account listing, you may wish to save J.P. Morgan Chase & Co. money by consolidating your accounts. Please write to the agent at the address above.

Independent accountants

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New York, New York 10036