Delivering the firm. Annual Report 2002

JPMorganChase

JPMorgan Chase at a glance

Investment Bank

(In millions except ratios)	2002	2001
Operating revenue	**$ 12,399**	$ 14,671
Operating earnings	**1,365**	2,918
Overhead ratio	**64%**	60%

JPMorgan is one of the world's leading investment banks as measured by client franchise, product breadth, geographic reach and revenues. The firm provides clients with a full range of investment banking and commercial banking products and services: advising on corporate strategy and structure, raising and placing capital, making markets in financial instruments and offering sophisticated risk management tools and strategies.

The Investment Bank has offices in more than 50 countries and derives approximately 40% of its revenues from outside the United States, enabling the firm to offer clients truly individualized solutions synthesizing industry knowledge, product proficiency and geographic expertise.

Treasury & Securities Services

(In millions except ratios)	2002	2001
Operating revenue	**$ 4,046**	$ 3,978
Operating earnings	**677**	632
Overhead ratio	**74%**	76%

JPMorgan Treasury & Securities Services, a global leader in transaction processing and information services to wholesale clients, is composed of three businesses. Institutional Trust Services provides fiduciary services to debt and equity issuers and intermediaries and is the top trustee for United States debt issues. Investor Services, with $6.3 trillion in assets under custody, is one of the three largest custodians globally and offers such related services as securities lending, investment analytics and reporting. Treasury Services provides cash management, payments processing, liquidity and trade finance services, processing more than $1.9 trillion daily, and ranks, as of year-end 2002, as the largest dollar payments provider in the United States.

Investment Management & Private Banking

(In millions except ratios)	2002	2001
Operating revenue	**$ 2,868**	$ 3,226
Operating earnings	**384**	479
Overhead ratio	**81%**	80%

JPMorgan Fleming Asset Management and JPMorgan Private Bank are leading fiduciaries with distinctive strategies. JPMorgan Fleming Asset Management delivers solutions in asset management, equity and fixed income and alternative investments to mutual fund shareholders, investment professional partners and institutions. It also serves experienced, self-directed investors through the online brokerage unit Brown & Company. JPMorgan Private Bank delivers customized advice and solutions to wealthy individuals and families. The Private Bank addresses every facet of wealth management, from investment management and brokerage to tax and estate planning, credit, capital raising and specialty-wealth advisory services.

JPMorgan Partners

(In millions)	2002	2001
Operating revenue	**$ (954)**	$ (1,470)
Operating losses	**(789)**	(1,116)
Overhead ratio	**NM**	NM

NM – not meaningful

JPMorgan Partners is the firm's principal vehicle for private equity investing. With approximately $24 billion in total capital under management, JPMorgan Partners invests in a broad range of industries, including life sciences/healthcare infrastructure, industrial, financial services, telecommunications, media and technology. JPMorgan Partners' global integrated network is composed of its eight offices, industry practice groups, portfolio companies and JPMorgan Chase industry specialists.

Chase Financial Services

(In millions except ratios)	2002	2001
Operating revenue	**$ 13,541**	$ 10,951
Operating earnings	**2,490**	1,538
Overhead ratio	**47%**	51%

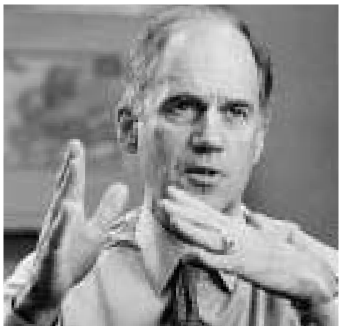
Chase Financial Services is a major provider of banking, credit, investment and financing products and services to consumers and small and middle market businesses throughout the United States. Nationally, Chase is the only competitor with a top five leadership position in all three major consumer credit businesses: mortgages, credit cards and auto loans. Chase is also the clear market-share leader in the New York tri-state area as a full-service bank for consumers and businesses, with an additionally strong competitive position in Texas.

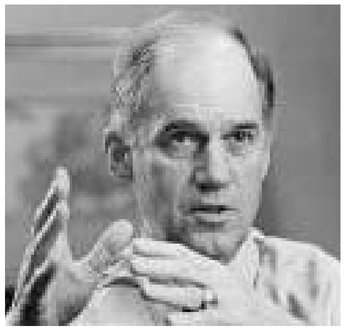
Financial highlights

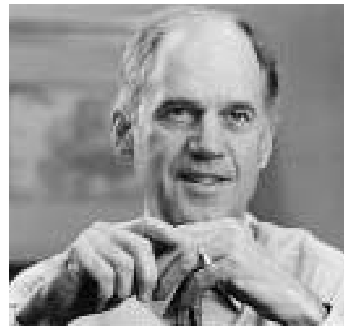
As of or for the year ended December 31, (in millions, except per share and ratio data)	**2002**	2001	2000
Reported basis			
Revenue	**$ 29,614**	$ 29,344	$ 33,186
Noninterest expense (excluding restructuring costs)	**21,554**	21,073	21,642
Merger and restructuring costs	**1,210**	2,523	1,431
Provision for credit losses	**4,331**	3,182	1,380
Net income	**1,663**	1,694	5,727
Net income per share:			
Basic	**0.81**	0.83	2.99
Diluted	**0.80**	0.80	2.86
Cash dividends declared per share	**1.36**	1.36	1.28
Total assets	**758,800**	693,575	715,348
Total stockholders' equity	**42,306**	41,099	42,338
Tier 1 capital ratio	**8.2%**	8.3%	8.5%
Total capital ratio	**12.0**	11.9	12.0
Tier 1 leverage ratio	**5.1**	5.2	5.4
Operating basis[a]			
Revenue	**$ 31,053**	$ 30,392	$ 33,045
Earnings	**3,384**	3,802	6,176

(a) Includes credit card receivables that have been securitized. Amounts shown exclude merger and restructuring costs, special items and the amortization of goodwill.

To our shareholders







2002 was a year of many challenges. Our financial results clearly were disappointing, and we have taken actions to improve our short-term performance. Through these actions and the fundamental strengths of JPMorgan Chase, we begin 2003 with a renewed confidence that our business model and strategy will produce superior returns over time. Let me give you my perspective on what we are doing to realize the full potential of the firm and to create enduring shareholder value.

We are working through our performance issues. The transition from 1990s boom to post-2000 bust in equity markets has created significant challenges for all participants in the investment banking and investment management businesses. As stock prices fell for the third consecutive year in 2002, business volumes – in activities ranging from underwriting securities to advising on mergers and acquisitions to managing investment portfolios – remained in a depressed state or declined still further.

No one can predict when a recovery may occur in global capital markets, and we are not holding our breath until that happens. On several fronts, we have taken steps to raise our level of profitability, regardless of external conditions.

Providing credit remains a key strategic weapon, but we will moderate our concentrations, reduce our overall exposure and use credit more effectively.

We've also moved to align our investment banking cost structure with the current weak revenue environment, committing to staff reductions, resizing our business and geographic presence consistent with near-term opportunities, and taking various belt-tightening measures, all of which are intended to generate approximately $700 million in gross savings. Exclusive of severance and related costs, we aim to maintain the overhead ratio of our investment bank at no more than 60% of revenues. We have taken similar steps in our investment management and private banking businesses to improve the operating margin.

While we believe in the strategic importance of JPMorgan Partners (JPMP) to the firm, we are acting to reduce the impact of its earnings on the overall firm's results. JPMP is exiting selected businesses and investments that are not central to its operations. JPMP also is increasing the percentage of third-party capital invested in its core direct investment portfolio, as well as diversifying its portfolio to reduce concentrations in specific industries, such as telecommunications and technology. Over time, we will reduce total investments in JPMP to approximately 10% of the firm's common stockholders' equity, compared with the 2002 level of approximately 20% and the 2001 level of approximately 23%.

These actions address the short-term challenges facing us. We are well-prepared for a continuing weak market environment. When the revenue picture brightens and credit stabilizes, we will be in an excellent position to take full advantage of the upswing.

We have the right long-term strategy to compete and succeed.

Simply put, our strategy is twofold:

- To be a diversified financial services firm with a leadership position in each of our businesses.
- To provide our clients integrated solutions drawing on a wide variety of products and services.

Diversity is important because financial services are cyclical, with each type of business presenting different risks at different times. Leadership positions are important because they tend to have the highest return and attract the best people. And integrated delivery across a broad product set is what our clients want because of its superior convenience and price efficiency.

There are some who would say that our poor performance in 2002 is proof that this strategy is not effective. My view is that the strategy is right but that the execution of our strategy was not as good as it should have been. Judgments based on short-term results often can be inaccurate, and we look to the next several years to vindicate our view.

Diversification certainly was helpful in 2002. Our consumer banking business, Chase Financial Services, delivered another year of strong performance, with a 24% increase in operating revenues and a 62% increase in operating earnings, leading to a return on equity of 24%.

Consumer spending remained strong in the United States in 2002. We were able to capitalize fully on this opportunity through our leadership franchise in all three national consumer credit businesses – credit cards, home and auto finance – and we grew faster than our competitors did in 2002 in both net income and revenue. Besides our strength in consumer credit, Chase is the number one primary relationship bank (based on deposits) for individuals, as well as the number one full-service bank for small businesses, in the New York tri-state area. Our leading middle market services business provides opportunities across both our retail and wholesale product array.

Our Treasury & Securities Services business is another source of diversification and earnings stability. With a strong return on equity of 23% in 2002, this is a highly attractive part of our wholesale franchise. Strong expense discipline helped produce an increase of earnings of 7% on a revenue increase of just 2%. This low revenue growth reflects the challenging conditions in wholesale financial markets.

Regarding investment banking, we know that this is a high-return business over the long term despite today's poor conditions, and we are well-positioned for a rebound. We take four powerful advantages – a huge client franchise, broad product capabilities, global presence and intellectual capital – and bring them together for our clients. We have demonstrated that integrated delivery works, holding on to – and, in many cases, gaining – market share in spite of the weak economic environment.

We believe that the winners in investment banking increasingly will be the firms best able to provide innovative solutions that draw upon leadership positions in a broad array of products, services and markets. Through the success of our merger integration efforts, we have become adept in turning this concept of delivering "the whole firm" to our corporate and institutional clients into a functioning reality. That is reflected in a global brand survey on our wholesale businesses released in late 2002, in which we moved up to second place in the overall category of "favorable brand recognition" for investment banking.

Our investment management and private banking businesses offer considerable potential as financial markets stabilize. In the face of three years of falling markets, we have reduced annual expenses in this area by more than $500 million while preserving the quality and breadth of our investment advice and wealth management to institutional, high net worth, and retail clients. Our pre-eminence in private banking, international mutual funds, and institutional investing in core and alternative assets positions us among the world leaders in active asset management, with $636 billion of assets under supervision at year-end.

To realize the full power of our business model, we have devoted considerable resources to improving our efficiency. We have under way a broad range of re-engineering efforts, many using the rigorous methodology of Six Sigma. In 2002, Six Sigma projects yielded more than $400 million of net benefits, and we nearly doubled the number of employees with expert Six Sigma certification. We also are leveraging one of our most important competitive advantages – technology. In late 2002, we finalized a groundbreaking, seven-year outsourcing agreement with IBM Global Services for our technology infrastructure that will create significant new value for our clients, shareholders and employees.

We are providing greater transparency and accountability. Any time there is the spectacle of fraud and corruption, it highlights the need for transparency, accountability and strong corporate governance. The vast majority of the thousands of public companies in the United States do business in a fair and honorable way. They recognize that our free market system is highly dependent on trust and that integrity is a prerequisite for continued survival and growth. As this firm's chief executive officer, I welcome the new requirement that the Chief Financial Officer and I personally certify the firm's financial statements.

JPMorgan Chase always has had a strong commitment to high standards, including a strong, independent Board, good governance practices and auditor independence. We have been – and continue to be – a leader in going well beyond required disclosure, as this 121-page shareholder report demonstrates. We also have taken steps to strengthen procedural safeguards in a number of areas in 2002.

Included among the changes we have initiated are: (1) the creation of policy reviews and a senior-level Policy Review Office to examine complex transactions; (2) the adoption of the "Investment Protection Principles" relating to investment research; (3) the decision to expense options in our own financial statements; (4) the creation of stock ownership guidelines requiring each Executive Committee member to retain 75% of the net shares of stock received from stock grants and options; (5) a prohibition against any new engagements of the firm's external auditors, other than for audit and audit-related services and for tax advice; and (6) the implementation of proposed New York Stock Exchange listing standards for corporate governance. Collectively, these changes provide greater transparency for all investors and stricter accountability in the maintenance of high ethical standards inside this firm. These and other steps we have taken are discussed in a special section on governance and business practices later in this report.

We are developing a culture focused on performance and leadership.

Our firm's principal output – the way we add value to the marketplace – is delivering financial solutions to help our clients realize their aspirations and their potential. Our main resource is the depth and breadth of our intellectual capital in the form of the people who work at JPMorgan Chase.

In the long term, therefore, our success rests squarely on their ability to execute – making full and effective use of the tremendous capabilities and talents within the firm.

For our people to maximize these capabilities, great communication, teamwork and leadership are required. A key tool in this effort is our Leadership Center – called LeadershipMorganChase (LMC) – which is helping to foster all three ingredients. Completing its first full year of operation in 2002, LMC engaged nearly 1,000 of the top officers in the firm who went through an extensive program, and an additional 40,000 employees took part in shorter sessions. The results were impressive. Our 2002 climate survey, which encompasses all of our employees worldwide, shows significantly higher scores in understanding the strategy, commitment to the firm and satisfaction for those who have experienced this program.

Everyone who participates in LMC is encouraged to move out of his or her own comfort zone; to challenge me and other senior leaders; to grapple with real issues; to be innovative and decisive – in short, to act as a leader who takes responsibility for fixing problems and driving the firm's vision and strategy.

Looking ahead, my confidence in the firm's potential rests solidly on the specific actions that we have taken and the inherent strengths of our franchise. In 2003, there are good reasons for optimism regarding the global economic outlook. It appears that inflation has been effectively muted in much of the world. In the United States, the absence of inflation has been combined with rising productivity, or increasing output per work hour – the best single measure of economic health. Productivity growth in the United States reached an impressive 4% in 2002. That suggests that transformation of the workplace, fueled by innovation, technology and globalization, has not ended or even slowed. By the end of 2003, our economists expect global growth to return to the 3% annual pace that was the average during 1995 to 2000.

While the stage is being set for sustained, long-term growth, we in this firm are not counting on better economic or market conditions to trigger much-needed improvement in our own performance. In 2003, there will be an even greater emphasis on performing in each of our businesses; taking action toward specific, measurable goals; and holding people accountable for results.

We have the right model, the right strategy, and the right people. We will stay the course, with confidence in our long-term potential. What we need now is better performance and improved execution. That will be the unrelenting focus of JPMorgan Chase in 2003.

WB Harrison Jr

William B. Harrison, Jr.
Chairman and Chief Executive Officer
March 3, 2003

Universal Entertainment MasterCard Drawing on the strengths of their respective brands, Chase and Vivendi Universal Entertainment launched the Universal Entertainment MasterCard. This exclusive co-branded credit card, aimed at entertainment enthusiasts, offers a broad array of rewards linked to Universal's movies, television, music and theme parks. Chase and Universal also announced a multi-year alliance naming Chase the official bank for all of the Universal branded theme parks in the United States.

How we deliver the firm for:

The individual

In the United States, the firm's Chase Financial Services unit enjoyed a breakout year both financially and competitively as a top-five player in all three major consumer credit businesses: mortgages, credit cards and auto finance. Chase is also the leading branch-based bank in the New York metropolitan area. Additionally, JPMorgan's Private Bank is recognized globally as a premier provider of advice and service to high net worth individuals. Below are some examples of products and services the firm provided for its individual clients.

Chase Financial Services With nearly a half million new deposit banking customers in 2002 ... total credit card accounts exceeding 29 million (a 22% growth rate over the prior year) ... more than 1.1 million new car loans and leases financed through Chase Auto Finance ... and more than a million home loan originations financed through Chase Home Finance, Chase Financial Services clearly established a nationwide leadership position in financial services for individuals. More than 1.1 million subscribers to Chase Online experienced for themselves the reasons Forbes.com named Chase's customer web site one of its "Best of the Web" picks for banking, complimenting Chase's range of online service capabilities – from aggregation to free bill payment.

Personal Financial Services In 2002, Chase introduced Personal Financial Services, a new venture that focuses on meeting the banking and investment needs of its branch banking clients with generally at least $250,000 in investable assets. A highly skilled team composed of a banker and a personal advisor provide financial services for PFS customers, accessing a broad array of banking and investment products. Chase's investment services are centered around the individual customers' core financial planning needs to develop a proper portfolio of equity and fixed income assets. Chase's goal is to change the way these clients think about combining their investment and banking activities, helping them see the advantages of using one provider for comprehensive financial solutions and positioning Personal Financial Services as the best source.

Private Banking Services A billionaire entrepreneur with investment holdings in a diverse array of corporations worldwide decided to enter a new industry. Working in tandem with Middle Market Financial Services, the Private Bank helped the client fund this new venture with a sizable credit facility. In addition, the client also retained the Private Bank to manage $80 million in cash management products, including short-term bond and money market funds. Currently, the Private Bank is working with the client on foreign exchange, tax and estate planning, and opportunities to help grow the client's businesses.

BlackRock Financial Management, Inc. A leading provider of asset management and risk management services, BlackRock was one of the first clients enrolled in the JPMorgan Priority Client Program. Priority clients receive the full breadth of the firm's resources, including enhanced product expertise, research, liquidity and access to issuers. The program moves beyond the traditional product-driven coverage model by focusing the firm's many product strengths on the client's various needs. Through its collaboration with JPMorgan, BlackRock greatly expanded its presence within the credit markets, using credit derivatives as an investment and risk management vehicle. (Pictured from left to right: JPMorgan Chase's Jeffrey Flug; BlackRock's Chief Investment Officer, Keith Anderson, and Vice Chairman, Robert Kapito; JPMorgan Chase's George Livingston.)

How we deliver the firm for:

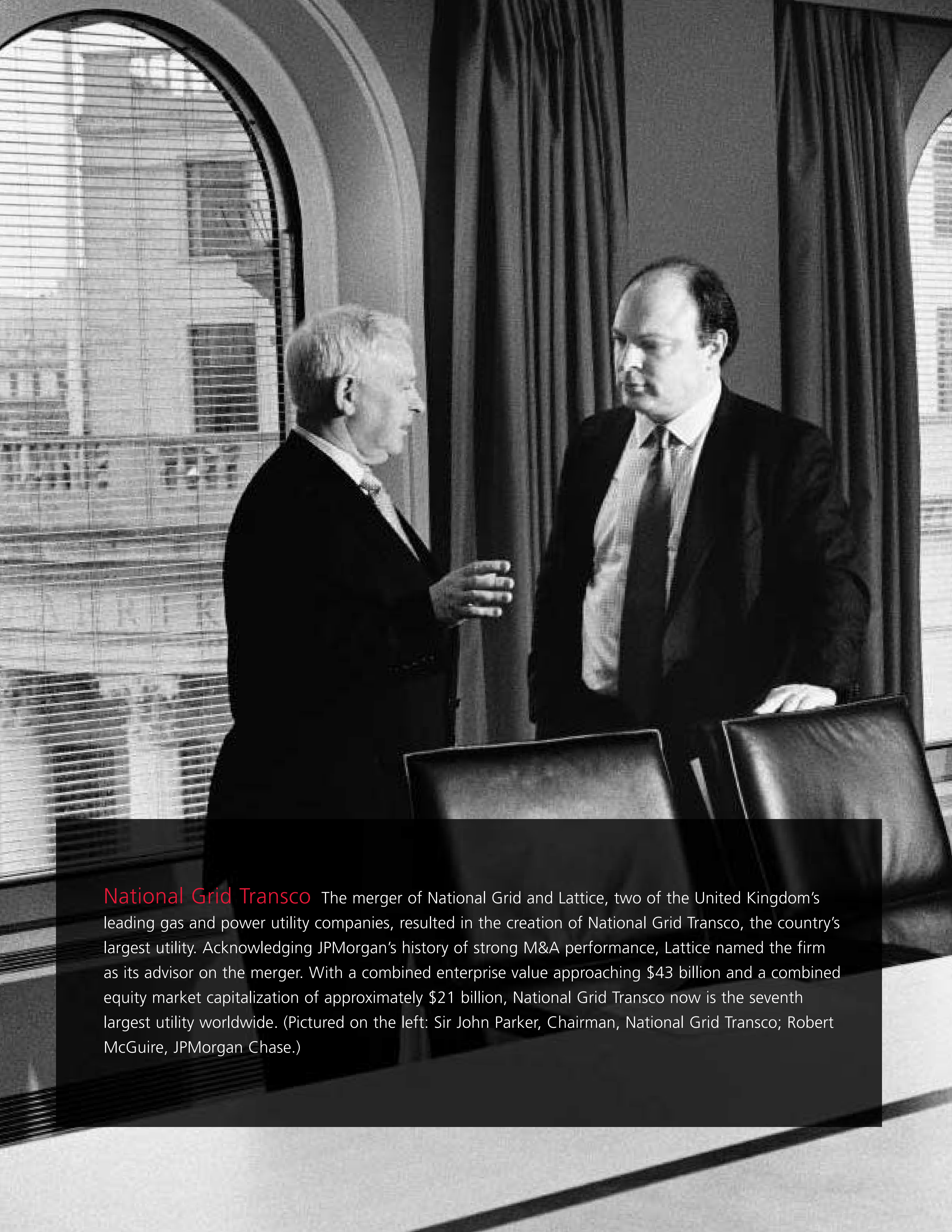
Investors and institutions

JPMorgan Chase is a leading global provider of products, services and advice to investor clients. The firm offers strategic advice, risk management, trading, securities lending, custodial services and other capabilities. Below are some examples of how we work together to serve our investor client base.

OppenheimerFunds, Inc. The Treasury & Securities Services Investor Services team collaborated with the Investment Bank, Investment Management & Private Banking and Chase Financial Services to assemble a package of cross-business offerings targeted to OppenheimerFunds' unique needs. OppenheimerFunds responded by expanding its existing relationship with the retail bank and selecting Investor Services as the custodian for $35 billion ($7.5 billion in global assets) of OppenheimerFunds' more than $120 billion in total assets under management. By providing value-added products to institutional investors and marketing the firm's complete platform, Investor Services has secured a position as service provider to eight of the top 10 mutual fund companies.

International Paper Company One of the world's largest paper and forest products companies, International Paper awarded the management of its $3.5 billion defined contribution plan to JPMorgan/American Century Retirement Plan Services. Servicing a plan with more than 70,000 participants, the JPMorgan/American Century team provides a range of products, as well as recordkeeping, communications and individual investment education services. This investment management mandate builds on JPMorgan's long-standing relationship with International Paper, particularly in investment banking and investment management. In the first year of the mandate, JPMorgan already has managed a major portion of International Paper's defined benefit retirement assets through global equity and fixed income markets, real estate and global balanced investments.

Man Group plc Cross-functional partnerships among several areas of JPMorgan succeeded in creating a first-of-its-kind Collateralized Fund Obligation (CFO) for U.K.-based Man Group, plc, one of the largest alternative asset managers. This CFO, structured by JPMorgan Securities, invests in a fund of hedge funds managed and advised by a U.S.-based subsidiary of the Man Group. JPMorgan's Institutional Trust Services serves as trustee, paying agent and registrar on the CFO. The securitization enabled the client to replace existing sources of funding with more efficient capital markets term financing, and also to offer rated notes in new asset classes to its investor clients. JPMorgan's ability to offer an innovative investment opportunity to the fund of hedge funds market is a result of strong partnerships and overall expertise in the field.



National Grid Transco The merger of National Grid and Lattice, two of the United Kingdom's leading gas and power utility companies, resulted in the creation of National Grid Transco, the country's largest utility. Acknowledging JPMorgan's history of strong M&A performance, Lattice named the firm as its advisor on the merger. With a combined enterprise value approaching $43 billion and a combined equity market capitalization of approximately $21 billion, National Grid Transco now is the seventh largest utility worldwide. (Pictured on the left: Sir John Parker, Chairman, National Grid Transco; Robert McGuire, JPMorgan Chase.)

Corporate clients

JPMorgan Chase is a market leader in serving corporations around the world. Offering a complete platform of capital raising, advice, trading and risk management services spanning commercial and investment banking, the firm serves corporations from offices in more than 50 countries. Below are some examples of how companies have worked with JPMorgan Chase to meet their objectives.

General Motors Corporation General Motors (GM) selected JPMorgan to serve as joint-lead manager on an offering of $3.75 billion of senior convertible debentures. Over the past two years, JPMorgan has advised GM on several M&A transactions, led multiple unsecured and ABS transactions, earned numerous Treasury & Securities Services mandates, advised on and arranged a $5.0 billion commercial paper conduit for GMAC Mortgage operations and continued to serve as one of GM's largest pension fund managers.

Tenaris JPMorgan partnered with the Techint Group to transform its steel pipe business, which is composed of eight steel pipe manufacturers around the world, into one leading, global company known as Tenaris. Drawing on its product proficiency, geographic expertise and global breadth, the firm provided Tenaris with strategic advice, financing, equity-related products and custody services. Recently, JPMorgan acted as the exclusive financial advisor to Tenaris on its most important strategic move – its listing and simultaneous global exchange offer in the United States, Argentina, Mexico and Italy for shares of Tenaris subsidiaries Siderca, Tamsa and Dalmine.

China Eastern Airlines Treasury Services assisted China Eastern Airlines (CEA) in establishing a global account structure to facilitate its payment and collection processes in Europe, the United States and Asia. CEA, an Investment Bank client, sought a global solution that could manage collections, payments and liquidity requirements. Treasury Services and the firm's Shanghai branch worked closely to streamline CEA's payments processes and profitably invest its surplus funds. The successful outcome for CEA reflects Treasury Services' expansion into the Chinese market.

Grupo Cinemex Grupo Cinemex is the leading multiplex movie theater operator in Mexico City, with a market share of more than 50%. An investment by JPMorgan Partners (JPMP) in Grupo Cinemex illustrated the firm's commitment to portfolio companies through the complete business and investment cycle. JPMP backed the company's strong management team and proven business model. In May 2002, JPMP, along with other shareholders, sold its investment in Cinemex to an investor group, reporting returns of more than three times its invested capital.

Bridging the Digital Divide

For many inner-city students, the resources of the Internet and the educational benefits of computer technology are well beyond their reach. In a unique effort to close the gap, JPMorgan Chase introduced the ON_DEC (Our Neighborhood – Digital Education Community) Program at the Ditmas Middle School in Brooklyn, N.Y. During the past three years, the firm provided PCs, software and training to more than 2,000 students and some 150 staff members. The only requirement was that a parent had to attend a computer training session in order to reinforce at home the support students received at school. More than 1,700 employee volunteers traveled to student homes to set up the computers, linking each to the Internet and to a central ON_DEC website. The program is bridging the digital divide across a truly global community, as Ditmas students come from 44 countries and speak 39 different native languages in their homes.

The community

Philanthropy and a commitment to corporate social responsibility are integral parts of the JPMorgan Chase approach to doing business. The company has a rich, 200-year heritage of giving back to its many communities. Below are some examples of how the firm fulfills its role as a corporate citizen and neighbor.

JPMorgan Chase Corporate Challenge Through the 2002 *JPMorgan Chase Corporate Challenge®*, the firm donated more than $350,000 to approximately two dozen charities and organizations around the world. Those dollars will touch lives in many ways. Homeless families in Morristown, N.J., may get a chance for a more secure life. Disabled children in Syracuse, N.Y., could enjoy a playground designed especially for them. Children in Sydney, Australia, may have better odds of beating cancer. A beloved museum in Frankfurt, Germany, will receive some much-needed restoration work. The donations reflect a long-standing tradition at JPMorgan Chase to support charities and institutions that contribute to the overall quality of life in the communities the bank serves.

Community Development JPMorgan Chase is committed to strengthening the communities in which it does business. Working with community organizations in low- and moderate-income communities, the Firm's Community Development Group finances affordable real estate and mortgages, and small businesses. In 2002, the firm made more than $1.0 billion in loans and investments for community development, including major housing projects, day care, shopping centers and other keystones of community infrastructure. The firm's community development efforts mirror the holistic service approach it offers its clients. An example in Texas is the financing the firm provided for Café Mayapan, a Mexican restaurant in the central El Paso Empowerment Zone. The Community Development Group also collaborated with La Mujer Obrera, a nonprofit organization, to provide funding for job training and other social services for a group of displaced garment workers in El Paso. La Mujer Obrera was able to train and place those former garment workers in viable positions at Café Mayapan.

Arts and Culture In an effort to provide New York-area communities with unique exposure to Latin music and art, JPMorgan Chase sponsored "Summer Nights" at El Museo del Barrio, one of the city's leading Latino cultural institutions. This free concert series – featuring stars of jazz, salsa and other Latin music forms and helping showcase 20th-century Mexican art by Frida Kahlo and Diego Rivera among others – proved to be a true celebration of cultural diversity and artistic expression.

Six Sigma

Last year, the firm's clients and shareholders benefited from Six Sigma – a set of tools that guides teams in understanding what clients need and then helps them meet those needs flawlessly. Emphasizing customer-focused operations and rigorous service levels, Six Sigma drove more than $400 million in financial benefits in 2002. Going forward, the launch of Six Sigma projects is expected to generate benefits of up to $1.0 billion per year. Hundreds of projects have benefited from Six Sigma. For example, Chase Home Finance was keen to retain home equity clients looking for lower rates. Executing a plan developed through Six Sigma, the Home Finance team began working with eligible customers at the very moment they inquired about paying off their old loans and automated the approval process for new loans – making it easier to get customers the right rates quickly. The result: Customer retention increased by 27%, preventing incremental payoffs and improving profitability.

LeadershipMorganChase

JPMorgan Chase is fortified with tremendous depth of intellectual capital – a talented team that is second to none. How do we put that capital to work in the most effective and dynamic way? How do we build an enduring culture focused on clients and performance? One important and measurable effort is LeadershipMorganChase (LMC). During 2002, nearly 1,000 senior managers participated in sessions led by Chairman Bill Harrison and the Executive Committee on values, ethics, strategy and the development of leadership skills. LMC also provided stimulating insights from a wide range of industry leaders. LMC "graduates" then go on to spread the learning. They have joined together in task forces to resolve firm-wide issues and already have hosted sessions with more than 40,000 employees to foster understanding of the firm's strategy and their role in executing it. The effort to cultivate top talent will continue in 2003, engaging all employees worldwide.

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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 113 and 114 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.

Corporate:

Overview

J.P. Morgan Chase & Co. is a leading global financial services firm with assets of $759 billion and operations in more than 50 countries. The Firm serves more than 30 million consumer customers and the world's most prominent corporate, institutional and government clients. The Firm's wholesale businesses are comprised of the Investment Bank, Treasury & Securities Services, Investment Management & Private Banking and JPMorgan Partners. Chase Financial Services is composed of the Firm's retail and middle market businesses.

Financial performance of JPMorgan Chase

As of or for the year ended December 31, (in millions, except per share and ratio data)	2002	2001	Over/(under) 2001
Revenue	**$ 29,614**	$ 29,344	1%
Noninterest expense	**22,764**	23,596	(4)
Provision for credit losses	**4,331**	3,182	36
Net income	**1,663**	1,694	(2)
Net income per share – diluted	**0.80**	0.80	—
Return on average common equity ("ROCE")	**3.9%**	3.9%	—bp
Tier 1 capital ratio	**8.2%**	8.3%	(10)bp
Total capital ratio	**12.0**	11.9	10
Tier 1 leverage ratio	**5.1**	5.2	(10)

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

J.P. Morgan Chase & Co. ("JPMorgan Chase" or the "Firm") reported 2002 net income of $1.7 billion, or $0.80 per share, compared with net income of $1.7 billion, or $0.80 per share, in 2001. The results for the year were negatively affected by sluggish capital markets, by concentrated exposures in certain segments of the Firm's private equity and commercial credit portfolios, by large charges related to litigation and by continuing integration expenses resulting from the merger of J.P. Morgan and Chase. On the positive side, the consumer businesses reported record results, and Treasury & Securities Services ("T&SS") had a solid year, highlighting the benefits of the Firm's diversified business model.

As a result of the Firm's balance of businesses, 2002 total reported revenues of $29.6 billion were up 1% from 2001. The national consumer credit businesses at Chase Financial Services ("CFS") benefited from the low-interest rate environment, with the mortgage company, in particular, having an exceptional year. T&SS reported modest revenue growth, as strong gains in Treasury Services and Institutional Trust Services offset a decline in Investor Services. At the Investment Bank ("IB"), the slower-than-expected economic recovery and diminished investor confidence led to continued weakness in capital markets activity, which was reflected in lower trading revenue and investment banking fees. Investment Management & Private Banking ("IMPB") revenues declined as a result of lower global equity valuations and reduced investor activity; assets under supervision declined primarily due to market depreciation and institutional outflows. Deterioration in equity markets adversely affected JPMorgan Partners ("JPMP"); write-offs and write-downs of private holdings and net mark-to-market losses on public securities were not offset by cash gains, as financing and exit opportunities remained constrained.

The Firm's total reported noninterest expense declined 4% from 2001 and included several large charges in both years. In 2002, the costs associated with merger and restructuring initiatives were $1.2 billion, versus $2.5 billion the previous year. Also in 2002, the Firm recorded a $1.3 billion charge in connection with the settlement of its Enron-related surety litigation and the establishment of a reserve related to certain material litigation, proceedings and investigations and recorded a $0.1 billion charge related to excess real estate. Excluding the impact of these charges in both years, the Firm's full-year 2002 noninterest expense of $20.2 billion was lower than that of 2001.

In addition, in 2002, the Firm announced several programs aiming to align expense levels with lower revenue prospects. Severance and related costs from these initiatives added $890 million to noninterest expense for the year, approximately 70% of which were in IB. Despite those costs, all business segments reported lower-to-flat noninterest expenses, except CFS, where higher business volumes drove expense growth. IB reduced headcount in line with lower market activity levels. IMPB has reduced its expense run-rate by more than half a billion dollars since the beginning of 2001. In T&SS, tight expense management allowed for investments while keeping expense levels flat with 2001 levels. The Firm's expenses were further reduced by the adoption in 2002 of SFAS 142, which eliminated the amortization of goodwill.

The provision for credit losses increased 36% from 2001. This was principally attributable to troubled commercial credits in the telecommunications and cable sectors, partially offset by a decrease in the consumer provision.

In addition to analyzing results on a reported basis, management looks at results on an "operating basis" to assess the overall Firm and each of its business segments and to facilitate an estimate of future earnings for the business segments, absent unusual events. JPMorgan Chase's operating earnings, which exclude merger and restructuring costs and special items, were $3.4 billion, compared with $3.8 billion in 2001. For additional information and a reconciliation between the Firm's reported and operating results, see pages 22 and 23.

Risk management

Management of credit, market, operational and private equity risk is central to the Firm's businesses.

Total nonperforming assets rose to $4.8 billion at December 31, 2002, an increase of 22% from year-end 2001, primarily as a result of significant and rapid deterioration in credit quality in the telecommunications, cable and merchant energy sectors. The Firm established a more stringent exposure review process and lower absolute exposure limits for industry and single-name concentrations, including investment-grade obligors.

Market risk parameters across the Firm remained stable, and trading results were within Value-at-risk ("VAR") limits throughout the year.

The Firm continued to develop its self-assessment, operational risk-event monitoring and internal control processes to enhance its operational risk management discipline.

The Firm created a Policy Review Office to enhance the procedures it uses to examine transactions with clients in terms of appropriateness, ethical issues and reputational risk. The Policy Review Office has intensified the scrutiny of the Firm's transactions from the client's point of view, with the goal that these transactions are not used to deceive investors or others.

Finally, the Firm reviewed the level of private equity risk in its portfolio and has decided to reduce, over time, the amount of capital invested in private equity to approximately 10% of the Firm's common stockholders' equity, from approximately 20% at December 31, 2002.

Capital and liquidity management

At December 31, 2002, the Firm's Tier 1 capital ratio was 8.2%, compared with 8.3% at year-end 2001. In the third quarter, the Board of Directors declared its intention to continue the current quarterly dividend of $0.34 per share on the Firm's common stock, provided that capital ratios remain strong and earnings prospects exceed the current dividend.

Sound liquidity management remains an important factor in maintaining the Firm's credit ratings. Liquidity management takes into account the need to fund both on- and off-balance sheet liabilities and commitments. It seeks to ensure that the Firm's obligations will be met even if access to funding is temporarily impaired. Although the Firm's debt ratings were downgraded one notch this year to AA-/Aa3 at JPMorgan Chase Bank and to A+/A1 at the holding company, the Firm's funding costs and capital markets businesses were not materially adversely affected.

Corporate governance

The Firm has adopted the New York Stock Exchange proposals relating to corporate governance practices for boards of directors and has posted the board's practices, as well as charters of the principal board committees, on the Firm's website, www.jpmorganchase.com. The Firm seeks to be a leader in corporate governance and disclosure practices.

Business outlook

Global economic conditions and activity in financial markets are expected to remain uncertain in 2003. Accordingly, the outlook for the Firm's investment banking and capital markets activities remains cautious. Earnings improvements in IB are anticipated to be primarily driven in 2003 by lower credit costs in a still challenging – but stabilizing – credit environment and by lower expenses. At CFS, continuation of the current low-interest rate environment should enable the credit-related businesses (mortgage, credit card and auto) to perform well, although it is likely revenues and earnings will be lower than the record set in 2002, which included large net gains on hedging of mortgage servicing rights ("MSRs").

Expenses for the Firm in 2003 may be slightly higher than in 2002 (excluding from 2002 expenses the impact of the litigation and merger charges). Expensing stock options, higher pension and occupancy costs and increased spending (primarily at CFS) are likely to more than offset the savings anticipated from IB right-sizing initiatives and lower severance costs.

Despite this cautious view for the short term, the Firm remains committed to its diversified business model and believes that it is well positioned to produce higher returns when economic conditions improve and capital markets recover.

Results of operations

This section discusses JPMorgan Chase's results of operations on a reported basis. The accompanying financial data conforms with U.S. generally accepted accounting principles ("GAAP"). The section should be read in conjunction with the financial statements and footnotes beginning on page 71.

Investment banking fees were 24% lower than last year, reflecting the industry-wide slowdown in corporate M&A activities and new issuance of debt and equity securities. Advisory fees of $756 million were 39% lower than last year, and underwriting fees for debt and equity instruments of $2.0 billion were 15% lower than last year. For a table that breaks out investment banking fees, see Note 4 on page 77, and for a further discussion on these revenues, see the IB results on pages 26–28.

Revenues

Year ended December 31, (in millions)	2002	2001	Over/(under) 2001
Investment banking fees	**$ 2,763**	$ 3,612	(24)%
Trading revenue	**2,594**	4,918	(47)
Fees and commissions	**10,756**	9,481	13
Private equity – realized gains (losses)	**(105)**	651	NM
Private equity – unrealized gains (losses)	**(641)**	(1,884)	66
Securities gains	**1,563**	866	80
Other revenue	**1,158**	898	29
Net interest income	**11,526**	10,802	7
Total revenue	**$ 29,614**	$ 29,344	1%

NM-Not meaningful.

The 47% decline in trading revenue was primarily attributable to the challenging market conditions that persisted throughout 2002.

Equity markets declined substantially, contributing to lower client activity and revenues, primarily in equity derivatives. Also contributing to lower equity trading results was a shift in the classification of broker-dealer trading revenues, from "trading revenues" in 2001 to "brokerage and investment services fees" in 2002. Beginning in 2001, bid and offer prices on Nasdaq stocks were quoted in dollars and cents, instead of fractions of whole dollars. As a result, in 2002, JPMorgan Chase began to negotiate with its institutional clients commission-based pricing structures that would support the costs of delivering enhanced brokerage services in connection with their Nasdaq trades. Revenues earned from agreed-upon commissions are now recorded as "brokerage and investment services" within Fees and commissions.

Fixed income trading revenues declined 33% from last year, as lower portfolio management results, primarily in interest rate trading, offset an overall increase in client activity.

Trading revenue, on a reported basis, excludes the impact of net interest income related to IB's trading activities; this income is recorded within Net interest income. However, in assessing the profitability of IB's trading business, the Firm combines these revenues for segment reporting. For a table that breaks out trading revenues, see Note 3 on page 76, and for a further discussion on these revenues, see the IB results on pages 26–28.

Fees and commissions

Fees and commissions were $10.8 billion in 2002, an increase of 13% from last year, reflecting the following:

- Mortgage servicing fees were $298 million, compared with a loss of $230 million in 2001, stemming from the favorable impact of Chase Home Finance's hedging of MSRs. In 2002, hedging gains resulting from wider mortgage swap spreads and a favorable interest rate environment were significantly greater than the offsetting impairment of the MSRs' value. For a further discussion of these fees, see the Chase Home Finance discussion on page 36.
- Credit card revenue of $2.9 billion was a record for the Firm. Revenues were 36% above 2001, reflecting the positive impact on servicing fees from the growth in securitized receivables managed by Chase Cardmember Services; average securitized receivables grew by more than $8.5 billion. The increase in credit card revenue also reflected the impact of the Providian acquisition, higher late charges and higher interchange income as a result of increased purchase volume. For a further discussion of credit card business revenues, see page 37.
- Other lending-related service fees increased 10%, a result of higher standby letter-of-credit fees from new business volumes. Also contributing to the increase were higher auto loan servicing fees, the result of increased securitizations in 2002.
- Deposit service fees were 10% above 2001. Lower interest rates reduced the value of customers' compensating deposit balances; consequently, customers paid increased fees for deposit services. Also contributing to the increase were higher cash management fees, primarily at Treasury Services, reflecting growth in payment processing volumes from institutional clients.

These fees and commissions were offset by lower investment management, custody and processing service fees. These fees were down 5% to $3.8 billion in 2002, primarily a result of the lower value of equity-related assets under supervision at IMPB, as well as lower fees earned at T&SS from non-U.S. assets under custody. Both investment management and custody fees were affected by the decline in the value of assets under supervision and assets under custody, respectively, as these fees are generally calculated as a percentage of the total market value of the assets. Also contributing to the lower fees was the market-driven slowdown in securities lending, as well as a decrease in processing service fees for unit investment trusts.

Brokerage and investment services declined slightly, despite the aforementioned reclassification into this line of approximately $100 million of broker-dealer revenues related to Nasdaq transactions. The decline was the result of reduced trading volume and narrower spreads on brokerage transactions.

For a table showing the components of Fees and commissions, see Note 4 on page 77.

Private equity gains (losses)

Aggregate private equity losses (realized and unrealized) totaled $746 million in 2002, reflecting the continuing difficult capital markets environment. The private equity markets offered limited exit opportunities and constrained financing, thereby depressing realized gains. Further, the results in 2002 reflected net mark-to-market losses on public securities, as well as write-downs and write-offs on private holdings, particularly in the telecommunications and technology sectors. For a further discussion of private equity gains (losses), see JPMP results on pages 33–34.

Securities gains

Securities gains of $1.6 billion were up 80% from last year. Of these gains, $1.1 billion was attributable to the Firm's available-for-sale ("AFS") investment securities portfolio, which was favorably positioned in a lower interest rate environment. The balance was directly related to the hedging of MSRs that offset impairment charges due to mortgage prepayments. For a further discussion of securities gains, see both the IB and Chase Home Finance discussions on pages 26–28 and 36, respectively.

Other revenue

The increase in Other revenue of $260 million reflected the following:

- Increased revenues from residential mortgage origination and sales activities, to $671 million in 2002 from $576 million in 2001, were driven by the surge in loan applications and originations. The growth in originations allowed for larger volumes of loan sales and securitizations. For a further discussion of this revenue, see Chase Home Finance on page 36.

- Unfavorable valuation adjustments were $36 million, compared with $177 million in 2001. The adjustment in 2002 was related to residual positions held after the completion of loan syndications and commercial real estate loan securitizations. These residual positions are recorded at the lower of cost or market value. The higher negative valuation adjustments in 2001 primarily related to loans in the technology and telecommunications sectors.

For a table that breaks out Other revenue, see Note 4 on page 78.

Net interest income

Net interest income ("NII") rose 7% to $11.5 billion, compared with $10.8 billion in 2001. The primary contributors to the increase were the significant growth in average consumer loans, which were 7% higher than last year, and higher trading-related NII. These were offset by a decline in commercial loans and the narrowing of spreads in the deposit businesses.

Average consumer loan volume grew, benefiting from low interest rates, as well as the acquisition in February 2002 of the Providian Master Trust, including $7.9 billion of credit card receivables and related relationships. Total average credit card receivables rose 11% to $21.6 billion; of this amount $4.8 billion related to Providian. NII at Chase Home Finance increased due to higher average available-for-sale mortgage loans, higher spreads and lower asset funding costs.

NII related to commercial loans declined, the result of lower outstanding volumes. At the same time, spreads narrowed, reflecting the reduction in interest rates. Also contributing to the decline was the higher level of nonperforming loans. Nonperforming commercial loans rose 84% to $3.7 billion. For a further discussion of nonperforming loans in the commercial portfolio, see page 47.

A portion of the Firm's NII relates to trading-related assets. In 2002, this component was $1.9 billion, compared with $1.4 billion in the prior year. The increase was attributable to the change in the composition of trading assets and improved spreads.

On an aggregate basis, the Firm's total average interest-earning assets for 2002 were $555 billion, compared with $547 billion last year. The net interest spread on these assets, on a fully taxable-equivalent basis, was 2.09% in 2002, 10 basis points higher than last year.

Expenses

Year ended December 31, (in millions)	2002	2001	Over/(under) 2001
Compensation expense	**$ 10,983**	$ 11,844	(7)%
Occupancy expense	**1,606**	1,348	19
Technology and communications expense	**2,554**	2,631	(3)
Amortization of intangibles	**323**	729	(56)
Other expense	**4,788**	4,521	6
Surety settlement and litigation reserve	**1,300**	—	NM
Merger and restructuring costs	**1,210**	2,523	(52)
Total noninterest expense	**$ 22,764**	$ 23,596	(4)%

NM- Not meaningful.

Compensation expense

Compensation expense in 2002 was $11.0 billion, 7% lower than last year, and included severance costs of $746 million associated with expense initiatives undertaken during the year. In 2001, severance related to the merger of J.P. Morgan and Chase and other previously announced restructuring programs was recorded within Merger and restructuring costs. The decline reflected reductions in staffing levels, as well as lower incentives reflecting the lower level of earnings. The amounts accrued for incentives are subject to management's discretion and to calculations that correlate incentives with income before incentives.

Expense-management programs had a significant impact in IB and, to a lesser extent, IMPB, the two business segments whose revenues were most negatively affected by the downturn in the economy. As a result, these two segments reduced the number of employees in their businesses. Also contributing to the decline in expenses was the reversal of previously accrued expenses of $120 million related to forfeitable stock-based compensation awards issued under employee benefit plans. The awards contained stock price targets that were deemed unlikely to be attained within the timeframes specified under the terms of the awards.

The decline in compensation expense was partially offset by the hiring of new employees at expanding business segments, primarily CFS and T&SS.

The total number of full-time equivalent employees at December 31, 2002, was 94,335, compared with 95,812 at the prior year-end. Although overall levels remained relatively stable, headcount in IB and IMPB was reduced by approximately 3,100 full-time equivalent employees, whereas in CFS headcount increased by more than 2,400.

The Firm reviews the actuarial assumptions for its pension and other postretirement benefit plans on an annual basis. To reflect the decline in market interest rates during 2002, the year-end discount rate for the Firm's U.S. plans was set at 6.50%, a 75-basis point decline from the prior year. Additionally, considering the current mix of plan assets, the year-end assumed long-term rate of return was adjusted downward to 8.00% for both U.S. pension plan assets and other postretirement benefit plan assets, from 9.25% and 9.00%, respectively. The assumed long-term rate of return is a blended average of the Firm's investment advisor's projected long-term (10 years or more) returns for various asset classes. The impact of these changes is expected to increase 2003 U.S. pension and other postretirement benefit expenses by approximately $60 million. Additionally, the adverse effect of losses on U.S. plan assets is expected to further increase U.S. pension and other postretirement benefit expenses by approximately $70 million. In 2002, these expenses included curtailment charges and special termination benefits totaling $64 million resulting from management-initiated and outsourcing-related employee terminations. Actuarial assumptions for the Firm's various non-U.S. plans also were adjusted to reflect local market conditions. The impact of these changes on non-

U.S. pension and other postretirement benefit expenses is not expected to be material. For further information on postretirement employee benefit plans, see Note 23 on pages 94–96.

Occupancy expense

Occupancy expense rose 19% from last year, partly the result of a $98 million charge in the third quarter of 2002 to cover the costs of exiting excess vacant premises on the West Coast of the United States, principally in the San Francisco area. Also contributing to the increase was the leasing of additional space in New Jersey and in midtown Manhattan, partly necessitated by the relocation of certain functions at the beginning of the year from a previously-owned building in downtown Manhattan. The Firm expects 2003 occupancy costs to increase by approximately $150 million due to the move to midtown Manhattan, extra safety measures and higher anticipated real estate taxes in New York.

Technology and communications expense

The decline in Technology and communications expense was primarily attributable to an initiative to rationalize and reshape the Firm's technology infrastructure. This initiative resulted in reduced spending for software, equipment and workstations. Additionally, the technology sourcing process was streamlined in favor of a select list of preferred vendors, resulting in additional expense reductions. The impact of these initiatives was partially offset by the higher amortization of capitalized software, as well as expenditures to enhance the telecommunications network.

Amortization of intangibles

Amortization of intangibles declined 56% from 2001. The decline primarily reflected the implementation of SFAS 142, which now requires a periodic review of goodwill for impairment rather than the amortization of goodwill, as was the case last year. This was partly offset by the impact of the acquisition of the Providian Master Trust's credit card relationship intangibles. In 2002, there were no impairments recognized on goodwill recorded on the Consolidated balance sheet. For a discussion on the impact of SFAS 142 on the Firm's amortization of intangibles expense and the expected level of expense for 2003, see Note 14 on page 89.

Other expense

Other expense increased 6% in 2002 compared with 2001 as a result of the following (for the table showing the components within Other expense, see Note 6 on page 79):

- Professional services expense increased $164 million from 2001, primarily as a result of legal fees. Also contributing to the increase was the hiring of professionals who assisted in the collection of credit card accounts and fees paid by IB for sub-advisor services for a fund in Europe. These incremental expense items were partly offset by lower systems consultant costs.
- Higher outside services expense of $106 million was driven by the costs of servicing the Providian credit card portfolio and processing higher mortgage servicing volume. During a transition period, from the acquisition in February until August 2002, Providian Financial Corp. provided servicing for the portfolio.
- Higher marketing expense of $88 million principally stemmed from direct-marketing campaigns for credit cards.

These expense increases were partially offset by lower travel and entertainment expense of $42 million.

Surety settlement and litigation reserve

The $1.3 billion charge in 2002 reflected the settlement of the Enron-related surety litigation and the establishment of a litigation reserve. On January 2, 2003, the Firm announced it had settled its dispute with 11 insurance companies that had issued surety bonds that guaranteed obligations of Enron Corp. ("Enron") under prepaid commodity forward contracts. The Firm settled for 60% of the principal amount of the bonds and received a cash payment of $502 million and $75 million of unsecured claims. In connection with this agreement – and one additional, ongoing lawsuit related to a prepaid contract backed by a letter of credit – the Firm took a pre-tax charge of $400 million (approximately $260 million after-tax). The Firm also established a $900 million reserve (approximately $600 million after-tax) related to litigation and regulatory matters involving Enron, as well as other material legal actions, proceedings and investigations in which it is involved.

Merger and restructuring costs

During 2002, the Firm incurred merger and restructuring costs of $1.2 billion, a 52% decline from 2001. Refer to the discussion of compensation expense on page 20 for a description of other severance costs incurred in 2002 and to Note 6 on page 78.

Provision for credit losses

The Provision for credit losses increased $1.1 billion or 36% from the prior year, primarily reflecting higher charge-offs of loans and lending-related commitments in the telecommunications and cable sectors. The consumer provision decreased 21% from last year reflecting growth in credit card securitizations, partially offset by the impact of the Providian acquisition. In 2002, the Firm increased the allowance for credit losses by $443 million (by making provisions in excess of net charge-offs), compared with an $850 million increase in the allowance last year. For further information on the Provision for credit losses, see page 56.

Income tax expense

JPMorgan Chase recognized income tax expense of $856 million in 2002, compared with $847 million in 2001. The effective tax rate was 34% in 2002, versus 33% last year. The increase in the effective tax rate was principally attributable to the level of income in certain state and local tax jurisdictions in 2002. For a further discussion of income taxes, see Note 22 on pages 93 and 94.

Reconciliation from reported results to operating basis

The Firm prepares its financial statements using U.S. generally accepted accounting principles ("GAAP"). The financial statements prepared in accordance with GAAP appear on pages 71–74 of this Annual Report. That 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 looks at results on an "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, credit card securitizations, the amortization of goodwill and special items (which management defined during 2002 as significant nonrecurring gains or losses of $75 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 therefore are not indicative of trends.

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

Year ended December 31, (in millions, except per share data)	**2002** Reported results[a]	**2002** Credit card[b]	**2002** Special items[c]	**2002** Reclasses	**2002** Operating basis	2001 Reported results[a]	2001 Credit card[b]	2001 Special items[c]	2001 Amortization of goodwill[d]	2001 Reclasses	2001 Operating basis
Consolidated income statement											
Revenue:											
Investment banking fees	**$ 2,763**	**$ —**	**$ —**	**$ —**	**$ 2,763**	$ 3,612	$ —	$ —	$ —	$ —	$ 3,612
Trading revenue[e]	**2,594**	**—**	**—**	**1,880**	**4,474**	4,918	—	—	—	1,361	6,279
Fees and commissions	**10,756**	**(698)**	**—**	**—**	**10,058**	9,481	(340)	—	—	—	9,141
Private equity – gains (losses)	**(746)**	**—**	**—**	**—**	**(746)**	(1,233)	—	—	—	—	(1,233)
Securities gains	**1,563**	**—**	**—**	**—**	**1,563**	866	—	—	—	—	866
Other revenue	**1,158**	**(36)**	**—**	**—**	**1,122**	898	(17)	—	—	—	881
Net interest income[e]	**11,526**	**2,173**	**—**	**(1,880)**	**11,819**	10,802	1,405	—	—	(1,361)	10,846
Total revenue	**29,614**	**1,439**	**—**	**—**	**31,053**	29,344	1,048	—	—	—	30,392
Noninterest expense:											
Compensation expense[f]	**10,983**	**—**	**—**	**(746)**	**10,237**	11,844	—	—	—	—	11,844
Noncompensation expense[f][g]	**10,571**	**—**	**(1,398)**	**(144)**	**9,029**	9,229	—	—	(585)	—	8,644
Merger and restructuring costs	**1,210**	**—**	**(1,210)**	**—**	**—**	2,523	—	(2,523)	—	—	—
Severance and related costs[f]	**—**	**—**	**—**	**890**	**890**	—	—	—	—	—	—
Total noninterest expense	**22,764**	**—**	**(2,608)**	**—**	**20,156**	23,596	—	(2,523)	(585)	—	20,488
Operating margin	**6,850**	**1,439**	**2,608**	**—**	**10,897**	5,748	1,048	2,523	585	—	9,904
Credit costs	**4,331**	**1,439**	**—**	**—**	**5,770**	3,182	1,048	—	—	—	4,230
Income before income tax expense and effect of accounting change	**2,519**	**—**	**2,608**	**—**	**5,127**	2,566	—	2,523	585	—	5,674
Income tax expense	**856**	**—**	**887**	**—**	**1,743**	847	—	833	192	—	1,872
Income before effect of accounting change	**1,663**	**—**	**1,721**	**—**	**3,384**	1,719	—	1,690	393	—	3,802
Net effect of change in accounting principle	**—**	**—**	**—**	**—**	**—**	(25)	—	25	—	—	—
Net income	**$ 1,663**	**$ —**	**$ 1,721**	**$ —**	**$ 3,384**	$ 1,694	$ —	$ 1,715	$ 393	$ —	$ 3,802
Earnings per share – diluted	**$ 0.80**	**$ —**	**$ 0.86**	**$ —**	**$ 1.66**	$ 0.80	$ —	$ 0.86	$ 0.19	$ —	$ 1.85

(a) Represents condensed results as reported in JPMorgan Chase's financial statements.
(b) Represents the impact of credit card securitizations. For securitized receivables, amounts that normally would be reported as net interest income and as provisions for credit losses are reported as noninterest revenue.
(c) Includes merger and restructuring costs and special items. For a description of special items, see Glossary of terms on page 114.
(d) Prior-period operating earnings for 2001 have been adjusted by adding back goodwill amortization to report results on a basis comparable with 2002. For further explanations, see page 23.
(e) On an operating basis, JPMorgan Chase reclassifies trading-related net interest income from Net interest income to Trading revenue.
(f) The Compensation and Noncompensation expense categories include severance and other related costs associated with expense containment programs implemented in 2002. For purposes of reviewing results on an operating basis, these costs have been reclassified to a separate line.
(g) Includes Occupancy expense, Technology and communications expense, Amortization of intangibles, Other expense and Surety settlement and litigation reserve.

As previously mentioned, operating results 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 the related interest and credit costs; instead, the Firm receives fee revenue for continuing to service those receivables and additional revenue from any interest and fees on the receivables in excess of the interest paid to investors, net of credit losses and servicing fees. As a result, securitization does not change JPMorgan Chase's reported or operating net income; however, it does affect the classification of items in the Consolidated statement of income.

The Firm also reports credit costs on a "managed" or "operating" basis. Credit costs on an operating basis are composed of the Provision for credit losses in the Consolidated statement of income (which includes a provision for credit card receivables on the Consolidated balance sheet) as well as the credit costs associated with securitized credit card loans. As the holder of the residual interest in the securitization trust, the Firm bears its share of the credit costs for securitized loans. In the Firm's GAAP financial statements, credit costs associated with securitized credit card loans reduce the noninterest income remitted to the Firm from the trust. This income is reported in Credit card revenue in Fees and commissions over the life of the securitization.

Commencing January 1, 2002, the Firm adopted SFAS 142 and, accordingly, ceased amortizing goodwill. There was no impairment of goodwill upon adoption of SFAS 142. Prior-period operating earnings have been adjusted by adding back amortization of goodwill to report results on a basis comparable with 2002.

The following table provides a reconciliation of earnings per share ("EPS") based on the Firm's reported net income to EPS calculated on an operating basis.

Year ended December 31, (per share data)	**2002**	2001	Over/(under) 2001
Net income	**$ 0.80**	$ 0.80	—%
Amortization of goodwill (net of taxes)	**—**	0.19	NM
Special items (net of taxes):			
Merger and restructuring costs	**0.40**	0.85	(53)
Real estate charge	**0.03**	—	NM
Surety settlement and litigation reserve	**0.43**	—	NM
Net effect of change in accounting principle	**—**	0.01	NM
Operating earnings	**$ 1.66**	$ 1.85	(10)%

NM-Not meaningful.

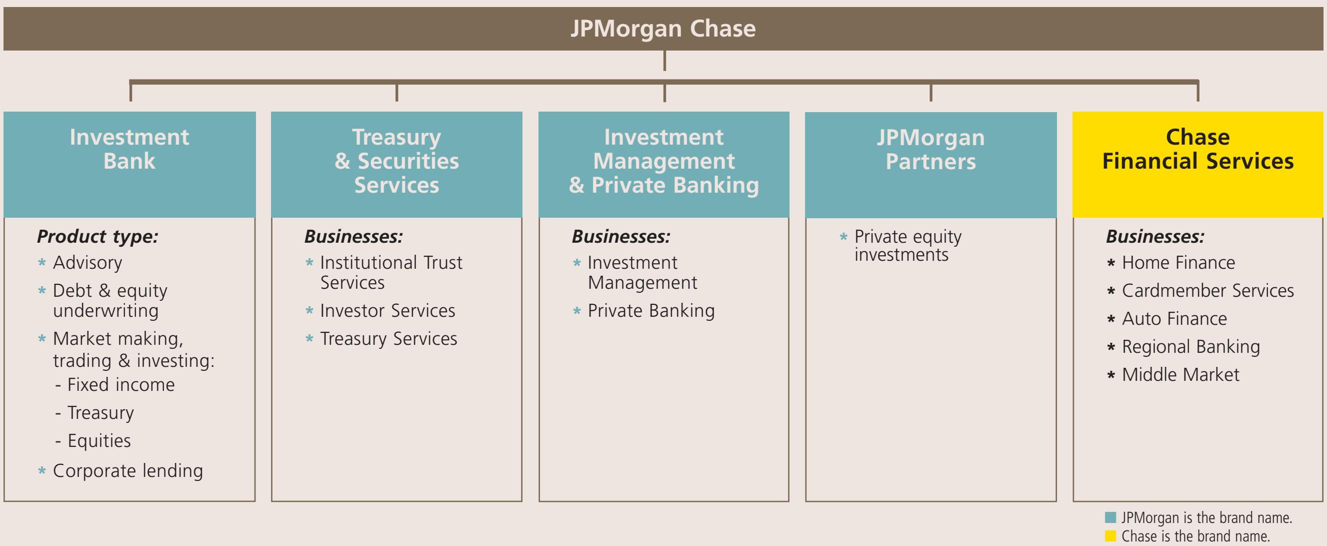
For a five-year trend of the Firm's results on an operating basis, see page 112. All years are calculated on a basis using the same definition for operating results.

Segment results

The wholesale businesses of JPMorgan Chase are known globally as "JPMorgan" and are comprised of the Investment Bank, Treasury & Securities Services, Investment Management & Private Banking and JPMorgan Partners. The retail and middle market businesses are known as "Chase" and make up Chase Financial Services.

JPMorgan Chase's segment results reflect the manner in which financial information is currently evaluated by the Firm's management. The Firm allocates equity to its business units utilizing a risk-adjusted methodology, which quantifies credit, market and operational risks within each business and, for JPMP, private equity risk. For a discussion of those risks, see the Risk management section on pages 45–65. The Firm allocates additional 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 50% for certain other intangibles generated through acquisitions. The Firm estimates the portfolio effect on required economic capital based on correlations of risk across risk categories. This estimated diversification benefit is not allocated to the business segments.

The Firm uses the shareholder value added ("SVA") framework to measure performance of its business segments. To derive SVA for its business segments, the Firm applies a 12% (after-tax) cost of equity to each segment, except JPMP; this business is charged a 15% (after-tax) cost of equity. 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 each business unit versus its return to shareholders. Capital charges are an integral part of the SVA measurement for each business. Under the Firm's economic capital model, economic capital is overallocated to



Segment results

Operating basis

Year ended December 31, (in millions, except ratios)	Investment Bank 2002	Investment Bank Over/(under) 2001(b)	Treasury & Securities Services 2002	Treasury & Securities Services Over/(under) 2001(b)	Investment Management & Private Banking 2002	Investment Management & Private Banking Over/(under) 2001(b)
Operating revenue	$ 12,399	(15)%	$ 4,046	2%	$ 2,868	(11)%
Operating expense	7,978	(9)	3,001	—	2,336	(9)
Operating margin	4,421	(25)	1,045	8	532	(19)
Credit costs	2,392	108	1	(86)	85	143
Operating earnings (losses)	1,365	(53)	677	7	384	(20)
Average common equity	18,323	(3)	2,998	1	6,115	(3)
Average managed assets	494,958	(3)	18,018	(4)	35,729	(3)
Shareholder value added	(853)	NM	313	15	(357)	(26)
ROCE	7%	(800)bp	23%	200bp	6%	(200)bp
Overhead ratio	64	400	74	(200)	81	100

(a) Includes support units and the effects remaining at the corporate level after the application of management accounting policies.
(b) Prior period amounts have been adjusted to conform with current methodologies.
bp- Denotes basis points; 100 bp equals 1%.
NM-Not meaningful.

the business segments, as compared with the Firm's total common stockholders' equity. The revenue and SVA impact of the overallocation is reported in Support Units and Corporate. (See Glossary of terms on page 114 for a definition of SVA and page 39 for more details).

In allocating the allowance (and provision) for credit losses, each business is responsible for its credit costs, including actual net charge-offs and changes in the specific and expected components of the allowance. The residual component of the allowance, available for losses in any business segment, is maintained at the corporate level. Management views the residual component as necessary to address uncertainties at December 31, 2002, primarily in the commercial portfolio.

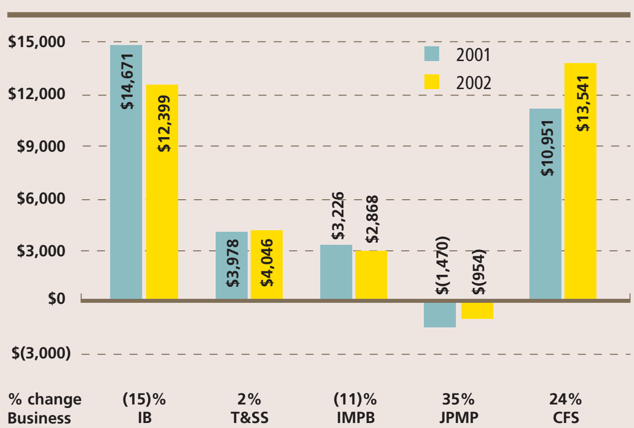
The segment results also reflect revenue- and expense-sharing agreements between certain lines of business. In 2002, agreements between Treasury Services and Middle Market were revised, and prior periods have been restated to conform to the current presentation. Revenues and expenses attributed to their shared activities are recognized in each line of business, and the double counting is eliminated at each of the segments (e.g., Treasury & Securities Services and Chase Financial Services). These arrangements promote cross-selling and management of shared client expenses. They also ensure that the contributions of both businesses are fully recognized.

Prior-period segment results have been adjusted to reflect alignment of management accounting policies or changes in organizational structure among businesses. Restatements of segment results may occur in the future.

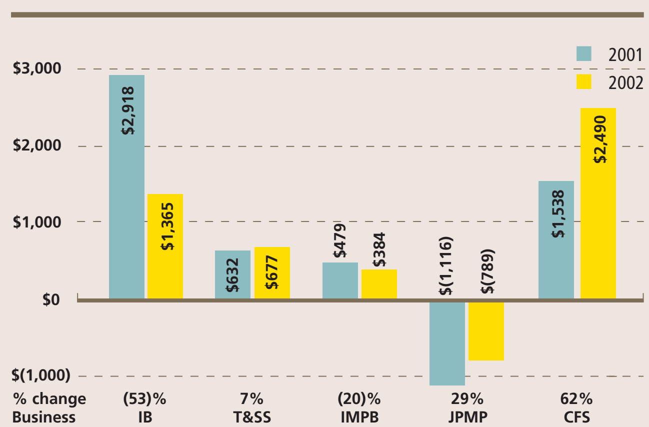
See Note 33 for further information about JPMorgan Chase's five business segments.

Contribution of businesses

Operating revenue
(in millions)



Operating earnings (losses)
(in millions)



Segment results (continued)

Operating basis

Year ended December 31, (in millions, except ratios)	JPMorgan Partners 2002	JPMorgan Partners Over/(under) 2001(b)	Chase Financial Services 2002	Chase Financial Services Over/(under) 2001(b)	JPMorgan Chase (a) 2002	JPMorgan Chase (a) Over/(under) 2001(b)
Operating revenue	$ (954)	35%	$ 13,541	24%	$ 31,053	2%
Operating expense	298	2	6,421	14	20,156	(2)
Operating margin	(1,252)	29	7,120	33	10,897	10
Credit costs	—	—	3,159	10	5,770	36
Operating earnings (losses)	(789)	29	2,490	62	3,384	(11)
Average common equity	5,454	(16)	10,293	13	41,368	—
Average managed assets	10,210	(16)	179,404	10	759,876	1
Shareholder value added	(1,614)	23	1,242	189	(1,631)	(31)
ROCE	NM	NM	24%	700bp	8%	(100)bp
Overhead ratio	NM	NM	47	(400)	65	(200)

Investment Bank

JPMorgan Chase is one of the world's leading investment banks, as evidenced by the breadth of its client relationships and product capabilities. At the center of the Investment Bank's franchise are extensive relationships with corporations, financial institutions, governments and institutional investors worldwide. The Firm provides a full range of investment banking and commercial banking products and services, including advising on corporate strategy and structure, capital raising in equity and debt markets, sophisticated risk management and market-making in cash securities and derivative instruments in all major capital markets. The Firm also commits its own capital to proprietary investing and trading activities to capture market opportunities.

Selected financial data

Year ended December 31, (in millions, except ratios and employees)	2002	2001	Over/(under) 2001
Operating revenue	**$ 12,399**	$ 14,671	(15)%
Operating expense:			
Compensation expense	**3,952**	5,286	(25)
Noncompensation expense	**3,439**	3,496	(2)
Severance and related costs	**587**	—	NM
Total operating expense	**7,978**	8,782	(9)
Operating margin	**4,421**	5,889	(25)
Credit costs	**2,392**	1,148	108
Operating earnings	**$ 1,365**	$ 2,918	(53)%
Average common equity	**$ 18,323**	$ 18,964	(3)%
Average assets	**494,958**	510,282	(3)
Shareholder value added	**(853)**	615	NM
ROCE	**7%**	15%	(800)bp
Overhead ratio	**64**	60	400
Overhead ratio (excluding severance and related costs)	**60**	60	—
Compensation as % of revenue (excluding severance and related costs)	**32**	36	(400)
Full-time equivalent employees	**14,837**	17,619	(16)%

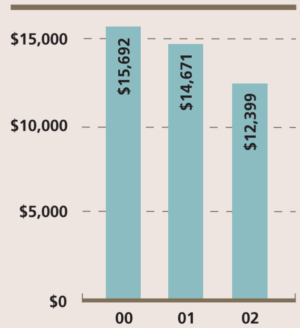
bp- Denotes basis points; 100 bp equals 1%.
NM-Not meaningful.

Financial results overview

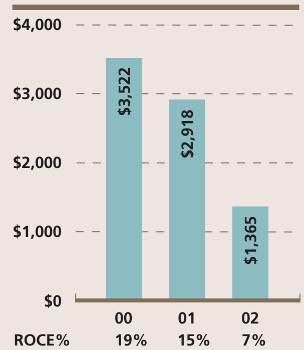
Performance at the Investment Bank ("IB") is influenced by numerous factors, including global economic conditions and their impact on capital markets and IB's clients. Changes in market share, risks and expenses can also impact financial performance. The year 2002 presented a challenging economic and credit environment for investment banking. In response, IB increased its focus on the management of credit and market risks, as well as the management of staffing and expense levels. While the outlook for 2003 remains uncertain, IB believes it is well positioned to improve results as economic conditions and the capital markets recover.

Reflecting the difficult market environment in 2002, IB's operating margin declined 25% from last year. Operating revenue declined 15%, driven by a reduction in capital markets and lending revenue and in investment banking fees. This was partially offset by a 9% decline in operating expenses. Credit costs rose to $2.4 billion in 2002. The lower operating margin together with higher credit costs resulted in **operating earnings** of $1.4 billion, a decline of 53% from 2001.

Operating revenue
(in millions)



Operating earnings
(in millions, except ratios)



Operating revenue of $12.4 billion consisted of investment banking fees for advisory and underwriting services; capital markets revenue related to market-making, trading and investing, and corporate lending activities.

Investment banking fees were 25% lower than last year. Advisory revenues declined 40%, reflecting lower global announced M&A volumes. Underwriting and other fees declined 17%, reflecting lower levels of debt underwriting following record levels in 2001 and lower loan syndications. Equity underwriting revenues were down from last year, reflecting decreased market volumes, partially offset by increased market share.

The Firm maintained its No. 2 ranking in underwriting U.S. investment-grade bonds and its No. 1 ranking in global loan syndications. It also improved its ranking and market share in U.S. equity and equity-related underwriting. In addition, the Firm finished the year ranked No. 5 in global announced M&A.

IB's **Capital markets and lending** activities are comprised of four primary areas:

Market shares and rankings[a]

December 31,	2002 Market share	2002 Ranking	2001 Market share	2001 Ranking
* Global syndicated loans	**23%**	**#1**	27%	#1
* U.S. investment-grade bonds	**16**	**#2**	14	#2
* Euro-denominated corporate international bonds	**6**	**#4**	7	#3
* Global equity & equity-related	**5**	**#8**	4	#9
* U.S. equity & equity-related[b]	**6**	**#6**	4	#8
* Global announced M&A	**15**	**#5**	22	#4

(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) U.S. equity and equity-related adjusted to reflect all equity issuances in the U.S. market for both U.S. and non-U.S. issuers.

Fixed income includes revenues from market-making activities and from portfolio management and proprietary risk-taking activities across the complete range of global fixed income markets (including government and corporate debt, foreign exchange, interest rate and commodities markets).

Treasury activities include managing the Firm's overall interest rate exposure and investment securities activities. Assets, liabilities and capital are transfer-priced to Global Treasury to reduce the sensitivity of business segment results to changes in interest rates. Global Treasury's activities complement, and offer a strategic balance and diversification benefit to, the Firm's trading activities.

Credit portfolio revenues include net interest income, credit-related fees and loan sale activity for the Investment Bank's commercial credit portfolio. Additionally, Credit portfolio revenues reflect changes in the Credit Valuation Adjustment ("CVA"), which is the component of the fair value of a derivative that reflects the credit quality of the counterparty (see page 51 of Credit risk for a further discussion of the CVA). Credit portfolio revenues also include the results of single-name and portfolio hedging activity used to manage the credit exposures arising from the Firm's lending and derivative activities. (See pages 50–53 of Credit risk for a further discussion on credit derivatives). Credit portfolio revenues also reflect any market gains or losses related to assets received as part of a loan restructuring.

Equities includes revenues from market-making activities, including portfolio management and proprietary risk-taking in cash instruments and derivatives, across the complete range of global equity markets.

IB evaluates its capital markets and lending activities by considering all revenues related to these activities. These revenues include trading, fees and commissions, securities gains and related net interest income and other revenues. In addition, these

Year ended December 31,	2002	2001	Over/(under) 2001
Business revenue:			
Investment banking fees			
Advisory	**$ 743**	$ 1,248	(40)%
Underwriting and other fees	**1,953**	2,343	(17)
Total	**$ 2,696**	$ 3,591	(25)%
Capital markets and lending			
Fixed income	**$ 5,417**	$ 6,215	(13)%
Treasury	**1,839**	1,521	21
Credit portfolio	**1,443**	1,092	32
Equities	**1,004**	2,252	(55)
Total	**$ 9,703**	$ 11,080	(12)%
Operating revenue	**$12,399**	$ 14,671	(15)%
Capital markets and lending total return revenue			
Fixed income	**$ 5,394**	$ 6,301	(14)%
Treasury	**1,514**	950	59
Credit portfolio	**1,443**	1,092	32
Equities	**1,004**	2,252	(55)
Total	**$ 9,355**	$ 10,595	(12)%

activities are managed on a total-return revenue basis. This represents total operating revenues plus the unrealized gains or losses on third-party or internally transfer-priced assets and liabilities in fixed income and treasury activities, which are not accounted for on a mark-to-market basis through earnings.

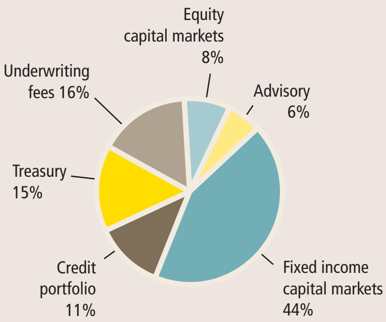
Capital markets and lending total-return revenues were $9.4 billion, down 12% from 2001. Fixed income total-return revenues of $5.4 billion decreased 14% from 2001, driven by lower portfolio management results related to market-making activities and lower results within proprietary risk-taking activities, which offset higher client trading activities. Offsetting the total-return revenue decline was the performance of Global Treasury, which produced strong returns in fixed income markets. Global Treasury's total-return revenues of $1.5 billion were up 59% from last year. Credit portfolio revenues were $1.4 billion, up 32% from 2001; losses related to exposure to Enron and Argentina depressed 2001 results. The 55% decline in Equities from 2001 to $1.0 billion was attributable to lower portfolio management results in equity derivatives and lower client revenues. On an operating revenue basis, Capital Markets revenues of $9.7 billion in 2002 were 12% below 2001.

2002 Selected industry awards

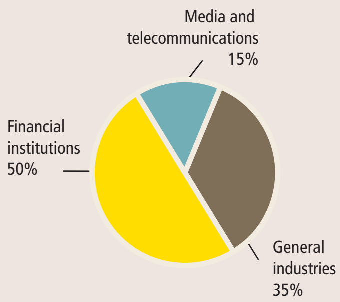
* Derivatives house of the year – *Risk Magazine*
* Interest rate derivatives house of the year – *Risk Magazine*
* Credit derivatives house of the year – *Risk Magazine*
* Structured finance house of the year – *The Banker*
* World's best debt house – *Euromoney*

Dimensions of 2002 revenue diversification

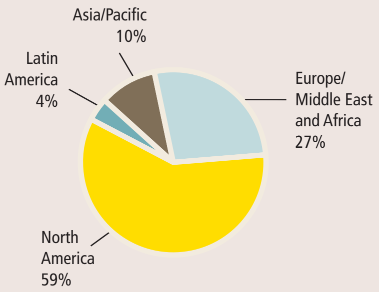
By business revenues



By client segment



By geographic region



Operating expense declined 9% from 2001 and included $587 million of severance and related costs associated with expense-management initiatives. Excluding these costs, expenses would have been down 16%, with compensation costs down 25% and noncompensation costs down 2% from 2001. The decline in compensation costs reflected lower incentive compensation, as well as the impact of lower staffing levels. Lower noncompensation costs reflected declines in travel and entertainment costs and lower technology and communications costs, partially offset by higher legal costs. Including the severance and related costs, the overhead ratio for 2002 was 64%, compared with 60% in 2001. Excluding the severance and related costs, the overhead ratio was 60% in 2002.

In October 2002, IB completed a review of all major businesses. The analysis underscored the value of the Firm's integrated business model, the breadth of its product offerings and the strength of the client franchise. To improve financial performance under current market conditions, IB announced a series of initiatives intended to improve efficiency as well as enable selective strategic investment. These initiatives, which began in the fourth quarter of 2002, are expected to generate approximately $700 million of savings and result in a reduction in staffing levels of more than 2,000, as well as a reduction in consultants employed by the Firm. Severance and other costs related to these initiatives are estimated at approximately $450 million, with $293 million recorded in the fourth quarter of 2002 and the remaining costs to be recognized in 2003. Another $294 million of severance and related costs recorded in 2002 related to initiatives announced earlier in the year. In a revenue environment similar to 2002, and with credit costs substantially lower than in 2002, these initiatives would enable the Investment Bank to target a return on equity of 12% in 2003.

Credit costs increased 108%, reflecting significantly higher charge-offs, primarily in the telecommunications and cable sectors, and provisions in excess of charge-offs. For a further discussion, see Credit Risk Management on pages 45–57.

Treasury & Securities Services

Treasury & Securities Services, a global leader in transaction processing and information services to wholesale clients, is composed of three businesses. Institutional Trust Services provides a range of fiduciary services to debt and equity issuers and broker-dealers, from traditional trustee and paying-agent functions to global securities clearance. Investor Services provides securities custody and related functions, such as securities lending, investment analytics and reporting, to 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, to a diversified global client base of corporations, financial institutions and governments.

Selected financial data

Year ended December 31, (in millions, except ratios and employees)	2002	2001	Over/(under) 2001
Operating revenue	**$ 4,046**	$ 3,978	2%
Operating expense	**3,001**	3,006	—
Operating margin	**1,045**	972	8
Credit costs	**1**	7	(86)
Operating earnings	**$ 677**	$ 632	7%
Average common equity	**$ 2,998**	$ 2,958	1%
Average assets	**18,018**	18,794	(4)
Shareholder value added	**313**	272	15
ROCE	**23%**	21%	200bp
Overhead ratio	**74**	76	(200)
Assets under custody (in billions)	**$ 6,336**	$ 6,264	1%
Full-time equivalent employees	**14,416**	14,367	—

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

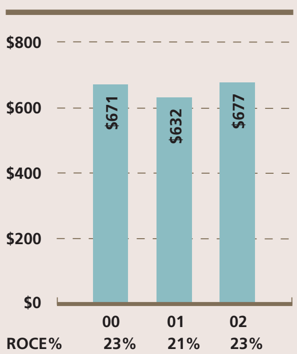
Financial results overview

Treasury & Securities Services ("T&SS") **operating earnings** increased 7% over 2001 and delivered a return on equity of 23%. Expense discipline mitigated a weak revenue environment. Revenue growth of 2% was limited by weakness in the economy and financial markets.

Operating revenue increase of 2% was driven by growth at Institutional Trust Services ("ITS") of 14%. Growth came mainly from new business volumes in global securities clearance and securitization services. Acquisitions also provided growth, most notably Systems & Services Technologies, Inc., a third-party and backup servicer specializing in subprime auto receivables, which generated $40 million of new revenue in 2002. Revenue at Treasury Services rose 5% on higher revenues associated with middle market customers, increased volumes, new product initiatives and higher balance deficiency fees. Revenue at Investor Services contracted 9% as the value of assets held in custody and, consequently, fees declined. Foreign exchange revenue dropped, along with securities lending activity due to reduced market activity. Also contributing to the decline were higher deposit balances in 2001 following the events of September 11, as clients looked to depository institutions to hold cash funds. Across all business units, low interest rates have reduced earnings from the value of deposits linked to transaction processing. T&SS results for 2002 included a pre-tax gain of $50 million on the sale of the Firm's interest in Centrale de Livraison de Valeurs Mobilieres ("CEDEL"), an overseas securities clearing firm.

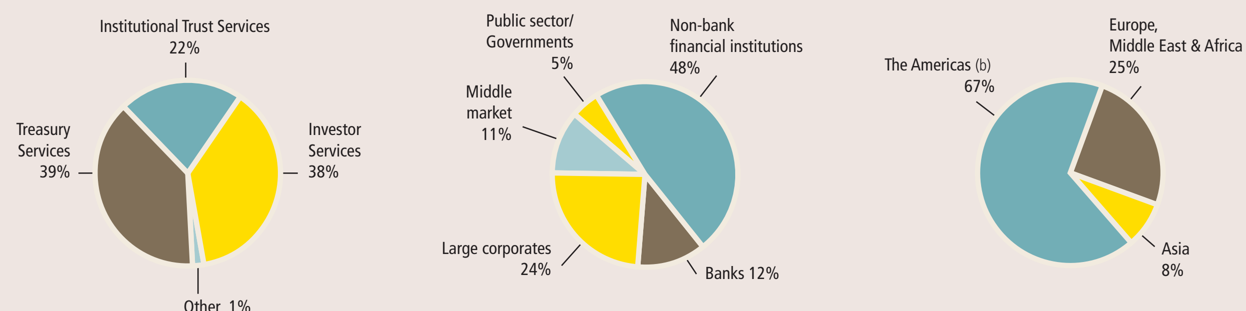
Operating revenue
(in millions)

Operating earnings
(in millions, except ratios)



Dimensions of 2002 revenue diversification

By business revenues | **By client segment (a)** | **By geographic region**



(a) Represents relationships as a percentage of revenues

(b) Includes North America, Latin America and the Caribbean

Operating expense was virtually flat to 2001, despite higher expenses related to acquisitions. During 2002, T&SS achieved expense reductions through productivity and quality initiatives, including Six Sigma and selected staff reductions. In addition, Investor Services restructured its expense base in response to the weak revenue environment. Despite low revenue growth, the overhead ratio for T&SS was 74%, compared with 76% in 2001.

League Table #1 Rankings

* U.S. dollar clearing and commercial payments
* U.S. corporate debt trusteeship
* Securities lending
* CHIPS, Fedwire, ACH origination
* U.S. commercial paper issuing and paying agent
* American depositary receipts
* U.S. provider of non-indigenous Euro clearing services

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

JPMorgan Fleming Asset Management provides investment management services to private- and public-sector institutional investors, high net worth individuals and retail customers across asset classes and global markets. JPMorgan Private Bank provides personalized advice and solutions to wealthy individuals and families. Assets under supervision ("AUS") totaled $636 billion.

Selected financial data

Year ended December 31, (in millions, except ratios and employees)	2002	2001	Over/(under) 2001
Operating revenue	**$ 2,868**	$ 3,226	(11)%
Operating expense	**2,336**	2,570	(9)
Credit costs	**85**	35	143
Pre-tax margin	**447**	621	(28)
Operating earnings	**$ 384**	$ 479	(20)%
Average common equity	**$ 6,115**	$ 6,275	(3)%
Average assets	**35,729**	36,896	(3)
Shareholder value added	**(357)**	(284)	(26)
ROCE	**6%**	8%	(200)bp
Tangible ROCE	**20**	23	(300)
Overhead ratio	**81**	80	100
Pre-tax margin ratio(a)	**16**	19	(300)
Full-time equivalent employees	**7,793**	8,162	(5)%

(a) Measures the percentage of operating earnings before taxes to total operating revenue.
bp- Denotes basis points; 100 bp equals 1%.

Financial results overview

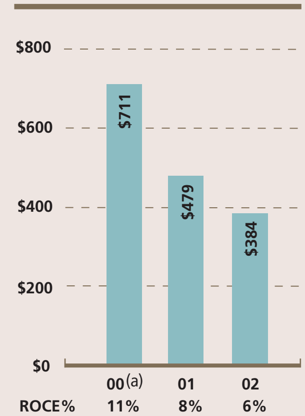
Investment Management & Private Banking ("IMPB") **operating earnings** are influenced by numerous factors, including global economic conditions, equity and fixed income asset valuations, investor activity levels and investment performance. Global economic conditions remained weak in 2002. In addition, poor investor sentiment driven by the uncertain economic outlook and concerns surrounding corporate governance weighed heavily on the financial markets. These factors led to significantly depressed equity markets (the S&P 500 index declined 23% for the year 2002) and reduced levels of investor activity across IMPB's private banking and retail client bases. In response to these challenges, IMPB undertook restructuring and productivity programs and reduced incentives, without impairing its core capabilities. IMPB is well positioned to enhance earnings when economic conditions improve.

Operating revenue of $2.9 billion was 11% lower than last year. Investment Management operating revenues of $1.5 billion decreased 11% from the prior year, reflecting the impact of equity market depreciation and institutional outflows across all asset classes. During the third quarter of 2002, Brown & Co., the Firm's specialty online brokerage unit, was transferred from CFS to IMPB as part of the Firm's strategy to grow its retail asset management business. (All prior periods have been restated to reflect the reorganization.)

Private Banking operating revenues of $1.4 billion decreased 12% from 2001. Net interest income decreased 15%, reflecting the Private Bank's smaller loan portfolio and lower deposit balances, as well as narrower interest rate spreads. Fees from assets under management declined as a result of equity market depreciation and client outflows in the early part of 2002. Brokerage commissions declined as Private Banking clients executed fewer transactions.

Operating revenue
(in millions)

Operating earnings
(in millions, except ratios)



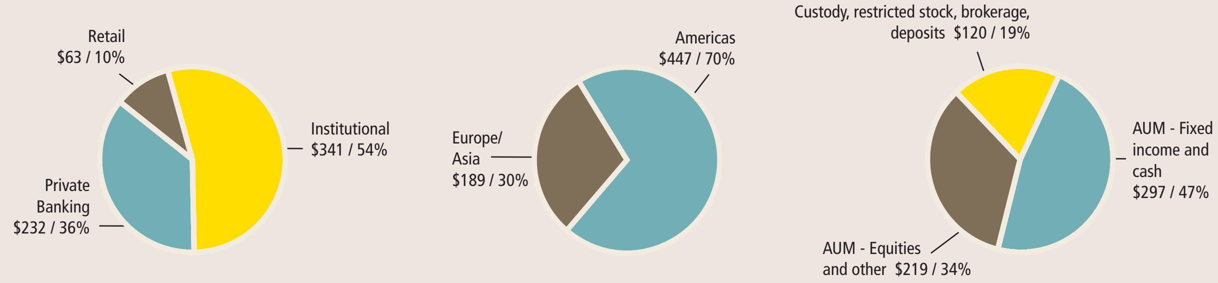
(a) These pro forma results assume that the purchase of Flemings occurred at the beginning of 2000.

Leadership positions:

* No. 1 private bank in the United States and No. 3 globally based on AUS
* Awarded *Global Finance*'s "Best Asset Management Bank"
* Awarded *Worth Magazine* Editor's choice as "Best U.S. private bank"
* No. 5 institutional asset management worldwide – *Pensions & Investments*
* Relationships with nearly 40% of the individuals listed in the Forbes billionaires' global list
* No. 4 provider of global money market funds – *iMoneyNet*

Diversification of IMPB's $636 billion of assets under supervision at December 31, 2002 (a)
($ in billions)

By client segment | **By geographic region** | **By product class**



(a) Assets under supervision represent assets under management as well as custody, restricted stock, deposit and brokerage accounts.

Operating expense decreased 9%, reflecting the full-year benefit of merger and other programs initiated in 2002, as well as reductions in performance-related incentives due to lower earnings. Severance and related costs associated with expense initiatives announced in 2002 were $47 million. There were no such costs in 2001.

The increase in **credit costs** of $50 million was concentrated in a small number of U.S. private clients.

Assets under supervision at December 31, 2002, were $636 billion, a decline of 16% from the prior year-end. AUS represent assets under management ("AUM"), as well as custody, restricted stock, deposit and brokerage accounts. **Assets under management** represent assets actively managed by IMPB on behalf of private banking, institutional and retail clients. AUM at December 31, 2002, declined 15% from the prior year-end primarily due to equity market depreciation and institutional outflows, offset by an increase in retail mutual fund assets. Custody, restricted stock, deposit and brokerage accounts, which are lower-fee products than AUM, declined 20%. The diversification of AUS across client segments, geographic regions and product classes helps to mitigate the impact of market volatility on revenues. The Firm has a 45% interest in American Century Companies, Inc., whose AUM totaled $72 billion and $89 billion at December 31, 2002 and 2001, respectively.

Assets under supervision(a)

At December 31, (in billions)	2002	2001	Over/(under) 2001
Client segment:			
Private banking	**$ 129**	$ 142	(9)%
Institutional	**324**	405	(20)
Retail	**63**	59	7
Assets under management	**516**	606	(15)
Custody/restricted stock/brokerage/deposits	**120**	150	(20)
Assets under supervision	**$ 636**	$ 756	(16)%
Geographic region:			
Americas	**$ 362**	$ 442	(18)%
Europe and Asia	**154**	164	(6)
Assets under management	**516**	606	(15)
Custody/restricted stock/brokerage/deposits	**120**	150	(20)
Assets under supervision	**$ 636**	$ 756	(16)%
Product class:			
Fixed income and cash	**$ 297**	$ 329	(10)%
Equities and other	**219**	277	(21)
Assets under management	**516**	606	(15)
Custody/restricted stock/brokerage/deposits	**120**	150	(20)
Assets under supervision	**$ 636**	$ 756	(16)%

(a) Excludes AUM of American Century Companies, Inc.

JPMorgan Partners

JPMorgan Partners, the global private equity organization of JPMorgan Chase, provides equity and mezzanine capital financing to private companies. It is a diversified investor, investing in buyouts, growth equity and venture opportunities across a variety of industry sectors, with the objective of creating long-term value for the Firm and third-party investors.

Selected financial data

Year ended December 31, (in millions, except ratios and employees)	2002	2001	Over/(under) 2001
Operating revenue	**$ (954)**	$ (1,470)	35%
Operating expense	**298**	293	2
Operating margin	**(1,252)**	(1,763)	29
Operating losses	**$ (789)**	$ (1,116)	29%
Average common equity	**$ 5,454**	$ 6,475	(16)%
Average assets	**10,210**	12,143	(16)
Shareholder value added	**(1,614)**	(2,097)	23
Full-time equivalent employees	**361**	320	13

Financial results overview

JPMorgan Partners ("JPMP") faced a challenging year in 2002, resulting in **negative operating revenue** of $954 million and **operating losses** of $789 million. Opportunities to realize value through sales or initial public offerings ("IPOs") of investments were limited, because of constrained M&A and IPO markets. In addition, JPMP recorded negative valuation adjustments in investments concentrated in telecommunications and technology, industries that continue to face poor operating conditions and limited financing opportunities.

Private equity losses totaled $733 million in 2002, consisting of losses of $647 million in direct investments and $150 million in private funds, partially offset by $64 million in gains from portfolio hedging activities.

Realized cash gains of $563 million declined 45% from the previous year due to limited exit opportunities. Realized cash gains were recognized across all industries but were primarily harvested from investments in the industrial and consumer sectors.

Private equity gains (losses)

Year ended December 31, (in millions)	2002	2001	Over/(under) 2001
Realized gains (losses):			
Cash gains	**$ 563**	$ 1,030	(45)%
Write-offs	**(654)**	(355)	(84)
Subtotal	**(91)**	675	NM
Unrealized gains (losses):			
Public mark-to-market (a)	**(210)**	(520)	60
Private write-downs	**(432)**	(1,338)	68
Subtotal	**(642)**	(1,858)	65
Private equity gains (losses) (b)	**$ (733)**	$ (1,183)	38%

(a) Includes mark-to-market and reversals of mark-to-market due to public securities sales.
(b) Includes the impact of portfolio hedging activities.
NM-Not meaningful.

JPMP's realized gains were more than offset by net write-offs (realized losses) and write-downs (unrealized losses) of $1.1 billion. These write-downs and write-offs included $621 million from the technology, media and telecommunications ("TMT") sector, which continues to suffer from an industry-wide contraction. JPMP also recorded unrealized losses of $210 million from mark-to-market losses on its public portfolio, largely in TMT.

JPMP's operating revenue also includes third-party management fees and net revenue allocated to or from other JPMorgan Chase business segments.

Investment pace, portfolio diversification and capital under management

In 2002, increased emphasis was placed on leveraged buyouts and growth equity opportunities. JPMP's direct investment pace for the Firm's account in 2002 was essentially flat with 2001 at $950 million, with investment activity primarily related to buyouts. More than 60% of the total direct investment activity was in the industrial growth and life sciences/healthcare industry sectors.

JPMP investment portfolio

December 31, 2002 (in millions)	Carrying value	Cost
Public securities (101 companies)(a)	**$ 520**	**$ 663**
Private direct securities (945 companies)	**5,865**	**7,316**
Private fund investments (324 funds)(b)	**1,843**	**2,333**
Total investment portfolio	**$ 8,228**	**$ 10,312**

(a) Quoted public value was $761 million at December 31, 2002.
(b) Unfunded commitments to private equity funds were $2.0 billion at December 31, 2002.

During 2002, several factors contributed to improved diversification. At December 31, 2002, the portfolio was $8.2 billion, a reduction of $1.0 billion from year-end 2001, primarily due to a decline in TMT investments. At the end of 2002, TMT investments were $1.5 billion, or 18%, of the total portfolio, compared with $2.5 billion, or 27%, of the portfolio at year-end 2001. Industrial growth investments have increased to 27% of the portfolio as of December 31, 2002, from 22% at the end of 2001, reflecting increased investment in industrial buyout activity during 2002.

At December 31, 2002, JPMP's public securities portfolio was $520 million, a 48% decline from 2001 and less than one-sixth of the $3.4 billion public securities balance at December 31, 1999. The 2002 decline resulted from lower market valuations and from accelerated sales of public securities that were not subject to restrictions. These sales of public securities reduced the earnings volatility created by this portfolio segment. Although 2002 reflected a reduction in the amount of publicly-held securities in JPMP's portfolio, this portion of the portfolio could increase significantly, both in dollar amount and as a proportion of the total portfolio, due to changes in equity market prices and IPO opportunities available to portfolio companies.

Currently, there are limited sales and financing activity in private equity markets, constraining realization opportunities.

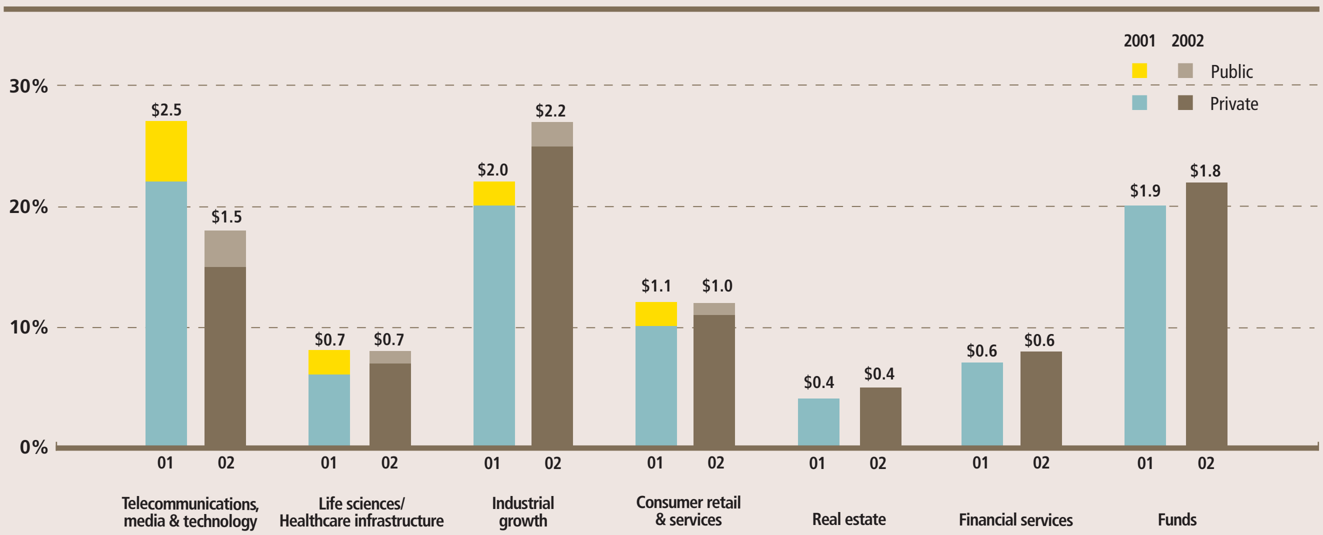
The Firm continues to regard JPMP as a strategic business that will create value over the long term. JPMP is seeking to reduce or exit selected businesses and investments that are not central to its operations with the goal that, over time, JPMP's private equity portfolio will be reduced from approximately 20% of the Firm's common stockholders' equity as of December 31, 2002, to approximately 10%.

The industry group percentages in the accompanying table are based on the carrying values of JPMP's private equity portfolio as of December 31, 2002 and 2001. In terms of dollar amounts, some industry sectors have the same, or lower, carrying values at year-end 2002 as compared with year-end 2001, but these sectors comprise a higher percentage of the total carrying value of the 2002 portfolio than they did in 2001. This is the result of the lower total carrying value of the JPMP portfolio as of December 31, 2002.

JPMP's diversified private equity portfolio by industry group(a)

% of carrying value as of December 31, 2002 and 2001

Amounts above the bars represent the carrying values of the investments.
(in billions)



(a) Represents JPMP's total investment portfolio by industry.

Chase Financial Services

Chase Financial Services is a major provider of banking, investment and financing products and services to consumers and small and middle market businesses throughout the United States. The majority of its revenues and earnings are produced by its national consumer credit businesses, Chase Home Finance ("CHF"), Chase Cardmember Services ("CCS") and Chase Auto Finance ("CAF"). It also serves as a full-service bank for consumers and small- and medium-sized businesses through Chase Regional Banking ("CRB") and Chase Middle Market ("CMM").

Selected financial data

Year ended December 31, (in millions, except ratios and employees)	2002	2001	Over/(under) 2001
Operating revenue	**$ 13,541**	$ 10,951	24%
Operating expense	**6,421**	5,617	14
Operating margin	**7,120**	5,334	33
Credit costs	**3,159**	2,873	10
Operating earnings	**$ 2,490**	$ 1,538	62%
Average common equity	**$ 10,293**	$ 9,118	13%
Average managed assets	**179,404**	162,753	10
Shareholder value added	**1,242**	430	189
ROCE	**24%**	17%	700bp
Overhead ratio	**47**	51	(400)
Full-time equivalent employees	**43,607**	41,195	6%

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

Financial results overview

Chase Financial Services ("CFS") **operating earnings** increased 62% to a record $2.5 billion in 2002. Shareholder value added almost tripled to $1.2 billion, and return on common equity increased to 24% from 17% last year. Revenue growth of 24% reflected high business volumes across all consumer credit businesses and significant gains in Home Finance on the hedging of MSRs, partially offset by the negative impact of lower interest rates on deposits. Expenses increased 14% as a result of higher business volumes, partially offset by Six Sigma and other productivity efforts. The overhead ratio improved in 2002 to 47%, down from 51% in 2001. Credit costs increased, primarily due to higher average loans.

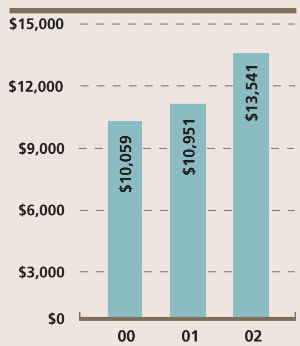
The Firm anticipates that CFS operating revenue and earnings will be lower in 2003 due to reduced MSR hedging gains and the impact of declining interest rates on its deposit businesses.

Operating revenue exceeded $13.5 billion in 2002, an increase of 24% from 2001. The national consumer credit businesses drove the revenue increase. Home Finance revenues increased 73% over the prior year, driven by strong mortgage originations and gains on the hedging of MSRs. Credit card revenues increased 34% due to the Providian acquisition, lower funding costs and higher purchase volume. Auto Finance revenues grew 26%, driven by originations of over $25 billion and lower funding costs. Middle Market revenues increased 4%, driven by growth in average deposit volume and higher fees for deposit services; the low-interest rate environment reduced the value of customers' deposit balances and, consequently, increased deposit fees. Regional Banking revenues declined 9% on lower deposit spreads resulting from lower interest rates, partially offset by higher deposit volume.

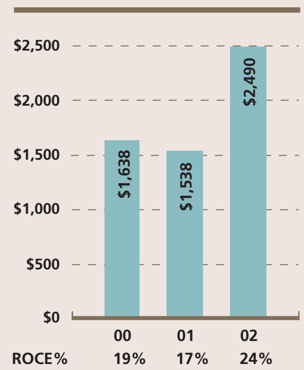
Operating expense rose 14% to $6.4 billion. The increase reflects the acquisition of the Providian Master Trust, growth in consumer credit business volumes, higher incentive costs on better business results and higher credit card marketing expenditures. Partially offsetting these increases were almost $250 million in expense savings achieved through Six Sigma and other productivity efforts. The overhead ratio improved to 47% from 51% a year ago, as a result of both revenue increases and expense initiatives.

Credit costs, on a managed basis, increased 10%, driven by a 23% increase in credit card receivables, including the Providian portfolio. Credit quality of the card portfolio remained relatively stable, the result of proactive credit risk management and enhanced collections initiatives. CFS increased its allowance for credit losses in 2002 by $233 million, primarily due to the Providian acquisition. Higher securitizations, however, mitigated the increase in the allowance. For a further discussion of the consumer credit portfolio, see pages 54–55.

Operating revenue
(in millions)



Operating earnings
(in millions, except ratios)



Chase Financial Services' businesses

Year ended December 31, (in millions, except ratios)	2002 Operating revenue	2002 Operating expenses	2002 Operating earnings	Over/(under) 2001 Operating revenue	Over/(under) 2001 Operating expenses	Over/(under) 2001 Operating earnings
Home Finance	**$ 2,919**	**$ 1,270**	**$ 948**	73%	28%	136%
Cardmember Services	**5,992**	**2,121**	**716**	34	33	44
Auto Finance	**696**	**236**	**180**	26	17	41
Regional Banking	**2,795**	**2,114**	**399**	(9)	(2)	(15)
Middle Market	**1,493**	**818**	**359**	4	1	22
Other consumer services[(a)]	**(354)**	**(138)**	**(112)**	(36)	—	56
Total	**$ 13,541**	**$ 6,421**	**$ 2,490**	24%	14%	62%

(a) Includes the elimination of revenues and expenses related to the shared activities with Treasury Services, discontinued operations, support services and, in 2001, unallocated credit costs.

Chase Home Finance

CHF is the fourth-largest mortgage originator and the fourth-largest mortgage servicer in the United States, with more than 4 million customers. In 2002, CHF capitalized on a record year for the U.S. mortgage industry as historically low interest rates contributed to higher production volumes and favorable margins. CHF experienced its own record year, with total revenues and operating earnings increasing 73% and 136%, respectively, demonstrating CHF's strength in both origination and servicing.

During 2002, CHF successfully shifted its origination growth into higher-margin business sectors. Loan originations in these higher-margin sectors (i.e., retail, wholesale, telephone-based and e-commerce) contributed to a record $113 billion in origination volume, an increase of 30% over 2001. As part of this increase in origination volume during 2002, home equity, a strategic growth area, rose 52% to $14 billion. CHF's correspondent-negotiated business, a lower-margin sector, was down 56% to $43 billion, due to pricing and market conditions. Low interest rates also contributed to the increase in revenue through improved net interest margins. In 2003, CHF will continue its initiatives to retain customers considered likely to refinance.

In mortgage servicing, lower interest rates led to high prepayment levels, which resulted in the accelerated amortization and impairment of MSRs. In 2002, CHF partnered with the Firm's Global Treasury Group to manage the interest rate sensitivity of MSRs. Global Treasury managed the risk exposure of the MSRs through a series of derivatives (e.g., a combination of swaps, swaptions and floors) and AFS securities that increased in value when interest rates declined. During 2002, MSR valuation adjustments of $4.1 billion were more than offset by $4.7 billion in gains on derivatives, realized gains from sales of AFS securities and net interest earned on AFS securities. The net positive result of $582 million was an increase of $838 million over 2001, driven by wider mortgage-swap spreads and a falling interest rate environment. Management anticipates an eventual decrease in this revenue category, as mortgage-swap spreads and interest rates revert to normal levels. The carrying value of MSRs also declined $1.4 billion as a result of periodic amortization, $244 million more than in 2001. For a further discussion of MSR activities, see Note 12 on pages 87–88.

Operating expense increased 28% on the growth in origination volume and a very high level of loan servicing activity, partially offset by gains in productivity and benefits realized from Six Sigma initiatives. The overhead ratio declined to 44% from 59% in 2001, a result of strong revenue growth. Net charge-offs remained low, reflecting the continued strong credit quality of CHF's loan portfolio.

Business-related metrics

As of or for the year ended December 31, (in billions, except ratios)	2002	2001	Over/(under) 2001
Originations:			
Retail, wholesale and correspondent	**$ 113**	$ 87	30%
Correspondent negotiated transactions	**43**	97	(56)
Loans serviced	**426**	430	(1)
End-of-period outstandings	**63.6**	59.0	8
Total average loans owned	**56.2**	55.7	1
Number of customers (in millions)	**4**	4	—
MSR carrying value	**3.2**	6.6	(52)
Net charge-off ratio	**0.25%**	0.18%	7bp
Overhead ratio	**44**	59	(1,500)

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

Chase Cardmember Services

CCS is the fourth-largest U.S. credit card issuer, with more than $51 billion in managed receivables. Operating earnings for 2002 were a record $716 million, 44% greater than 2001. The primary drivers were the acquisition of the Providian portfolio and overall higher revenue. These results were achieved in a highly competitive market environment and a weak U.S. economy. Industry challenges included competitive pricing, increased competition for new accounts, depressed response rates to credit card solicitations as costs to acquire new accounts increased, and declining acceptances to balance consolidation offers.

Total operating revenue increased 34%, reflecting receivables growth, lower funding costs, higher late fees, an increase in interchange revenue due to higher purchase volumes and successful sales of fee-based products. Excluding the Providian portfolio, operating revenues increased 12%. Operating expenses increased 33%; excluding Providian, operating expenses increased 14%, driven by higher volumes and an increase in marketing expenditures, which enabled CCS to maintain a consistent level of new cardmember acquisitions amid a competitive market environment. Total accounts increased 22%, reflecting the addition of 3.7 million new accounts, as well as accounts related to the Providian acquisition. Total volume (purchases, cash advances and balance transfers) increased 16% to a record $84 billion. Managed credit card-related receivables increased 23% to $51.1 billion.

Business-related metrics

As of or for the year ended December 31, (in billions, except ratios)	**2002**	2001	Over/(under) 2001
End-of-period outstandings	**$ 51.1**	$ 41.6	23%
Average outstandings	**49.1**	38.5	28
Total purchases & cash advances [a]	**84.0**	72.2	16
Total accounts (in millions)	**29.2**	23.9	22
Net charge-off ratio	**5.89%**	5.49%	40bp
30+ day delinquency rate	**4.67**	4.77	(10)
Overhead ratio	**35**	36	(100)

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%.

The managed credit card-related net charge-off ratio was 5.89%, an increase of 40 basis points from 2001. This increase partly reflects the inclusion of the Providian portfolio. Excluding the Providian portfolio, this ratio was 5.66%, an increase of 17 basis points from 2001. This increase reflected higher contractual losses (nonbankruptcy-related), partially offset by receivable growth. Including Providian, the total managed 30+ day delinquency rate improved to 4.67% at December 31, 2002, from 4.77% a year ago.

Chase Auto Finance

CAF is the largest U.S. bank originator of auto loans and leases, with more than 2.5 million accounts. In 2002, CAF had a record number of auto loan and lease originations, growing 28% over 2001 to $25.4 billion. Loan and lease receivables of $36.4 billion were 28% higher than the prior year. Operating earnings grew 41% to $180 million. These results reflected higher revenue on increases in average loan and lease receivables and lower funding costs, offset by higher operating expenses and higher credit costs driven by loan volumes.

In 2002, CAF's operating revenues grew 26% to $696 million. Its market share among auto finance companies improved from 4.1% in 2001 to 5.7% in 2002, the result of strong organic growth and an origination strategy that allies the business with manufacturers and dealers. CAF relationships with several major car manufacturers contributed to 2002 growth, as did CAF's dealer relationships, which increased from approximately 12,200 dealers in 2001 to approximately 12,700 dealers in 2002. Operating expenses increased by 17%, reflecting volume growth.

Business-related metrics (a)

As of or for the year ended December 31, (in billions, except ratios)	**2002**	2001	Over/(under) 2001
Loan and lease receivables	**$ 36.4**	$ 28.4	28%
Average loan and lease receivables	**30.6**	24.7	24
Origination volume	**25.4**	19.9	28
Market share	**5.7%**	4.1%	160bp
Net charge-off ratio	**0.53**	0.55	(2)
Overhead ratio	**35**	37	(200)

(a) Excludes amounts related to Chase Education Finance.
bp- Denotes basis points; 100 bp equals 1%.

The resulting overhead ratio improved to 35% from 37%. The net charge-off ratio was 0.53% in 2002, down from 0.55% in 2001.

CAF is also comprised of Chase Education Finance, a top provider of government-guaranteed and private loans for higher education. Loans are provided through a joint venture with Sallie Mae, a government-sponsored enterprise and the leader in funding and servicing education loans. Chase Education Finance's origination volume totaled $2.6 billion, an increase of 12% from last year.

Chase Regional Banking

CRB provides payment, liquidity, investment, insurance and credit products and services to three primary customer segments: small businesses, affluent consumers and mass-market consumers. Within these segments, CRB serves 324,000 small businesses and 2.9 million consumers and is the No. 1 bank, ranked by deposits, in the New York tri-state area and is a leading bank in Texas.

In 2002, CRB divested two nonstrategic businesses – the National Deposit business was sold to E*Trade in February, and the Virgin Islands branches were sold to FirstBank Puerto Rico in October. In addition, Brown & Co., the specialty online brokerage unit, was transferred to IMPB. Prior-period amounts have been adjusted for the Brown & Co. transfer.

CRB had operating earnings of $399 million in 2002, down 15% from 2001. The decrease was attributable to 9% lower revenue, predominantly driven by lower interest rates, which compressed spreads on deposits. Customer deposit balances grew 6% (10% excluding divestitures) to $71 billion at December 31, 2002.

Business-related metrics

As of or for the year ended December 31, (in billions, except ratios)	**2002**	2001	Over/(under) 2001
Total average deposits (in billions)	**$ 70**	$ 66	6%
Total average assets under management[a] (in billions)	**104**	103	1
Number of branches	**528**	531	(1)
Number of ATMs	**1,876**	1,907	(2)
Number of online customers (in thousands)	**1,185**	937	26
Overhead ratio	**76%**	70%	600bp

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

Operating expenses were down $38 million, or 2%, from 2001, principally driven by productivity initiatives and expense management. Despite the decline in expenses, the overhead ratio increased to 76% as a result of lower revenue. Credit costs declined $96 million, primarily reflecting the run-off of an installment loan portfolio.

Chase Middle Market

Business-related metrics

As of or for the year ended December 31, (in billions, except ratios)	**2002**	2001	Over/(under) 2001
Total average loans	**$ 13.7**	$ 14.3	(4)%
Total average deposits	**24.1**	18.5	30
Nonperforming average loans as a % of total average loans	**1.91%**	2.35%	(44)bp
Overhead ratio	**55**	57	(200)

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

CMM is a premier provider of commercial banking and corporate financial services to companies with annual sales of $10 million to $1 billion, as well as to not-for-profit, real estate and public-sector entities. CMM maintains a leadership position in the New York tri-state market and select Texas markets; it also leverages its expertise in distinct industry segments and select regional markets across the country.

The CMM relationship management model brings customized solutions to more than 14,000 middle market companies, utilizing the products and services of the entire Firm. Product offerings include cash management, credit, corporate finance, international banking services and various credit products, such as leasing and asset-backed financing. CMM is organized around geographies, industries and products to deliver greater value to customers. CMM's 2002 and 2001 results included 100% of the revenues and expenses attributed to the shared activities with Treasury Services. See page 25 for a discussion of the Firm's revenue- and expense-sharing agreements between business segments.

CMM's operating earnings increased 22% compared with the prior year, the result of deposit volume growth, increased fees for deposit services, expense discipline and a reduction in credit costs. Lower interest rates reduced the value of customer deposit balances and, consequently, increased the fees paid by customers for deposit services. The lower credit costs reflect reduced charge-offs and improving credit quality. The overhead ratio improved to 55%, compared with 57% last year.

Support Units and Corporate

Selected financial data

Year ended December 31, (in millions, except employees)	2002	2001	Over/(under) 2001
Operating revenue	**$ (847)**	$ (964)	$ 117
Operating expense	**122**	220	(98)
Credit costs	**133**	167	(34)
Pre-tax loss	**(1,102)**	(1,351)	249
Income tax benefit	**(359)**	(702)	343
Operating losses	**$ (743)**	$ (649)	(94)
Average common equity	**$ (1,815)**	$ (2,266)	451
Average assets	**21,557**	13,080	8,477
Shareholder value added	**(362)**	(183)	(179)
Full-time equivalent employees	**13,321**	14,149	(828)

Note: Amounts are shown in place of % changes.

The Support Units and Corporate sector includes Enterprise Technology Services ("ETS"), Corporate Business Services ("CBS"), legal, audit, corporate finance, human resources, risk management, executive management and corporate marketing.

Support Units and Corporate reflects the accounting effects remaining at the corporate level after the application of the Firm's management accounting policies. These policies allocate the costs associated with technology, operational and staff support services to the business segments. The residual component of the allowance for credit losses is not allocated to the business segments.

ETS is an internal technology service organization, and CBS manages the Firm's support services, including real estate management, human resources and finance operations and procurement. ETS and CBS 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.

In December 2002, JPMorgan Chase entered into a seven-year agreement with IBM to outsource portions of the Firm's internal technology infrastructure services. This agreement will enable the Firm to transform its technology infrastructure through absolute cost savings, increased cost variability, access to the best research and innovation and improved service levels. By moving from a traditional fixed-cost approach to one with increased capacity and cost variability, the Firm expects to be able to respond more quickly to changing market conditions. The impact on expenses as a result of this agreement is expected to be minimal in 2003.

For 2002, Support Units and Corporate had an **operating loss** of $743 million, compared with a loss of $649 million in 2001. This sector usually operates at a moderate loss. Negative operating revenue usually results from the application of the Firm's transfer pricing policies and the overallocation of capital to the various business segments. Expense items usually result from timing differences in allocations to other business sectors and residuals from interoffice allocation among the business segments. Income tax benefit reflects the difference between the aggregate recorded at the consolidated level and the amount recorded at the business segments. Included in 2002 operating expense was a $120 million reversal of previously accrued expenses; these were associated with forfeitable stock-based compensation awards issued under employee benefit plans that contained stock price targets that were deemed unlikely to be attained within the timeframes specified under the terms of the awards.

In 2002, credit costs in excess of net charge-offs not allocated to the segments were $133 million, compared with $167 million of such costs in 2001. Although the Support Units and Corporate sector has no traditional credit assets, the residual component of the allowance for credit losses is maintained at the corporate level and is not allocated to any specific business segment. For a further discussion of the residual component, see page 56.

Included in the 2001 operating losses of $649 million was a pre-tax loss of $152 million at LabMorgan, resulting from the write-downs of investments and equity accounting losses. LabMorgan was restructured in 2001, and its remaining investment portfolio of $49 million at December 31, 2002, is managed by JPMorgan Partners.

The negative capital position of $1.8 billion in Support Units and Corporate results from an overallocation of economic capital to the businesses as compared with available common stockholders' equity.

Risk and Capital management

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
- 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 and Risk Management.

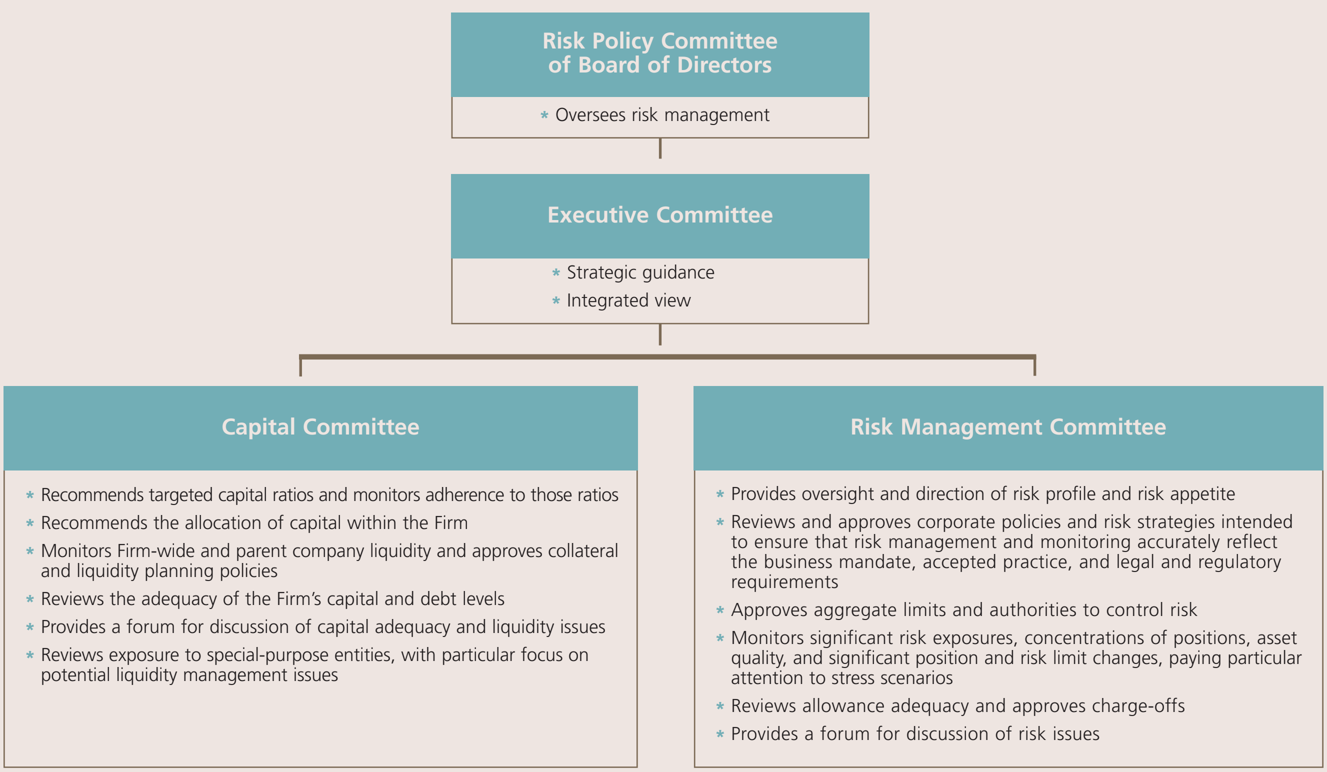
The Executive Committee provides guidance regarding strategies and risk appetite and is responsible for an integrated view of risk exposures, including the interdependencies among JPMorgan Chase's various risk categories.

The **Capital Committee** focuses on Firm-wide capital planning, internal capital allocation and liquidity management. The **Risk Management Committee** focuses on credit risk, market risk, operational risk, 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 is responsible for discussion of guidelines and policies to govern the process by which risk assessment and management is undertaken. In addition, the Audit Committee reviews with management the system of internal controls and financial reporting that is relied upon to provide reasonable assurance of 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.

For a discussion of capital allocation methodologies, see the respective risk management sections on pages 45–65.



Capital and Liquidity management

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 management strategy
- Directing capital investment to activities with the most favorable risk-adjusted returns

Available versus required capital

(in billions)	Yearly Averages 2002	2001
Common stockholders' equity	**$ 41.4**	$ 41.5
Required economic risk capital:		
Credit risk	**13.1**	12.8
Market risk	**4.8**	4.6
Operating risk	**8.7**	8.8
Private equity risk	**5.1**	6.4
Goodwill / Intangibles	**8.8**	8.5
Asset capital tax	**3.8**	3.9
Diversification effect	**(7.0)**	(7.2)
Total required economic risk capital	**37.3**	37.8
Capital in excess of required economic capital	**$ 4.1**	$ 3.7

Economic risk capital: JPMorgan Chase assesses capital adequacy 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 and 50% for 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 correlations 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.

The 2002 excess capital position was slightly higher than in 2001. The increase was primarily due to a decline in private equity risk capital due to the lower carrying value of the portfolio, partially offset by increases in credit risk capital and goodwill/intangibles capital at Chase Financial Services, principally as a result of the acquisition of the Providian Master Trust.

Internal capital allocations may change from time to time to reflect refinements of economic capital methodologies. For 2003, the Firm is revising its capital measurement methodologies for commercial credit risk and operating risk. These changes are discussed on pages 57 and 64.

Regulatory capital: JPMorgan Chase's primary federal banking regulator, the Board of Governors of the Federal Reserve System ("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, N.A. As of December 31, 2002, the financial holding company and its banking subsidiaries maintained capital levels well in excess of the minimum capital requirements.

Currently, the Firm targets a Tier 1 capital ratio 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. Additional information regarding the Firm's capital ratios and a more detailed discussion of federal regulatory capital standards are presented in Note 26 on pages 99 and 100.

Dividends: Dividends declared in any quarter will be determined by JPMorgan Chase's Board of Directors. The Board of Directors expressed its intent, on September 17, 2002, to continue the current dividend level, provided that capital ratios remain strong and earnings prospects exceed the current dividend.

Liquidity management

In managing liquidity, management considers a variety of liquidity risk measures as well as market conditions, prevailing interest rates, liquidity needs and the desired maturity profile of its liabilities.

Overview

Liquidity risk arises from the general funding needs of the Firm's activities and in the management of its assets and liabilities. JPMorgan Chase recognizes the importance of sound liquidity management as a key factor in maintaining strong credit ratings and utilizes a liquidity framework intended to maximize liquidity access and minimize funding costs. Active liquidity management seeks to ensure that the Firm will be able to replace maturing obligations when due and fund its assets at appropriate maturities and rates in all market environments.

Liquidity management framework

The Capital Committee sets the overall liquidity policy for the Firm and reviews the contingency funding plan. In addition, the Capital Committee provides oversight of the Firm's exposure to special-purpose entities ("SPEs"), with particular focus on potential liquidity support requirements that the Firm may have to those SPEs. The Liquidity Risk Committee, reporting to the Capital Committee, meets monthly to identify and monitor liquidity issues, provide policy guidance, oversee adherence and maintain an evolving contingency plan.

JPMorgan Chase utilizes liquidity monitoring tools to maintain appropriate levels of liquidity through normal and stress periods. The Firm's liquidity analytics rely on management's judgment about JPMorgan Chase's ability to liquidate assets or use them as collateral for borrowings. These analytics also involve estimates and assumptions, taking into account credit risk management's historical data on the funding of loan commitments (e.g., commercial paper back-up facilities), liquidity commitments to SPEs, commitments with rating triggers and collateral-posting requirements. For a further discussion on SPEs and other off-balance sheet arrangements, see Off-balance sheet arrangements on page 44 as well as Note 11 on pages 83–87.

The Firm's three primary measures of liquidity are:

- 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.
- 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.

Each of the Firm's liquidity surplus positions, as of December 31, 2002, indicates 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 temporarily impaired.

An extension of the Firm's ongoing liquidity management is its contingency funding plan, which is intended to help the Firm manage through liquidity stress periods. The plan considers temporary and long-term stress scenarios and forecasts potential funding needs where access to unsecured funding is severely limited or nonexistent. These scenarios take into account both on- and off-balance sheet exposures, evaluating access to funds by the parent holding company, JPMorgan Chase Bank and Chase Manhattan Bank USA, N.A., separately.

Funding

Credit ratings: JPMorgan Chase's parent holding company and JPMorgan Chase Bank's credit ratings as of December 31, 2002, were as follows:

	JPMorgan Chase		JPMorgan Chase Bank	
	Short-term debt	Senior long-term debt	Short-term debt	Senior long-term debt
Moody's	P-1	A1	P-1	Aa3
S&P	A-1	A+	A-1+	AA-
Fitch	F-1	A+	F-1	A+

As of February 28, 2003, the ratings outlook for the parent holding company by Moody's Investor Services ("Moody's") was stable, and the ratings outlook for the parent holding company by Standard & Poor's ("S&P") and Fitch, Inc. ("Fitch") was negative.

The cost and availability of unsecured financing are influenced by credit ratings. During 2002, S&P, Moody's and Fitch lowered the debt ratings of JPMorgan Chase's parent holding company and its subsidiaries one notch to the levels noted above. This resulted in an increase in the marginal cost of long-term wholesale funds to the parent holding company. JPMorgan Chase Bank's cost of short-term funds has not been materially affected by the downgrade, although certain counterparties and investors have reduced limits and maturities of exposure to the Firm as a result of these actions. The financial impact of the ratings downgrade on the Firm has not been material. See page 44, 52 and Note 11 on page 86 for further information about the implications of a ratings downgrade for the Firm.

Balance sheet: The Firm's total assets increased to $759 billion at December 31, 2002, from $694 billion at December 31, 2001. Auto financing and residential consumer loans increased on higher originations, offset by increased loan securitizations; commercial loans declined, reflecting weaker loan demand and the Firm's ongoing efforts to reduce commercial exposures. Increases in debt and equity trading assets and investment security assets were driven by increased trading and hedging activity. Derivative receivables increased primarily as a result of the decline in interest rates. Growth in trading assets and investment securities was financed primarily by increases in repurchase agreements, trading liabilities and deposits.

Sources of funds: The diversity of the Firm's funding sources enhances flexibility and limits dependence on any one source of funds, while minimizing the cost of funds. JPMorgan Chase has access to funding markets across the globe and leverages a broad investor base. Liquidity is generated using 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. During the year, the Firm extended its liability maturity profile while reducing reliance on shorter-dated wholesale funding instruments (e.g., federal funds purchased and commercial paper). A major source of liquidity for JPMorgan Chase Bank is provided by its large core deposit base. Core deposits include all U.S. deposits, except noninterest-bearing time deposits and certificates of deposit of $100,000 or more. In addition to core deposits, the Firm benefits from substantial, stable deposit balances originated by T&SS through the normal course of its business.

Additional funding flexibility is provided by the Firm's ability to access the repurchase and asset securitization markets. These alternatives are evaluated on an ongoing basis to achieve the appropriate balance of secured and unsecured funding. The ability to securitize loans, and the associated gains on those securitizations, are principally dependent on the credit quality and yields on the assets securitized and are generally not dependent on the ratings of the issuing entity. Transactions between the Firm and its securitization structures 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 11 and 29.

Issuance: Corporate credit spreads widened in 2002 across industries and sectors, driven by headline risk, increased investment-grade defaults and investor risk aversion. JPMorgan Chase's credit spreads increased relative to peer commercial bank spreads but remained comparable with peer investment bank spreads.

Consistent with the policy discussed earlier in this section, the Firm maintains funding at the holding company sufficient to cover maturing obligations over the next 12 months, which requires periodic issuance of long-term debt and capital. The Firm raised the majority of its liquidity needs earlier in the year before the increase in cost of funding occurred. The Firm believes that the financial impact from the increased cost of long-term debt to be raised in 2003 will not be material.

During 2002, JPMorgan Chase issued approximately $11 billion of long-term debt and $1 billion of trust preferred capital securities. During the year, $12.2 billion of long-term debt matured or was redeemed, and $550 million of preferred stock of subsidiary was redeemed. In addition, the Firm securitized approximately $7.2 billion of residential mortgage loans, $9.4 billion of credit card loans and $3.4 billion of auto loans, resulting in pre-tax gains on securitizations of $214 million, $45 million and $6 million, respectively. For a further discussion of loan securitizations, see Note 11 on pages 83–87.

Derivatives are used in liquidity risk management and funding to achieve the Firm's desired interest rate risk profile. The Firm enters into derivatives contracts to swap fixed-rate debt to floating-rate obligations and to swap floating-rate debt to fixed-rate obligations. Derivatives contracts are also used to hedge the variability in interest rates that arises from other floating-rate financial instruments and forecasted transactions, such as the rollover of short-term assets and liabilities.

Off-balance sheet arrangements

Special-purpose entities or special-purpose vehicles ("SPVs") are an important part of the financial markets, providing market liquidity by facilitating investors' access to specific portfolios of assets and risks. SPEs are not operating entities; typically they are set up for a single, discrete purpose, have a limited life, and have no employees. The basic SPE structure involves a company selling assets to the SPE. The SPE funds the purchase by selling securities to investors. To insulate investors from creditors of other entities, including the seller of the assets, SPEs can be structured to be bankruptcy-remote. They are critical to the functioning of many investor markets, including, for example, the market for mortgage-backed securities, asset-backed securities and commercial paper. JPMorgan Chase is involved with SPEs in three broad categories of transactions: loan securitizations, multi-seller conduits, and client intermediation. Capital is held, as appropriate, against all SPE-related transactions and exposures such as derivative transactions and lending commitments.

The Firm has no commitments to issue its own stock to support an SPE transaction, and its 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 SPEs with which the Firm is involved where such investment would violate the Firm's Worldwide Rules of Conduct. These rules prohibit employees from self-dealing and prohibit employees from acting on behalf of the Firm in transactions with which they or their family have any significant financial interest. For a further discussion of SPEs and the Firm's accounting for SPEs, see Note 11 on pages 83–87.

For certain liquidity commitments to SPEs, the Firm could be required to provide funding if the credit rating of JPMorgan Chase Bank were downgraded below specific levels, primarily A-1, P-1 and F-1. The amount of these liquidity commitments was $48.6 billion at December 31, 2002; $35.5 billion relate to the Firm's multi-seller conduits and structured commercial loan vehicles further described in Note 11 on page 86. The total commercial paper outstanding for the multi-seller conduits and structured commercial loan vehicles was $24.7 billion at December 31, 2002. The remaining $13.1 billion in commitments relate to vehicles established by third parties. If JPMorgan Chase Bank is required to provide funding under these commitments, the Firm could be replaced as liquidity provider. Additionally, for the multi-seller conduits and the structured commercial loan vehicles, JPMorgan Chase Bank could facilitate the sale or refinancing of the assets in the SPE. All of these commitments are included in the Firm's total $196.7 billion in other unfunded commitments to extend credit, described in more detail in Note 29 on pages 102 and 103.

The following table summarizes JPMorgan Chase's contractual cash obligations and off-balance sheet lending-related financial instruments by remaining maturity at December 31, 2002:

(in millions) **Contractual cash obligations**	Under 1 year	1–3 years	4–5 years	After 5 years	**Total**
Long-term debt	$ 7,053	$ 10,056	$ 9,257	$ 13,385	**$ 39,751**
Operating leases	737	1,371	1,161	4,849	**8,118**
Total	$ 7,790	$ 11,427	$ 10,418	$ 18,234	**$ 47,869**
Off-balance sheet lending-related commitments					
Consumer-related	$ 136,429	$ 44	$ —	$ 14,665	**$ 151,138**
Commercial-related:					
Other unfunded commitments to extend credit	132,547	51,380	11,419	1,308	**196,654**
Standby letters of credit and guarantees	23,925	11,904	1,697	1,322	**38,848**
Other letters of credit	2,383	230	—	5	**2,618**
Total commercial-related	158,855	63,514	13,116	2,635	**238,120**
Total lending-related commitments	$ 295,284	$ 63,558	$ 13,116	$ 17,300	**$ 389,258**

For further information about off-balance sheet lending-related financial instruments, see Note 29 on pages 102 and 103.

Credit risk management

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

Credit risk

Credit risk represents the loss the Firm would experience if an obligor or counterparty could not meet its contractual obligations. The Firm is subject to credit risk in its lending (e.g., loans and lending-related commitments) and in its derivatives and certain other trading activities. The credit risk related to the issuers of the securities used in the Firm's capital market activities is marked-to-market, measured and managed through the Firm's market risk management process.

The credit 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 commercial portfolio, the actual loss volatility can be much greater over the course of an economic cycle.

Credit risk management practices

Credit risk management begins with an assessment of the likelihood of default and the risk of loss that could result from an obligor or counterparty default. The Firm seeks to assess all credit exposures, whether on- or off-balance sheet. These exposures include loans, derivative receivables and lending-related commitments (e.g., letters of credit and undrawn commitments to extend credit). At both the business unit and corporate levels, processes in place are intended to ensure that credit risks are accurately assessed, properly approved, continually monitored and actively managed.

To measure these risks, estimates are made of both expected and unexpected losses for each segment of the portfolio using statistical techniques. First, off-balance sheet exposures are converted to "on-balance sheet loan equivalent amounts," based on the amount expected to be drawn at the time of default. Then expected and unexpected losses are calculated. Expected losses are statistically-based estimates of credit losses over time, anticipated as a result of counterparty default. Expected losses are used to set risk-adjusted credit loss provisions. However, expected credit losses are not the sole indicators of risk. For commercial assets, if losses were entirely predictable, the expected loss rate could be factored into pricing and covered as a normal and recurring cost of doing business. Unexpected losses represent the potential volatility of actual losses relative to the expected level of loss. Unexpected losses are what create risk and represent the primary focus of credit risk management.

The responsibility for credit risk management resides with two functions that were integrated in early 2003: Credit Risk Policy and Global Credit Management. Both are now headed by the Senior Credit Officer who, in turn, reports to the Vice Chairman for Finance, Risk Management and Administration.

Credit Risk Policy formulates credit policies, limits, allowance adequacy and guidelines. Independently from the groups that approve and support the Firm's credit activities, this group monitors and assesses risk profiles and risk management processes at multiple levels – individual credits, industry groups, product groups and entire business segments of the Firm. Credit Risk Policy is also responsible for managing problem credits. Credit Risk Policy works jointly with Market Risk Management to address country risk, counterparty risk, risk measurement and capital allocation methodologies.

Global Credit Management has three functions: Credit Risk Management, Corporate Banking and the Credit Portfolio Group. The first two functions participate in client coverage and are responsible for approving and monitoring all credit exposures. Experienced credit officers make decisions to extend credit based on an evaluation of the counterparty's creditworthiness and the type of credit arrangement. These officers consider the current and projected financial condition of the counterparty. Also considered are the covenants, collateral and protection available should the credit quality of the counterparty deteriorate. After credit is extended, credit officers and industry analysts, in collaboration with senior business managers, monitor the counterparty's credit quality. In addition to ongoing review of counterparty financial data and documentation, the Credit Risk Management and Corporate Banking groups manage the formal client- and industry-based portfolio review processes. Senior credit officers regularly review current and potential exposure and compliance with limits on both individual counterparties and portfolios. The Credit Portfolio Group manages the Firm's credit exposures resulting from both traditional lending and derivative trading activities.

Credit portfolio

JPMorgan Chase's managed credit-related assets (including $30.7 billion of securitized credit cards) totaled $330 billion at December 31, 2002, an increase of 7% over year-end 2001. The growth reflects a 16% increase in managed consumer loans, offset by a 13% decline in commercial loans, and a 17% increase in derivative receivables. At December 31, 2002, managed consumer loans represented 47% of total managed credit-related assets, compared with 43% at December 31, 2001.

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 exposure		Nonperforming assets[f]		Net charge-offs		Past due 90 days and over and accruing		Average annual net charge-off rate	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
COMMERCIAL										
Loans	**$ 91,548**	$ 104,864	**$ 3,672**	$ 1,997	**$ 1,881**	$ 982	**$ 57**	$ 35	**1.93%**	0.87%
Derivative receivables[a]	**83,102**	71,157	**289**	1,300	**NA**	NA	**—**	—	**NA**	NA
Other receivables[b]	**108**	—	**108**	—	**NA**	NA	**NA**	NA	**NA**	NA
Total commercial credit-related assets	**174,758**	176,021	**4,069**	3,297	**1,881**	982	**57**	35	**1.93**	0.87
Lending-related commitments	**238,120**	247,711	**NA**	NA	**212**	(3)	**NA**	NA	**0.09**	—
Total commercial credit exposure	**$ 412,878**	$ 423,732	**$ 4,069**	$ 3,297	**$ 2,093**	$ 979	**$ 57**	$ 35	**0.62%**	0.27%
CONSUMER										
Loans – Reported	**$ 124,816**	$ 112,580	**$ 521**	$ 499	**$ 1,795**	$ 1,353	**$ 473**	$ 486	**1.57%**	1.27%
Loans – Securitized[c]	**30,722**	21,424	**—**	—	**1,439**	1,048	**630**	457	**5.43**	5.83
Total managed consumer loans	**$ 155,538**	$ 134,004	**$ 521**	$ 499	**$ 3,234**	$ 2,401	**$ 1,103**	$ 943	**2.30%**	1.92%
TOTAL CREDIT PORTFOLIO										
Managed loans	**$ 247,086**	$ 238,868	**$ 4,193**	$ 2,496	**$ 5,115**	$ 3,383	**$ 1,160**	$ 978	**2.15%**	1.42%
Derivative receivables[a]	**83,102**	71,157	**289**	1,300	**NA**	NA	**—**	—	**NA**	NA
Other receivables[b]	**108**	—	**108**	—	**NA**	NA	**NA**	NA	**NA**	NA
Total managed credit-related assets	**330,296**	310,025	**4,590**	3,796	**5,115**	3,383	**1,160**	978	**2.15**	1.42
Commercial lending-related commitments	**238,120**	247,711	**NA**	NA	**212**	(3)	**NA**	NA	**0.09**	—
Assets acquired in loan satisfactions	**NA**	NA	**190**	124	**NA**	NA	**NA**	NA	**NA**	NA
Total credit portfolio	**$ 568,416**	$ 557,736	**$ 4,780**	$ 3,920	**$ 5,327**	$ 3,380	**$ 1,160**	$ 978	**1.11%**	0.69%
Credit derivative hedges notional[d]	**$ (33,767)**	$ (39,271)	**$ (66)**	$ (42)	**NA**	NA	**$ —**	$ —	**NA**	NA
Collateral held against derivatives[e]	**(30,410)**	(17,536)	**—**	—	**NA**	NA	**—**	—	**NA**	NA

(a) Credit exposure and nonperforming assets include amounts related to the Enron surety receivables and letter of credit, which were the subject of litigation in 2001 and 2002. See page 50 for a further discussion.
(b) Other receivables at December 31, 2002 represents the Enron-related letter of credit, which continues to be the subject of litigation and was classified in Other assets.
(c) Represents securitized credit cards. For a further discussion of credit card securitizations, see page 23.
(d) Represents hedges of commercial credit exposure that do not qualify for hedge accounting under SFAS 133.
(e) Represents eligible collateral. Excludes credit enhancements in the form of letters of credit and surety receivables.
(f) Nonperforming assets exclude nonaccrual loans held for sale ("HFS") of $43 million and $138 million at December 31, 2002 and 2001, respectively. HFS loans are carried at the lower of cost or market and declines in value are recorded in Other revenue.
NA- Not applicable.

Commercial portfolio

Management of commercial credit risk begins with the individual client selection and evaluation process. The Firm monitors and evaluates industry risk profiles globally. Exposures in industries deemed to have increasing risk are more closely managed, both individually and in the aggregate. The Firm's global strategy, particularly in emerging markets, is to focus on large, leading firms with cross-border financing needs.

Concentration management continues to be key in managing commercial credit risk. From the perspective of aggregate portfolio risk management, concentration management is addressed partly by the Firm's established strategy of loan origination for distribution, and partly by the purchase of credit protection through credit derivatives and secondary market loan sales. The Firm manages concentrations by obligor, risk rating, industry, product and geography. As a result of a particularly difficult credit environment in 2002, the Firm placed increased emphasis on the management and further reduction of industry and single-name concentrations. The Firm established an exposure and capital threshold review process for single-name concentrations and enhanced its procedures to reduce single-name and industry concentrations. The Firm will continue to refine these credit risk management processes in 2003.

The Firm's business strategy for its commercial portfolio remains one of origination for distribution, primarily for large corporate obligors. The majority of the Firm's wholesale loan originations in IB continue to be distributed into the marketplace, with residual holds by the Firm averaging less than 10%. The commercial loan portfolio declined 13% in 2002, reflecting a combination of continued weak loan demand and charge-offs, as well as the Firm's ongoing goal of reducing commercial credit exposure. In addition, the Firm's SVA discipline discourages 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 making loans and commitments, particularly when combined with other credit and capital management disciplines.

Markets for traditional credit products have become more liquid, with increased opportunities for risk management using credit derivatives and secondary market loan sales. The Firm will begin in 2003 to derive more of its assessment of credit risk capital from these market-based parameters which will, in turn, affect SVA. See the discussion on capital allocation on page 57.

Total commercial exposure (loans, derivatives and unfunded lending-related commitments) was $413 billion at December 31, 2002, compared with $424 billion at December 31, 2001. At year-end 2002, 80% of the Firm's commercial credit exposure was considered investment-grade; only 1% of the total commercial credit exposure was nonperforming. This compares with 77% investment-grade exposure at year-end 2001; 0.8% of the total commercial credit exposure was nonperforming at that date.

Total commercial nonperforming assets were $4.1 billion at December 31, 2002 which included $337 million related to Enron. This represented an increase of $772 million from year-end 2001 and equaled 2% of the total commercial credit-related assets. The increase in nonperforming assets in 2002 was largely driven by loans in the telecommunications and related, cable and merchant energy and related sectors. Nonperforming assets related to Enron declined by $936 million, primarily as a result of the settlement of the Firm's litigation with the surety providers.

Commercial loan net charge-offs in 2002 were $1.9 billion, compared with $1.0 billion in 2001. Charge-offs of commercial lending-related commitments were $212 million in 2002, compared with a net recovery of $3 million in 2001. The charge-off ratio for commercial loans was 1.93% in 2002 and 0.87% in 2001.

While the economic and associated credit environments are expected to remain challenging in 2003, the Firm does not anticipate commercial charge-offs in 2003 to reach 2002 levels.

Below are summaries of the maturity and risk profiles of the commercial portfolio as of December 31, 2002. The ratings scale is based on the Firm's internal risk ratings and is presented on an S&P-equivalent basis.

Commercial exposure

	Maturity profile (a)				**Risk profile**						
					Investment-grade			Noninvestment-grade			
At December 31, 2002 (in billions, except ratios)	<1 year	1–5 years	> 5 years	Total	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ & below	Total	Total % of investment-grade
Loans	45%	39%	16%	100%	$ 18	$ 10	$ 23	$ 30	$ 11	$ 92	55%
Derivative receivables	29	40	31	100	42	16	14	9	2	83	87
Lending-related commitments	62	34	4	100	82	80	46	26	4	238	87
Total exposure (b)	52%	36%	12%	100%	$ 142	$ 106	$ 83	$ 65	$ 17	$ 413	80%
Credit derivative hedges notional	39%	55%	6%	100%	$ (9)	$ (10)	$ (10)	$ (4)	$ (1)	$ (34)	85%

(a) The maturity profile of loans and lending-related commitments is based upon remaining contractual maturity. The maturity profile of derivative receivables is based upon the estimated expected maturity profile net of the benefit of collateral.
(b) Includes Enron-related letter of credit, which is the subject of litigation and was classified in Other assets.

Commercial exposure – selected industry concentrations

The Firm remains highly focused on diversifying its commercial exposure. The following table sets forth certain information related to the Firm's commercial credit exposure (loans, derivatives and lending-related commitments):

As of or for the year ended December 31, 2002 (in millions, except ratios)	Credit exposure[(a)]	% of total portfolio	Risk profile of credit exposure				Net charge-offs[(c)]	Credit derivative hedges[(d)]
			Investment-grade	Noninvestment-grade				
				Noncriticized	Criticized performing	Criticized nonperforming[(b)]		
Top 10 industries								
Commercial banking	**$ 44,494**	**10.8%**	**95%**	**$ 2,214**	**$ 8**	**$ 38**	**$ 42**	**$ (8,275)**
Finance companies	**24,194**	**5.9**	**97**	**658**	**57**	**—**	**—**	**(1,950)**
Investment management and private banking	**18,041**	**4.4**	**73**	**4,617**	**84**	**105**	**60**	**—**
Securities brokers, dealers, exchanges	**17,913**	**4.3**	**91**	**1,528**	**16**	**—**	**—**	**(434)**
Telecom and related industries	**16,770**	**4.1**	**56**	**5,076**	**1,487**	**831**	**909**	**(1,319)**
Investment and pension funds	**14,164**	**3.4**	**81**	**2,603**	**26**	**27**	**13**	**—**
State and municipal government	**11,278**	**2.7**	**99**	**102**	**—**	**—**	**—**	**(671)**
Central government	**10,242**	**2.5**	**96**	**302**	**—**	**110**	**(2)**	**(1,926)**
Oil and gas exploration and production	**8,816**	**2.1**	**79**	**1,520**	**342**	**2**	**1**	**(946)**
General merchants and retailers	**8,553**	**2.1**	**65**	**2,720**	**197**	**55**	**54**	**(1,373)**
Other selected industries								
Automotive	**8,402**	**2.0**	**71**	**2,120**	**320**	**1**	**(2)**	**(1,232)**
Merchant energy and related industries	**6,230**	**1.5**	**57**	**423**	**1,849**	**378**	**117**	**(830)**
Cable	**5,982**	**1.4**	**45**	**1,096**	**1,673**	**532**	**144**	**(367)**
Airlines	**2,955**	**0.7**	**70**	**823**	**46**	**14**	**69**	**(207)**
All other[(e)]	**214,844**	**52.1**	**78**	**39,179**	**6,404**	**1,976**	**688**	**(14,237)**
Total	**$ 412,878**	**100.0%**	**80%**	**$ 64,981**	**$ 12,509**	**$ 4,069**	**$ 2,093**	**$ (33,767)**

As of or for the year ended December 31, 2001 (in millions, except ratios)	Credit exposure[(a)]	% of total portfolio	Risk profile of credit exposure				Net charge-offs[(c)]	Credit derivative hedges[(d)]
			Investment-grade	Noninvestment-grade				
				Noncriticized	Criticized performing	Criticized nonperforming[(b)]		
Top 10 industries								
Commercial banking	$ 36,007	8.5%	90%	$ 3,470	$ 106	$ 26	$ (2)	$ (7,396)
Finance companies	23,550	5.6	97	753	71	—	14	(1,959)
Investment management and private banking	18,948	4.5	83	3,065	85	100	35	—
Securities brokers, dealers, exchanges	19,969	4.7	91	1,726	—	22	(1)	(524)
Telecom and related industries	20,430	4.8	55	7,047	1,906	236	312	(1,640)
Investment and pension funds	17,219	4.1	87	2,139	34	8	(4)	(290)
State and municipal government	10,339	2.4	94	602	—	—	—	(1,051)
Central government	9,581	2.3	96	341	23	11	6	(1,702)
Oil and gas exploration and production	8,824	2.1	71	2,575	8	9	8	(866)
General merchants and retailers	6,354	1.5	57	2,587	117	15	1	(1,123)
Other selected industries								
Automotive	9,353	2.2	76	1,800	456	6	15	(1,151)
Merchant energy and related industries	5,609	1.3	69	1,669	93	—	—	(743)
Cable	5,017	1.2	40	2,893	102	39	—	(229)
Airlines	4,096	1.0	71	1,103	65	15	12	(373)
All other	228,436	53.8	73	52,559	6,848	2,810	583	(20,224)
Total	$ 423,732	100.0%	77%	$ 84,329	$ 9,914	$ 3,297	$ 979	$ (39,271)

(a) Credit exposure excludes risk participations and does not reflect the benefit of credit derivative hedges.
(b) Nonperforming assets exclude nonaccrual HFS loans of $18 million and $96 million at December 31, 2002 and 2001, respectively. HFS loans are carried at the lower of cost or market and declines in value are recorded in Other Revenue.
(c) Represents net charge-offs on loans and lending-related commitments. The amounts in parentheses represent net recoveries.
(d) Represents notional amounts only; these hedges do not qualify for hedge accounting under SFAS 133.
(e) Criticized exposure includes $1.17 billion of emerging-markets criticized performing exposure attributable to country risk and not industry or single-name risk. This exposure was included in noninvestment-grade noncriticized for industry reporting.

Selected industry discussion

- **Financial institutions** – This group of industries includes Commercial banking, Finance companies and Securities brokers, dealers and exchanges, which are traditionally among the largest industry groups. The Firm is a market-leader in structuring derivatives for and lending to these sectors. In addition, at December 31, 2002, financial institutions represented 54% of the Firm's derivatives counterparties in its trading transactions. Commercial exposure to this group of industries continues to be predominantly high-investment-grade. Of the approximately $30 billion in aggregate liquid collateral held by the Firm against all its derivatives contracts, approximately $18 billion supports contracts with the commercial banking industry.

- **Telecom and related industries** – In 2002, the telecommunications industry worldwide was adversely affected by severe capital and liquidity constraints, and the Firm saw a concurrent deterioration in the risk profile of its credit portfolio in this sector, particularly in the third quarter. This resulted in exposures migrating to risk ratings deemed by the Firm to be criticized, and a higher level of nonperforming loans and charge-offs. During the year, the Firm reduced its exposure to this sector by 18% as a result of charge-offs of $909 million and by $2.75 billion of selective reductions in exposures. At year-end 2002, 56% of the Firm's exposure to this sector was considered investment-grade; 5% of the total exposure was nonperforming. This compares with 55% investment-grade exposure at year-end 2001.

- **General merchants and retailers** – The Firm's larger exposures in this segment are to industry leaders. While exposure increased 35% in 2002, the increase was primarily to investment-grade obligors, with 65% of the total portfolio investment-grade as of year-end 2002.

- **Automotive** – The Firm has historically viewed the automotive industry as cyclical and capital-intensive. In 2001, automotive companies began to experience cyclical pressure, exacerbated by the events of September 11, 2001. However, in 2002, auto sales remained strong, and these companies took the opportunity to access capital markets to supplement liquidity and strengthen their balance sheets. While total exposure to this industry is significant, a material portion of the exposure is to the largest automotive companies and is 80% undrawn. This portfolio was 71% investment-grade at December 31, 2002.

- **Merchant energy and related industries** – The Firm experienced an acceleration in criticized loans in the merchant energy sector beginning in the third quarter of 2002 and accelerating into the fourth quarter. The Firm may experience an increase in nonperforming loans in this sector in 2003. At December 31, 2002, credit exposure in this sector was $6.2 billion (or approximately 1.5% of total commercial credit exposure), with 57% investment-grade.

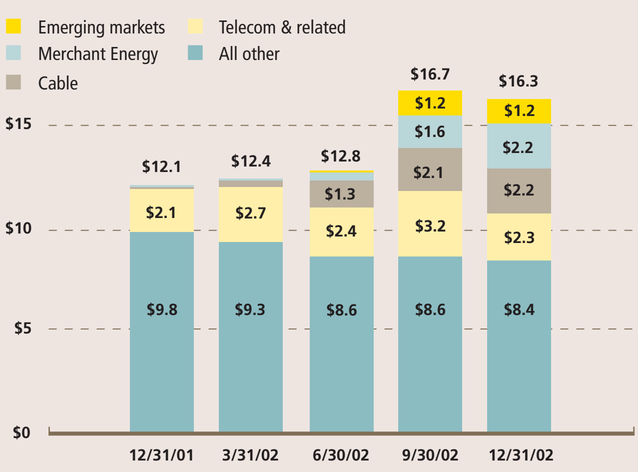
- **Cable** – The cable industry, particularly in Europe, was also adversely affected by severe capital and liquidity constraints in 2002. As a result, there was a concurrent deterioration in the risk profile of the Firm's credit portfolio in this sector, evidenced by an increase in exposure deemed criticized and a higher level of nonperforming loans and charge-offs, which largely represented a migration within noninvestment-grade exposures. At December 31, 2002, 45% of the portfolio was investment-grade.

- **Airlines** – This segment includes passenger airlines, airport authorities, courier services and other support activities related to air transportation. Both prior to and particularly in the aftermath of September 11, 2001, the airline industry experienced performance and financial deterioration. In response, the Firm reduced, and increasingly collateralized, its exposure to this sector. Credit exposure to this industry was reduced from $4.1 billion to $3.0 billion during 2002. At December 31, 2002, 70% of this portfolio was investment-grade.

- **All other** – All other at December 31, 2002 included $45 billion of credit exposure to holding and investment companies, which was 91% investment-grade and comprised of exposures that are not highly correlated. Liquidity back-up facilities represented 35% of total credit exposure to the sector. This group includes trusts and estates, as well as special-purpose entities providing secured financing of accounts receivable originated by companies in a diverse group of industries. The remaining $170 billion of credit exposure is well diversified across over 50 other industries, with none comprising more than 2% of exposure; 74% of the $170 billion of credit exposure was investment-grade at December 31, 2002. Nonperforming assets comprised 0.9% of total All other exposure at December 31, 2002.

While criticized exposure to the telecommunications and related, cable and merchant energy and related industries increased significantly during 2002, all other criticized exposure (excluding emerging markets) declined 14% during the year.

Commercial criticized exposure trends (a)
(in billions)



(a) Enron-related surety receivables and a letter of credit were excluded for all periods to present a normalized trend.

Exposures deemed criticized generally represent a risk profile similar to a rating of CCC+/Caa1 or lower. Of the total $16.6 billion in criticized exposure as of year-end 2002, representing 4% of total commercial credit exposure, $4.1 billion was nonperforming. The telecom and related, cable and merchant energy and related sectors represented, in the aggregate, $6.8 billion, or 41%, of total criticized exposure, but only 1.6% of total commercial credit exposure. The balance of the criticized exposure represented exposures diversified across a large number of customers, with limited industry concentration.

Enron-related exposure

The Firm's exposure to Enron and Enron-related entities was reduced by $1.38 billion during 2002, from $2.06 billion at December 31, 2001 to $688 million at December 31, 2002. In January 2003, the Firm settled its surety-bond litigation with 11 insurance companies for 60% of the principal amount of the bonds and received a cash payment of $502 million and unsecured claims valued at $75 million (or 13% of face value). In connection with the settlement, the Firm charged off an aggregate $395 million relating to the remaining exposure on the prepaid forward contracts and on a prepaid forward contract that is backed by a letter of credit that is the subject of continuing litigation. The Firm has reclassified the remaining value of the derivative contracts covered by the surety bonds and the $75 million in unsecured claims as Trading assets. In addition to these write-downs and charge-offs, during 2002, $76 million of other Enron-related exposure was charged-off or written-down and $402 million of Enron-related assets were sold or matured, including $125 million of debtor-in-possession financing exposure which matured without being drawn.

At December 31, 2002, the Firm's Enron-related exposure was as follows:

Enron-related exposure (a)

December 31, 2002 (in millions)	Secured	Unsecured	Total
Trading assets	**$ 2**	**$ 163**	**$ 165**
Loans	**218**	**66**	**284**
Other assets	**—**	**108**	**108**
Lending-related commitments	**131**	**—**	**131**
Total exposure	**$ 351**	**$ 337**	**$ 688**

(a) Enron-related exposure at December 31, 2002 takes into account the surety settlement on January 2, 2003.

Of the $131 million in lending-related commitments, $125 million relates to debtor-in-possession financing. The $108 million in Other assets relates to the Enron-related letter of credit that is the subject of litigation. Trading assets (both performing and nonperforming) are carried at fair value. Secured loans are performing and are reported on an amortized cost basis. All unsecured amounts are nonperforming; nonperforming loans have been written down to reflect management's estimate of current recoverable value, and nonperforming other assets are being carried at their current estimated realizable value in accordance with SFAS 5.

Derivative contracts

In the normal course of business, the Firm utilizes derivative instruments to meet the needs of customers, generate revenues through trading activities, manage exposure to fluctuations in interest and currency rates and manage its own credit risk. The Firm uses the same credit risk management procedures to assess and approve potential credit exposures when entering into derivative transactions as those used for traditional lending.

The following table summarizes the aggregate notional amounts and derivative receivables (i.e., the mark-to-market or fair value of the derivative contract after taking into account the effects of legally enforceable master netting agreements) at each of the dates indicated:

Notional amounts and derivative receivables

	Notional amounts(a)		Derivative receivables(b)	
December 31, (in billions)	**2002**	2001	**2002**	2001
Interest rate contracts (c)	**$ 23,591**	$ 19,085	**$ 55**	$ 41
Foreign exchange contracts (c)	**1,505**	1,636	**7**	10
Equity	**307**	284	**13**	12
Credit derivatives	**366**	262	**6**	3
Commodity (d)	**36**	36	**2**	5
Total notional and credit exposures	**$ 25,805**	$ 21,303	**$ 83**	$ 71

(a) The notional amounts represent the gross sum of long and short third-party notional derivative contracts.
(b) Represents the amount of derivative receivables on the balance sheet after the impact of master netting agreements.
(c) Gold bullion notional amounts were $41 billion and $42 billion at December 31, 2002 and 2001, respectively. The corresponding derivative receivables (before the impact of master netting agreements) were $2.6 billion and $5.3 billion at December 31, 2002 and 2001, respectively. The corresponding derivative payables were $2.0 billion and $5.1 billion at December 31, 2002 and 2001, respectively. At December 31, 2002, the VAR related to the Firm's gold trading position was $1.4 million.
(d) Energy-related notional amounts, including written options, were $39 billion and $41 billion at December 31, 2002 and 2001, respectively. The corresponding derivative receivables (before the impact of master netting agreements) were $2.8 billion and $4.3 billion at December 31, 2002 and 2001, respectively. The corresponding derivative payables were $1.9 billion and $2.8 billion at December 31, 2002 and 2001, respectively. At December 31, 2002, the VAR related to the Firm's energy-related trading positions was $1.4 million.

The $26 trillion of notional principal of the Firm's derivative contracts outstanding at December 31, 2002, significantly exceeds the possible credit losses that could arise from such transactions. For most derivative transactions, the notional principal amount does not change hands; it is simply used as a reference to calculate payments. In terms of current credit risk exposure, the appropriate measure of risk is the mark-to-market ("MTM") value of the contract. The MTM exposure represents the cost to replace the contracts at current market rates should the counterparty default. When JPMorgan Chase has more than one transaction outstanding with a counterparty, and a legally enforceable master netting agreement exists with the counterparty, the net MTM exposure, less collateral held, represents, in the Firm's view, the appropriate measure of current credit risk with that counterparty as of the reporting date. At December 31, 2002, the MTM value of derivatives receivables (after taking into account the effects of master netting agreements) was $83 billion. Further, after taking into account $30 billion of collateral held by the Firm, the net current credit exposure was $53 billion.

While useful as a current view of credit exposure, the net MTM value of the derivatives receivable does not capture the potential future variability of that credit exposure. To capture the potential future variability of credit exposure, the Firm measures, on a client-by-client basis, both the worst-case, or peak, future credit risk (at a 97.5% confidence level), as well as the expected credit risk. However, the total potential future credit risk embedded in the Firm's derivatives portfolio is not the simple sum of all peak or expected client credit risks. This is because, at the portfolio level, credit risk is reduced by the fact that when offsetting transactions are done with separate counterparties, only one of the two trades can generate a credit loss even if both counterparties were to default simultaneously. The Firm refers to this effect as market diversification.

The Firm defines the "market-diversified peak" as the maximum loss (estimated at the 97.5% confidence level) that would occur if all counterparties were to default over a one-year time horizon without any recovery. The market-diversified peak, after taking into account both collateral and netting, was approximately $57 billion at December 31, 2002. Since, generally, all counterparties will not default at once nor all default when their exposures are at peak levels, this is a conservative measure, in the Firm's view, of its potential future derivatives credit risk.

The MTM value of the Firm's derivative receivables incorporates an adjustment to reflect the credit quality of counterparties. This is called the Credit Valuation Adjustment ("CVA") and was $1.3 billion as of December 31, 2002, compared with $1.2 billion at December 31, 2001. The CVA is based on the expected future exposure (incorporating netting and collateral) to a counterparty, and on the counterparty's credit spread in the credit derivatives market. The primary components of changes in CVA are credit spreads, new deal activity, deal unwinds and changes in the interest rate, equity, foreign exchange or commodity environment. The CVA increase in 2002 was primarily due to derivative receivables, which increased as a result of a drop in U.S. interest rates, increased interest rate volatility and widening of credit spreads during the year.

The Firm believes that dynamic risk management is essential to controlling the credit risk in the derivatives portfolio. The Firm hedges components of the CVA change by entering into credit derivative transactions as well as interest rate, foreign exchange, equity and commodity derivatives transactions when client deals are originated. These hedges are rebalanced as market conditions dictate, driven primarily by changes in the counterparties' credit quality. If counterparty credit risk increases, the CVA increases to reflect the increased likelihood that the client will not perform. Correspondingly, the required market hedges to protect against subsequent credit-quality deterioration increase. The net impact of the change in CVA, plus the result of all forms of related hedging activity, is accounted for in Trading revenue and was not material to the overall trading results of the Firm for the year.

At December 31, 2002, 52% of the Firm's counterparties in derivative transactions were investment-grade financial institutions, most of which are dealers in these products. The investment-grade portion of the derivative receivables was 87% at December 31, 2002. Nonperforming derivative receivables at December 31, 2002, were $289 million, compared with $1.3 billion at December 31, 2001. This decrease of $1.0 billion primarily related to the settlement of the Enron surety litigation.

The table below summarizes the risk profile, as of December 31, 2002, of the Firm's balance sheet exposure to derivative contracts, net of cash and other highly liquid collateral:

Rating equivalent (in millions)	**Exposure net of collateral** (a)	**% of exposure net of collateral**
AAA to AA-	**$ 25,560**	**49%**
A+ to A-	**8,668**	**16**
BBB+ to BBB-	**9,467**	**18**
BB+ to B-	**7,440**	**14**
CCC+ and below	**1,557**	**3**
Total	**$ 52,692**	**100%**

(a) Total derivative receivables exposure and collateral held by the Firm against this exposure were $83 billion and $30 billion, respectively. The $30 billion excludes $2.7 billion of collateral delivered by clients at the initiation of transactions; this collateral secures exposure that could arise in the existing portfolio of derivatives should the MTM of the clients' transactions move in the Firm's favor. The $30 billion also excludes credit enhancements in the form of letters of credit and surety receivables.

Approximately two-thirds of the Firm's derivatives transactions have associated collateral agreements, and collateralization as a primary form of credit risk mitigation continues to increase. The Firm held $30 billion of collateral as of December 31, 2002, compared with $20 billion as of December 31, 2001. The Firm posted $19 billion of collateral at year-end 2002, compared with $11 billion at the end of 2001. The increases were driven largely by the drop in U.S. interest rates and by new collateral agreements. In addition, derivative and collateral agreements include provisions that require both the Firm and the counterparty, upon specified downgrades in their respective credit ratings, to post collateral for the benefit of the other party. The impact on required collateral of a single-notch ratings downgrade to JPMorgan Chase Bank from its current rating of AA- to A+ would have been an additional $1.2 billion of collateral as of December 31, 2002. The impact of a six-notch ratings downgrade to JPMorgan Chase Bank (from AA- to BBB-) would have been $3.7 billion of additional collateral from current levels as of December 31, 2002. The amount of additional collateral required upon downgrade moves in tandem with the mark-to-market value of the derivatives portfolio and ranged from $2.6 billion to $3.8 billion through 2002 (related to a six-notch downgrade), as the level of U.S. interest rates changed. Moreover, certain derivatives contracts also provide for termination of the contract, generally upon JPMorgan Chase Bank being downgraded, at the then-existing mark-to-market value of the derivative receivables.

Use of credit derivatives

The following table presents the notional amounts of credit derivatives protection bought and sold at December 31, 2002:

Credit derivatives activity

	Portfolio management		**Dealer/Client**		
	Notional amount		Notional amount		
(in millions)	Protection bought	Protection sold	Protection bought	Protection sold	Total
	$ 34,262(a)	$ 495	$158,794	$ 172,494	$ 366,045

(a) Includes $10.1 billion of portfolio credit derivatives, of which $8 billion matures by June 30, 2003.

JPMorgan Chase has limited counterparty exposure as a result of credit derivatives transactions. Of the $83 billion of total derivative receivables at December 31, 2002, approximately $5.5 billion, or 7%, was associated with credit derivatives, before the benefit of collateral. The use of derivatives to manage exposures does not reduce the reported level of assets on the balance sheet or the level of reported off-balance sheet commitments.

Portfolio management activity

JPMorgan Chase's commercial credit portfolio is composed of credit exposures to clients arising from both lending and derivatives activities. In managing this portfolio, single-name and portfolio credit derivatives are purchased by the Credit Portfolio Group to hedge these exposures. As of December 31, 2002, the notional outstanding of protection purchased via single-name and portfolio credit derivatives was $24 billion and $10 billion, respectively. The Firm also diversifies its exposures by providing (i.e., selling) small amounts of credit protection, which increases exposure to industries or clients where the Firm has little or no client-related exposure. This activity is not material to the Firm's overall credit exposure, and credit protection sold totaled less than $500 million in notional exposure at December 31, 2002.

Single-name and portfolio credit derivatives December 31, 2002 (in millions)	Notional amount of protection bought
Loans and lending-related commitments	$ 25,222
Derivative receivables	9,040
Total	$ 34,262

JPMorgan Chase's utilization of credit derivatives for its portfolio management activities related to loans and lending-related commitments does not qualify for hedge accounting under SFAS 133. These derivatives are marked-to-market in Trading revenue, whereas the loans and lending-related commitments being hedged are accounted for on an accrual basis in Net interest income. This asymmetry in accounting treatment between loans and lending-related commitments and the derivatives utilized in the portfolio management activities causes earnings volatility that is not representative of the true changes in value of the Firm's overall credit exposures. The mark-to-market treatment of both the Firm's derivatives hedges ("short" credit positions) and derivatives counterparty exposure ("long" credit positions) provide some natural offset of each other. Included in Trading revenue are gains of $127 million in 2002 related to credit derivatives that were used to hedge the Firm's credit exposure. Of the $127 million, approximately $94 million was associated with credit derivatives used to hedge accrual lending activities. Trading revenues incorporate both the cost of hedge premiums and changes in value due to spread movements and credit events.

Dealer/client activity

JPMorgan Chase's dealer activity in credit derivatives is client-driven. The business acts as a market maker in single-name credit derivatives and also structures more complex transactions for clients' investment or risk management purposes. The credit derivatives trading function operates within the same framework as other market-making desks. Risk limits are established and closely monitored.

As of December 31, 2002, the total notional amounts of protection purchased and sold by the dealer business were $159 billion and $172 billion, respectively. The mismatch between these notional amounts is attributable to the Firm selling protection on large, diversified, predominantly investment-grade portfolios (including the most senior tranches), and then hedging these positions by buying protection on the more subordinated tranches of the same portfolios. In addition, the Firm may use securities to hedge certain derivative positions. Consequently, while there is a mismatch in notional amounts of credit derivatives, the risk positions are largely matched. The amount of credit risk contributed by the Firm's credit derivatives dealer activity is immaterial in the context of JPMorgan Chase's overall credit exposures.

Country exposure

The Firm has a comprehensive process for measuring and managing its country exposures and risk. Exposures to a country include all credit-related lending, trading and investment activities, whether cross-border or locally funded.

The table below presents JPMorgan Chase's exposure to selected countries. This disclosure is based on management's view of country exposure. Exposure amounts are adjusted for credit enhancements (e.g., guarantees and letters of credit) provided by third parties located outside the country if the enhancements fully cover the country risk, as well as the commercial risk. Total exposure includes exposure to both government and private-sector entities in a country.

While exposure to Mexico fluctuates as a result of trading activities, the decrease over the prior year was primarily due to loan maturities and reductions in counterparty exposure on derivatives. The decrease in exposure to Brazil over the prior year-end was due to reductions in loans and derivative exposures, as well as reductions in local government trading positions. Reductions in Argentina were due to a combination of maturities and write-downs. Exposure to Venezuela increased modestly as a result of trading positions.

Selected country exposure

	At December 31, 2002						At December 31, 2001
	Cross-border						
(in billions)	**Lending**(a)	**Trading**(b)	**Other**(c)	**Total**	**Total local**(d)	**Total exposure**	total exposure
Mexico	**$ 1.0**	**$ 0.6**	**$ 0.2**	**$ 1.8**	**$ 0.4**	**$ 2.2**	$ 2.6
Brazil	**0.5**	**0.3**	**1.2**	**2.0**	**0.1**	**2.1**	3.3
Argentina(e)	**0.2**	**0.1**	**0.1**	**0.4**	**—**	**0.4**	0.6
Venezuela	**0.2**	**0.2**	**—**	**0.4**	**—**	**0.4**	0.3
Japan	**2.5**	**2.3**	**0.7**	**5.5**	**3.9**	**9.4**	10.7
South Korea	**0.9**	**0.6**	**0.3**	**1.8**	**0.9**	**2.7**	3.1
Hong Kong	**0.7**	**0.3**	**1.2**	**2.2**	**—**	**2.2**	2.1
Indonesia	**0.2**	**0.1**	**—**	**0.3**	**0.1**	**0.4**	0.6
South Africa	**0.3**	**0.2**	**0.1**	**0.6**	**—**	**0.6**	0.7
Saudi Arabia	**0.6**	**0.2**	**—**	**0.8**	**—**	**0.8**	0.7

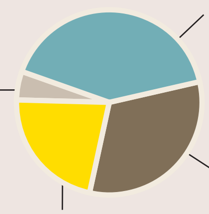
(a) Lending includes loans and accrued interest receivable, interest-bearing deposits with banks, acceptances, other monetary assets, issued letters of credit, and undrawn commitments to extend credit.
(b) Trading includes (1) issuer exposure on cross-border debt and equity instruments, held in both 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).
(c) Other represents 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) Trading exposure at December 31, 2002 to Argentina is net of credit protection provided by third-party insurers in the form of surety bonds valued at $157 million against performing derivative trades.

Consumer portfolio

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 product pricing and evaluating profit dynamics. Consumer portfolios are monitored to identify deviations from expected performance and shifts in patterns of consumer behavior.

JPMorgan Chase's consumer portfolio consists primarily of mortgages, credit cards and auto financings. This portfolio is predominantly U.S.-based and continues to be geographically well-diversified. The Firm's managed consumer portfolio totaled $156 billion at December 31, 2002, an increase of $22 billion, or 16%, from 2001. The pie graph to the right provides a summary of the consumer portfolio by loan type at year-end 2002 and each loan type's charge-off rate. The Firm's largest component, residential mortgage loans, comprised 41% of the total consumer portfolio and is primarily secured by first mortgages.

Consumer managed loan 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 loans 2002	Credit-related loans 2001	Nonperforming assets[c] 2002	Nonperforming assets[c] 2001	Net charge-offs 2002	Net charge-offs 2001	Past due 90 days and over and accruing 2002	Past due 90 days and over and accruing 2001	Average annual net charge-off rate 2002	Average annual net charge-off rate 2001
Consumer:										
U.S. consumer:										
1–4 family residential mortgages-first liens	**$ 49,357**	$ 47,786	**$ 259**	$ 233	**$ 49**	$ 42	**$ —**	$ —	**0.11%**	0.09%
Home equity	**14,643**	11,644	**53**	47	**7**	8	**—**	—	**0.05**	0.07
1–4 family residential mortgages	**64,000**	59,430	**312**	280	**56**	50	**—**	—	**0.10**	0.09
Credit card – reported	**19,677**	19,387	**15**	22	**1,389**	990	**451**	449	**6.42**	5.09
Credit card securitizations[a]	**30,722**	21,424	**—**	—	**1,439**	1,048	**630**	457	**5.43**	5.83
Credit card – managed	**50,399**	40,811	**15**	22	**2,828**	2,038	**1,081**	906	**5.87**	5.45
Auto financings	**33,615**	25,667	**118**	118	**161**	137	**—**	1	**0.57**	0.59
Other consumer[b]	**7,524**	8,096	**76**	79	**189**	176	**22**	36	**2.41**	2.17
Total managed consumer loans	**$ 155,538**	$ 134,004	**$ 521**	$ 499	**$ 3,234**	$ 2,401	**$ 1,103**	$ 943	**2.30%**	1.92%

(a) Represents the portion of JPMorgan Chase's 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 non-U.S. consumer loans.
(c) Nonperforming assets exclude consumer nonaccrual loans HFS of $25 million and $42 million at December 31, 2002 and 2001, respectively. HFS loans are carried at the lower of cost or market, and declines in value are recorded in Other revenue.

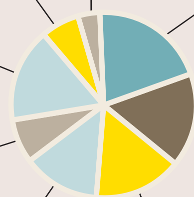
Loans for 1–4 family residential mortgages increased 8% during 2002 on increased originations. While net charge-offs for 2002 increased $6 million, or 12%, over the prior year, the 2002 net charge-off rate remained low at 0.10%, reflecting the continued strong credit quality of the portfolio. At December 31, 2002, the Firm had $1.8 billion of subprime residential mortgage loans, of which $1.3 billion were held for sale.

The Firm analyzes its credit card portfolio on a "managed" basis, which includes credit card receivables on the balance sheet and those that have been securitized. Managed credit card receivables increased by $9.6 billion, or 23% during 2002. Approximately $6.9 billion of this growth arose from the acquisition of the Providian Master Trust in February 2002. The managed net charge-off ratio of 5.87% was 42 basis points higher than in 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), due, in large part, to the credit characteristics of the Providian portfolio; these losses were therefore anticipated at the time of the portfolio acquisition.

Auto finance receivables grew by 31% to approximately $34 billion, while the net charge-off rate improved slightly from 0.59% to 0.57% in 2002.

In the consumer sector, the Firm currently anticipates higher charge-offs in 2003 resulting from increases in loans outstanding; charge-off rates are anticipated to be similar to those experienced in 2002.

U.S. managed consumer loans by region (a)



(a) Based on U.S. residential mortgage, managed credit card and auto financing loans.

Consumer loans by geographic region (a)

	Residential mortgage loans		Managed credit card loans		Auto financings	
December 31, (in millions)	**2002**	2001	**2002**	2001	**2002**	2001
New York City	**$ 12,026**	$ 6,638	**$ 3,007**	$ 2,431	**$ 2,801**	$ 2,244
New York (excluding New York City)	**2,452**	4,976	**3,002**	2,426	**936**	868
Remaining Northeast	**10,053**	8,954	**8,817**	7,143	**7,206**	5,651
Total Northeast	**24,531**	20,568	**14,826**	12,000	**10,943**	8,763
Southeast	**9,531**	8,164	**9,589**	7,800	**5,467**	4,463
Midwest	**4,834**	4,060	**9,654**	7,901	**5,839**	3,668
Texas	**3,978**	3,566	**4,336**	3,434	**3,877**	3,495
Southwest (excluding Texas)	**1,661**	1,428	**2,399**	1,952	**1,181**	931
California	**14,501**	16,820	**6,229**	5,065	**4,748**	3,370
West (excluding California)	**4,964**	4,824	**3,366**	2,659	**1,560**	977
Non-U.S.	**12**	506	**—**	7	**—**	38
Total	**$ 64,012**	$ 59,936	**$ 50,399**	$ 40,818	**$ 33,615**	$ 25,705

(a) This table excludes other consumer loans of $7.51 billion and $7.55 billion at December 31, 2002 and 2001, respectively.

Allowance for credit losses

JPMorgan Chase's allowance for credit losses is intended to cover probable credit losses, including those in which the asset is not specifically identified or the size of the loss has not been fully determined. At least quarterly, the Firm's Risk Management Committee reviews the allowance for credit 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 allowance includes specific and expected loss components and a residual component. For further discussion of the components of the allowance for credit losses, see Critical accounting estimates used by the Firm on pages 65–66 and Note 10 on page 82. At December 31, 2002, management deemed the allowance for credit losses to be adequate to absorb losses that currently may exist but are not yet identifiable.

Loans

The commercial specific loss component of the allowance was $1.60 billion at December 31, 2002, an increase of $547 million, or 52%, from year-end 2001. The increase was primarily attributable to the deterioration in commercial loans related to the telecommunications and related industries and cable sectors, which led to an increase in criticized and nonperforming loans.

The commercial expected loss component of the allowance was $613 million at December 31, 2002, a decrease of $55 million, or 8%, from year-end 2001. The decrease reflected a reduction in the amount, and an improvement in the average quality, of the noncriticized portion of the loan portfolio.

The consumer expected loss component of the allowance was $2.36 billion at December 31, 2002, an increase of $255 million, or 12%, from year-end 2001. The increase was primarily attributable to the acquisition of the Providian portfolio by Cardmember Services. This increase was partially offset by a reduction in the amount of retained credit card loans (excluding those in the Providian portfolio) and a reduction in expected loss rates in the Auto Finance portfolio as a result of improved delinquency rates.

The residual component of the allowance was $774 million at December 31, 2002, an increase of $79 million, or 11%, from year-end 2001. Management views the residual component as necessary to address uncertainties at December 31, 2002, primarily in the commercial portfolio. At December 31, 2002, the residual component represented approximately 14% of the total allowance for loan losses, within the Firm's target range of between 10% and 20%.

Summary of changes in the allowance

	2002				2001			
(in millions)	**Commercial**	**Consumer**	**Residual**	**Total**	Commercial	Consumer	Residual	Total
Loans:								
Beginning balance at January 1	**$ 1,724**	**$ 2,105**	**$ 695**	**$ 4,524**	$ 1,521	$ 1,444	$ 700	$ 3,665
Net charge-offs	**(1,881)**	**(1,795)**	**—**	**(3,676)**	(982)	(1,353)	—	(2,335)
Provision for loan losses	**2,371**	**1,589**	**79**	**4,039**	1,176	2,014	(5)	3,185
Other	**2**	**461**	**—**	**463**	9	—	—	9
Ending balance at December 31	**$ 2,216**[(a)]	**$ 2,360**	**$ 774**	**$ 5,350**	$ 1,724[(a)]	$ 2,105	$ 695	$ 4,524
Lending-related commitments:								
Beginning balance at January 1	**$ 226**	**$ —**	**$ 56**	**$ 282**	$ 250	$ —	$ 33	$ 283
Net charge-offs	**(212)**	**—**	**—**	**(212)**	3	—	—	3
Provision for lending-related commitments	**309**	**—**	**(17)**	**292**	(26)	—	23	(3)
Other	**1**	**—**	**—**	**1**	(1)	—	—	(1)
Ending balance at December 31	**$ 324**[(b)]	**$ —**	**$ 39**	**$ 363**	$ 226[(b)]	$ —	$ 56	$ 282

(a) Includes $1.60 billion and $613 million of commercial specific and commercial expected loss components, respectively, at December 31, 2002. Includes $1.06 billion and $668 million of commercial specific and commercial expected loss components, respectively, at December 31, 2001.
(b) Includes $237 million and $87 million of commercial specific and commercial expected loss components, respectively, at December 31, 2002. Includes $143 million and $83 million of commercial specific and commercial expected loss components, respectively, at December 31, 2001.

Credit costs

For the year ended December 31	2002				2001			
(in millions)	**Commercial**	**Consumer**	**Residual**	**Total**	Commercial	Consumer	Residual	Total
Provision for loan losses	**$ 2,371**	**$ 1,589**	**$ 79**	**$ 4,039**	$ 1,176	$ 2,014	$ (5)	$ 3,185
Provision for lending-related commitments	**309**	**—**	**(17)**	**292**	(26)	—	23	(3)
Securitized credit losses	**—**	**1,439**	**—**	**1,439**	—	1,048	—	1,048
Total managed credit costs	**$ 2,680**	**$ 3,028**	**$ 62**	**$ 5,770**	$ 1,150	$ 3,062	$ 18	$ 4,230

Lending-related commitments

To provide for the risk of loss inherent in the credit-extension process, management also computes specific and expected loss components as well as a residual component for lending-related commitments. This is computed using a methodology similar to that used for the loan portfolio, modified for expected maturities and probabilities of drawdown. The allowance increased due to deterioration in the criticized portion of the Firm's lending-related commitments. In 2002, the Firm charged-off $212 million of a lending-related commitment to one obligor in the telecommunications and related industry segment.

Capital allocation for credit risk

Unexpected credit losses drive the allocation of credit risk capital by portfolio segment. In the commercial portfolio, capital allocations are differentiated by risk rating, loss severity, maturity and correlations. Within the consumer businesses, capital allocations are differentiated by product and by product segment.

For the commercial portfolio, the Firm in 2003 will begin aligning its assessment of credit risk capital to correspond more closely to market conditions, both at the time of the credit extension and on an ongoing basis. This is intended to facilitate risk management, by taking advantage of the growing market in credit derivatives and secondary market loan sales, and to encourage earlier action in the event of market deterioration. In determining the amount of credit risk capital that should be associated with credit exposures, the Firm will emphasize current, market-based estimates of default likelihood and credit deterioration implied from credit spreads and equity prices, rather than historical averages. Concurrently, the Firm will assess the valuation impact of credit deterioration as well as anticipated losses associated with default.

Depending on market conditions, the assessment of credit risk capital is expected to vary with changes in credit spreads in the market. The new methodology is expected to increase the amount of credit risk capital allocated to the commercial portfolio. This expected increase in credit risk capital will be partially offset by methodology changes to operating risk capital (see the discussion on Capital allocation for operational and business risk on page 64). The Firm will also continue to refine in 2003 its processes for establishing credit exposure limits for industry and single-name concentrations, including investment-grade obligors.

For the consumer portfolio, consumer products are placed into categories with homogenous credit characteristics, from which default rates and charge-offs can be estimated. The credit risk capital to be allocated is based on the unexpected loss inherent in those segments.

Market risk management

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

Risk management processes

Market Risk Management is an independent corporate governance function that identifies, measures, monitors and controls market risk. It seeks to facilitate efficient risk/return decisions and to reduce volatility in operating performance by making the Firm's market risk profile transparent to senior management, the Board of Directors and regulators.

Market Risk Management reports to the Vice Chairman for Finance, Risk Management, and Administration. Within the group, individual coverage teams are assigned to particular businesses and have expertise in the types of risk specific to those businesses. Each team is responsible for measuring, monitoring, and controlling market risk for its business.

In addition to the coverage teams, two groups are managed under a joint mandate with Credit Risk Policy. One group is responsible for country risk and counterparty risk. The second group develops the methodologies for measuring risk and allocating market and credit risk capital throughout the Firm.

Finally, the Policy Reporting and Analysis group within Market Risk Management is responsible for developing the policies that control the market risk management processes and for aggregating, interpreting, and distributing market risk-related information throughout the Firm.

There are other groups reporting to the Vice Chairman with some responsibility for managing market risk. For example, within the Finance area, the Valuation Control Group is responsible for ensuring the accuracy of the valuations of all positions taken within IB.

Management of market risk is not, however, confined to a central organization. Business units are expected to maintain strong risk discipline at all levels. Trading businesses, for example, have functions that act independently from trading personnel and are responsible for verifying risk exposures taken within their businesses. In addition, businesses are expected to report exposures which may be unusually large or may not fit existing risk measurement methodologies.

Risk measurement

Because no single measure can reflect all aspects of market risk, the Firm uses several measures, both statistical and nonstatistical, including:

- **Statistical risk measures**
  - Value-at-Risk ("VAR")
  - Risk identification for large exposures ("RIFLE")
- **Nonstatistical risk measures**
  - Economic value stress tests
  - Net interest income stress tests
  - Other measures of position size and sensitivity to market moves

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 and provides a consistent cross-business measure of risk profiles and levels of risk diversification. VAR is used to compare risks across businesses, to monitor limits and to allocate economic capital. In a normal trading environment, VAR provides risk transparency to senior management, business heads, regulators and investors.

Each business day, the Firm undertakes a comprehensive VAR calculation that includes its trading, investment, and asset/liability ("A/L") management activities. JPMorgan Chase's VAR calculation is highly granular, comprising more than 500,000 positions and 200,000 pricing series (e.g., securities prices, interest rates, foreign-exchange rates). For a large portion of its exposure, the Firm has implemented full-revaluation VAR, which, management believes, generates 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 historical changes in market values are representative of future changes. The simulation is based on data for the previous 12 months.

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. In addition, the Firm regularly assesses the quality of the market data, since their accuracy is critical to computing VAR.

Nevertheless, to the extent that VAR is largely based on historical market data, it may not accurately reflect future risk during environments in which market volatility is changing. In addition, the VAR measure on any particular day is not indicative of future risk levels, since positions and market conditions may both change over time.

Aggregate portfolio

	For the year 2002				For the year 2001			
(in millions)	Average VAR	Minimum VAR	Maximum VAR	At December 31	Average VAR	Minimum VAR	Maximum VAR	At December 31
Trading portfolio:								
Interest rate	**$ 67.7**	**$ 50.5**	**$ 97.9**	**$ 64.2**	$ 51.1	$ 26.1	$ 97.1	$ 85.3
Foreign exchange	**11.6**	**4.4**	**21.2**	**18.4**	7.4	3.9	16.9	8.7
Equities	**14.4**	**5.4**	**32.7**	**8.4**	21.6	8.9	36.9	10.7
Commodities	**3.6**	**1.6**	**13.3**	**1.9**	5.2	2.5	13.9	13.7
Fund investment	**3.2**	**2.5**	**3.6**	**3.2**	3.1	2.5	4.2	3.5
Less: portfolio diversification	**(28.9)**	**NM**	**NM**	**(32.3)**	(21.0)	NM	NM	(28.6)
Total trading VAR	**71.6**	**56.9**	**99.3**	**63.8**	67.4	48.1	103.8	93.3
Investment portfolio and A/L activities[a]	**97.1**	**68.3**	**139.0**	**107.5**	107.2	79.8	143.9	130.7
Less: portfolio diversification	**(48.4)**	**NM**	**NM**	**(60.0)**	(45.4)	NM	NM	(84.2)
Total VAR[b]	**$ 120.3**	**$ 87.6**	**$ 160.2**	**$ 111.3**	$ 129.2	$ 98.2	$ 174.0	$ 139.8

(a) Substantially all of the risk is interest rate-related.

(b) Amounts exclude VAR related to the Firm's private equity business. For a discussion of Private equity risk management, see page 65.

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. In addition, JPMorgan Chase's average and period-end VARs are less than the sum of the VARs of its market risk components due to risk offsets resulting from portfolio diversification.

The Firm calculated the VAR numbers reported above 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. In 2002, there were no days on which actual Firm-wide market risk-related losses exceeded corporate VAR, a result which does not differ significantly from the 99% confidence level.

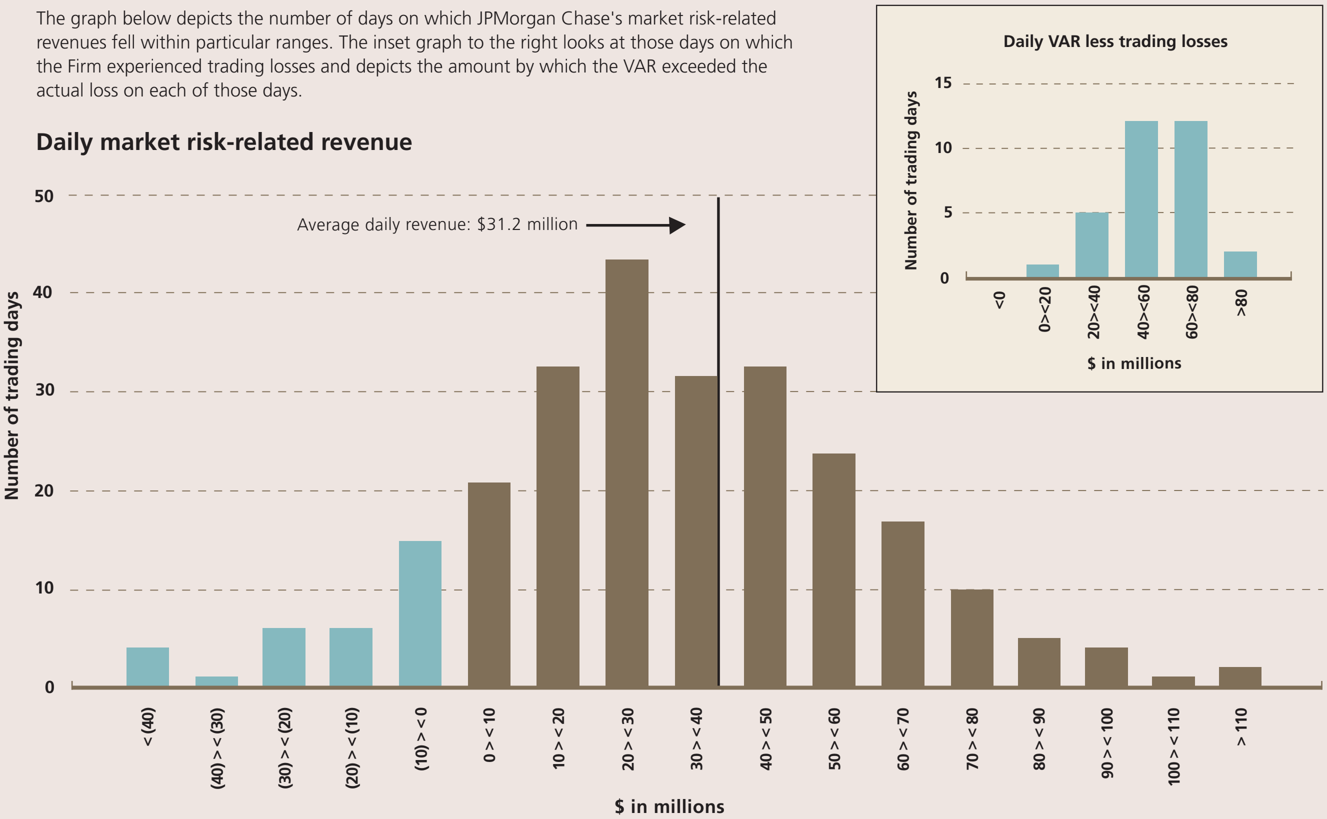
Although no single risk statistic can reflect all aspects of market risk, the table above provides a meaningful overview of the Firm's market risk exposure arising from trading activities and the investment and A/L portfolios. VARs for the investment portfolio and A/L activities measure the amount of potential change in their economic value; however, they are not measures of reported revenues since those activities are not marked-to-market through earnings.

The daily average trading VAR for the 12 months of 2002 was $71.6 million. The largest contributor was interest rate risk, which includes credit spread risk; before portfolio diversification, interest rate risk accounted for roughly two-thirds of the average VAR. The diversification effect, which averaged $(28.9) million in 2002, reflects the fact that the largest losses for different positions and risks do not typically occur at the same time. The risk of a portfolio of positions is therefore usually less than the sum of the risks of the positions themselves. The degree of diversification is determined both by the extent to which different market variables tend to move together, and by the extent to which different businesses have similar positions.

The reduction in trading VAR between year-end 2002 and 2001 was driven primarily by declines in market volatilities, particularly in interest rates and energy prices. In general, over the course of a year, VAR exposures can vary significantly as trading positions change and market volatility fluctuates.

The histogram on the following page illustrates the Firm's daily market risk-related revenue, defined as the daily change in value of the mark-to-market trading portfolios plus any trading-related net interest income, brokerage commissions, underwriting fees or other revenue. The chart shows that the Firm posted positive daily market risk-related revenue for 226 out of 258 days in 2002, with 63 days exceeding $50 million. Losses were sustained on 32 of the 258 days; 17 of those days were in the third quarter. Poor overall trading results in that quarter accounted for the losses during those 17 days. No daily trading loss during the year was in excess of $64 million.

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 average daily market risk-related revenue during 2002 was $31.2 million. The weakest performance occurred during the third quarter, when it averaged $18.0 million. This lower revenue was not due to generally increased risk taken during the quarter, but rather reflected the outcome of specific positioning decisions. Performance improved during the fourth quarter, as average daily market risk-related revenue increased to $33.6 million, while the average VAR remained slightly below the average for all of 2002. Thus, the improvement in market risk-related revenues during the fourth quarter was not accompanied by an overall increase in the level of risk taken.

To evaluate the soundness of its VAR model, the Firm conducts daily back-testing of VAR against actual financial results, based on daily market risk-related revenue. The Firm's definition of market risk-related revenue is consistent with the Federal Reserve Board's implementation of the Basle Committee's market risk capital rules. The Federal Reserve Board's guidelines state that such revenue typically includes fee income and commissions associated with trading activities, in addition to realized and unrealized gains and losses on portfolio positions. The inset examines the 32 days on which JPMorgan Chase posted trading losses and depicts the amount by which VAR was greater than the actual loss on each day. No losses exceeded VAR on any of these days, a performance statistically consistent with the Firm'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 in measuring and controlling risk. Stress testing enhances the understanding of the Firm's risk profile and loss potential and is used for limits monitoring, cross-business risk measurement and economic capital allocation.

The Firm stress tests its portfolios at least once a month, at both the corporate and business segment levels, using multiple scenarios. Scenarios are continually reviewed and updated to reflect changes in the Firm's risk profile and economic events. Stress results, trends and explanations are provided each month to the Firm's senior management to help them better measure and manage risks to understand event risk-sensitive positions.

Applying economic-value stress tests to the trading and investment portfolios and A/L activities helps the Firm understand how the economic value of its balance sheet (not the amounts reported under GAAP) would change under certain scenarios.

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

(in millions)	For the year 2002 Average	Minimum	Maximum	At December 5, 2002
Stress-test loss – pre-tax	**$ (422)**	**$ (136)**	**$ (727)**	**$ (243)**

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

Economic-value stress tests are performed at varying dates each month; the stress results at December 5, 2002, were mostly driven by exposures sensitive to a stress scenario where credit spreads widen significantly and, at the same time, equity prices decline and interest rates fall in the major currencies.

VAR results cannot be directly correlated to stress-test loss results for three reasons. First, stress-test losses are calculated at varying dates each month, while VAR is performed daily and reported for the period-end date. Second, VAR and stress tests are two distinct risk measurements yielding very different loss potentials. Thus, although the same trading portfolios are used for both tests, VAR is based on a distribution of one-day historical losses measured over the most recent one year; in contrast, stress testing subjects the portfolio to more extreme, larger moves over a longer time horizon (e.g., 2-3 weeks). Third, as VAR and stress tests are distinct risk measurements, the impact of portfolio diversification can vary greatly. For VAR, markets can change in patterns over a one-year time horizon, moving from highly correlated to less so; in stress testing, the focus is on a single event and the associated correlations in an extreme market situation. As a result, while VAR over a given time horizon can be lowered by a diversification benefit in the portfolio, this benefit would not necessarily manifest itself in stress-test scenarios, which assume large coherent moves across all markets.

The Firm conducts both economic-value and NII stress tests on its investment portfolios and A/L activities, which are not accounted for on a trading basis. Economic-value stress tests measure the potential change in the value of these portfolios under the same scenarios used to evaluate the trading portfolios. The largest potential stress-test loss of these portfolios as of December 5, 2002, is under a scenario that assumes a sharp widening in credit spreads and decreases in interest rates. If the wholesale loan portfolio is excluded, the largest potential stress-test loss is associated with a scenario that assumes a smaller widening in credit spreads but also assumes significant declines in equity prices and increases in market volatilities. At present, the economic-value stress tests do not include consumer loans, the value of which is more difficult to relate to external market variables; this will be the subject of continued research.

The more conventional NII stress test measures the potential change in the Firm's NII over the next year. These 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.

At year-end 2002, JPMorgan Chase's largest potential NII stress loss was estimated at $277 million, primarily the result of potential compression in deposit spreads associated with further rate declines from the current low-rate environment.

Other statistical and nonstatistical risk measures

In addition to VAR, JPMorgan Chase employs the Risk identification for large exposures ("RIFLE") methodology as another statistical risk measure. The Firm requires that all market risk-taking businesses self assess their risks to unusual and specific events. Individuals who manage risk positions, particularly complex positions, identify potential "worst-case" losses that could arise from an unusual or specific event, such as a potential tax change, and estimate the probabilities of such losses. Through the Firm's RIFLE system, this information is then directed to the appropriate level of management, thereby permitting the Firm to identify further earnings vulnerabilities not adequately covered by VAR and stress testing.

Nonstatistical risk measures other than stress testing include net open positions, basis point values, option sensitivities, position concentrations and position turnover. These measures provide additional information on an exposure's size and the direction in which it is moving. Nonstatistical measures are used for limit monitoring, one-off approvals and tactical control.

Capital allocation for market risk

The Firm allocates market risk capital guided by the principle that capital should reflect the extent to which risks are present in businesses. Daily VAR, monthly stress results and other factors determine appropriate capital charges for major business lines. The VAR measure captures a large number of one-day price moves, while stress tests capture a smaller number of very large price moves. The Firm allocates market risk capital to each division according to a formula that weights that division's VAR and stress-test exposures.

Risk monitoring and control

Limits

The Firm controls market risk primarily through a series of limits. The sizes of limits reflect the Firm's risk appetite after extensive analyses of the market environment and business strategy. The analyses examine factors such as market volatility, product liquidity, business track record, and management experience and depth.

The Firm maintains different levels of limits. Corporate-level limits encompass VAR calculations and stress-test loss advisories. Similarly, business segment levels include limits on VAR calculations, nonstatistical measurements, and P&L loss advisories. Businesses are responsible for adhering to established limits, against which exposures are monitored and reported daily. Exceeded limits are reported immediately to senior management, and the affected business unit must take appropriate action to reduce trading positions. If the business cannot do this within an acceptable timeframe, senior management is consulted on the appropriate action.

Market Risk Management regularly reviews and updates risk limits, and the Firm's Risk Management Committee reviews and approves the risk limits at least twice a year. Market Risk Management further controls the Firm's exposure by specifically designating approved financial instruments for each business unit.

Qualitative risk assessment

The Firm's Market Risk Management Group also performs periodic reviews of both businesses and products with exposure to market risk, in order to assess the ability of the businesses to control market risk. The business management's strategy, market conditions, product details and effectiveness of risk controls are reviewed. Specific recommendations for improvements are made to management.

Model review

Many of the Firm's financial instruments cannot be valued based on quoted market prices, but are instead valued using pricing models. Such models are used for management of risk positions, such as reporting risk against limits, as well as for valuation. The Firm reviews the models it uses to assess model appropriateness and consistency across businesses. The model reviews consider a number of issues: appropriateness of the model, assessing the extent to which it accurately reflects the characteristics of the transaction and captures its significant risks; independence and reliability of data sources; appropriateness and adequacy of numerical algorithms; and sensitivity to input parameters or other assumptions which cannot be priced from the market.

Reviews are conducted for new or changed models, as well as previously accepted models. Re-reviews assess whether there have been any material changes to the accepted models; whether there have been any changes in the product or market that may impact the validity of the model; and whether there have been new theoretical or competitive developments that may require a reassessment of the model's adequacy. For a summary of valuations based on models, see Critical accounting estimates used by the Firm on pages 65–67.

Policies and procedures

JPMorgan Chase maintains policies and procedures surrounding market risk management practices. The goal is to specify a clear set of objectives, responsibilities and procedures throughout the market risk management infrastructure to produce a consistent approach to risk measurement, monitoring and control across business lines.

Operational risk management

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

- **Operational risk management is a principal risk discipline within the Firm**
- **Business managers are responsible for maintaining an effective system of internal controls to manage operational risk**
- **The Firm is executing a multi-year plan for an integrated approach to measuring, analyzing, and managing operational risk**
- **Reputation risk arises when the Firm does not adequately manage its credit, market and operational risks, or does not maintain business practices of the highest ethical quality**

Overview

Operational risk is inherent in each of the Firm's businesses and support activities. Operational risk can manifest itself in various ways, including errors, business interruptions, inappropriate behavior of employees, and vendors not performing in accordance with outsourcing arrangements. These events can potentially result in financial losses and other damage to the Firm, including causing it reputational harm.

To monitor and control operational 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 light of the Firm's financial strength, the characteristics of its businesses, the markets in which it operates, and the competitive and regulatory environment to which it is subject.

Notwithstanding these control measures, the Firm incurs operational losses. The Firm's approach to operational risk management is intended to mitigate such losses.

Operational risk management practices

- **Governance structure**
  - **Operational risk policies and procedures**
  - **Operational Risk Committee**
  - **Business Control Committees**
- **Self-assessment process**
  - **Focused on business-specific key risks and controls**
  - **Automated using Horizon software application**
  - **Develop and monitor action plans**
- **Operational risk event monitoring**
  - **Internal error and loss data reported and analyzed to determine causal factors**
  - **Enables comparative analysis with external data (where available)**
- **Alignment with internal audit activities**
- **New capital allocation methodology (2003 implementation)**

Operational risk management practices

Throughout 2002, the Firm continued to execute a multi-year plan, begun in 2001, for an integrated approach that emphasizes active management of operational risk throughout the Firm. The objective of this effort is to supplement the traditional control-based approach to operational risk with risk measures, tools and disciplines that are risk-specific, consistently applied and utilized Firm-wide. Key themes for this effort are transparency of information, escalation of key issues, and accountability for issue resolution. Ultimate responsibility for the Firm's operational risk management practices resides with the Vice Chairman for Finance, Risk Management and Administration. The components are:

Governance structure: The governance structure provides the framework for the Firm's operational risk management activities. Primary responsibility for managing operational risk rests with business managers. These individuals are responsible for establishing and maintaining appropriate internal control procedures for their respective businesses.

The Operational Risk Committee is comprised of senior operational risk and finance managers from each of the businesses. This committee meets quarterly to discuss key operational risk issues of importance to the Firm. In addition, each of the businesses must maintain business control committees to oversee their operational risk management practices.

Self-assessment process: In 2002, the Firm continued to refine its Firm-wide self-assessment process. The focus of the process is for each business to identify the key operational risks specific to its environment, and assess the degree to which it is maintaining appropriate controls. Action plans are developed for control issues identified, and businesses are held accountable for tracking and resolving these issues on a timely basis.

Self-assessments are completed by the businesses utilizing Horizon, a software application developed by the Firm. With the aid of Horizon, the Firm moved in 2002 from an annual, year-end self-assessment process to one performed semiannually. Going forward, the Firm plans to utilize this self-assessment process as an ongoing, dynamic risk management tool.

Operational risk-event monitoring: The Firm has a process for reporting operational risk-event data, permitting analyses of errors and losses as well as trends. Such analyses, performed both at a line-of-business level and by risk-event type, enables identification of root causes associated with 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 reported will also enable the Firm to back-test against self-assessment results.

Audit alignment: In addition to conducting independent internal audits, the Firm's internal audit department has provided guidance on the design and implementation of the operational risk framework. This guidance has helped further the Firm-wide implementation of the framework, which in turn has led to a stronger overall control environment. The department utilizes output such as business self-assessment results to help focus allocation of its resources, thereby maximizing the efficiencies of its internal audit responsibilities. The department also reviews the effectiveness and accuracy of the self-assessment process during the conduct of audits.

Capital allocation for operational and business risk

Historically, a combined capital amount for operational risk and business risk (collectively referred to as "operating risk" capital) was derived through top-down benchmarking, by business, against comparable financial institutions. In 2003, a new risk-based capital allocation methodology will replace the existing approach. The new methodology will separate operating risk capital into its two discrete components, operational risk and business risk. The new approach will estimate these risks independently and allocate capital to each component. It is estimated that this new approach will result in a lower amount of capital than previously calculated.

Operational Risk: The new operational risk capital model is loss-based, with adjustments to reflect changes in the quality of the control environment, and with a potential offset for the use of risk-transfer products. The Firm believes that the model will be consistent with the proposed Basle II Accord, and expects to propose it eventually for qualification under the Advanced Measurement Approach for operational risk.

Business Risk: Business risk capital represents the risk associated with the volatility in the Firm's earnings due to factors not captured by other parts of the Firm's economic capital framework. Such volatility can arise from ineffective design or execution of business strategies, volatile economic or financial market activity, changing client expectations and demands, and restructuring to adjust for changes in the competitive environment. Capital will be allocated to each business based on historical revenue volatility and measures of fixed and variable expenses. Earnings volatility arising from other risk factors, such as credit or market risk, will be excluded from the measurement of business risk capital, as these factors are captured under those risk capital models.

Reputation risk

A firm's success depends not only on its prudent management of credit, market and operational risks, but equally on the maintenance of its reputation among many constituents – clients, investors, regulators, as well as the general public – for business practices of the highest quality.

Attention to its reputation has always been a key aspect of the Firm's practices and maintenance of reputation is everyone's responsibility. The Firm bolsters this individual responsibility in many ways: codes of ethics, training, policies and oversight functions that approve transactions, including a Conflicts Office to examine transactions with the potential to create conflicts of interest or roles for the Firm.

During 2002, the Firm put in place an additional structure to take account of the potential for adverse reputational impact of transactions with clients, especially complex derivatives and structured finance transactions. The structure reinforces the Firm's procedures for examining transactions in terms of appropriateness, ethical issues and reputational risk and intensifies the Firm's scrutiny of the purpose and effect of its transactions from the client's point of view with the goal that these transactions are not used to deceive investors or others. This new structure operates at three levels: as part of every business' transaction approval process, review by regional Policy Review Committees, and oversight by the Policy Review Office.

Business transaction approval

Primary responsibility for adherence with the policies and procedures designed to address reputation risk lies with the business units conducting the transactions in question. This transaction approval process requires review and sign-off from, among others, internal legal/compliance, conflicts, tax and accounting policy groups. Transactions involving an SPE established by the Firm receive particular scrutiny and must comply with a Special-Purpose Vehicle Policy, designed to ensure that every such entity is properly approved, documented, monitored and controlled.

Regional policy review committees

Business units are also required to submit to regional Policy Review Committees proposed transactions that may raise reputation risk for any reason – including, where applicable, intended financial disclosure of the transaction by the client – and the committees approve, reject or require further clarification or changes. The members of these committees are senior representatives of the business and support units in the region. The committees may escalate transaction review to the Policy Review Office.

Policy review office

The Policy Review Office is the most senior approval level for client transactions involving reputation issues. The mandate of the Office is to opine on specific transactions brought by the Regional Committees and consider changes in policies or practices relating to reputation risk. The head of the Office consults with the Firm's most senior executives on specific topics and provides regular updates.

Aside from governance and guidance on specific transactions, the objective of the policy review process is to reinforce a culture, through a "case-study" approach, which ensures that all employees, regardless of seniority, understand the basic principles of reputation risk control and can recognize and address issues as they arise.

Private equity risk management

Risk management

JPMorgan Partners employs processes for risk measurement and control that are similar to those used for other businesses within the Firm. The processes are coordinated with the Firm's overall approach to market and concentration risk. Private equity risk is initially monitored through the use of industry and geographic limits. Additionally, to manage the pace of new investment, a ceiling on the amount of annual private equity investment activity has been set.

JPMorgan Partners' public equity holdings create 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, investment and asset/liability management portfolios. During the year, JPMP management undertook frequent reviews of its public security holdings as part of a disciplined approach to sales and hedging issues. Hedging programs are very limited, but are considered when practical and as circumstances dictate. Over time, the Firm may change the nature and type of hedges it enters into, as well as close a hedging position altogether.

Capital allocation for private equity risk

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 reflects the potential loss inherent in the portfolio in the event of a large equity market decline. Capital is also allocated against illiquidity risk, which results from the contractual sales 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 time 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. The overall internal capital allocation is approximately 53% of the investments' carrying value.

Critical accounting estimates used by the Firm

The Firm's accounting policies and use of estimates are integral to understanding the results reported. The Firm's most complex accounting estimates 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, including any judgments made, are well controlled, independently reviewed 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 Firm believes its estimates for determining the valuation of its assets and liabilities are appropriate.

The following is a brief description of the Firm's critical accounting estimates involving significant management valuation judgments.

Allowance for Credit Losses

JPMorgan Chase's Allowance for credit losses covers the commercial and consumer loan portfolios as well as the Firm's portfolio of lending-related commitments. The allowance for loan losses is intended to adjust the value of the Firm's loan assets for probable credit losses as of the balance sheet date in accordance with generally accepted accounting principles. Management also computes an allowance for lending-related commitments using a methodology similar to that used for the commercial loan portfolio. For a further discussion of the methodologies used in establishing the Firm's Allowance for credit losses, see Note 10 on page 82.

Commercial loans and lending-related commitments

The methodology for calculating both allowances involves significant judgment. First and foremost, it involves the early identification of credits that are deteriorating. Second, it involves management judgment to derive loss factors.

The Firm uses a risk rating system to determine the credit quality of its loans. Commercial loans are reviewed for information affecting the obligor's ability to fulfill its obligations. In assessing the risk rating of a particular loan, among the factors considered include the obligor's debt capacity and financial flexibility, the level of the obligor's earnings, the amount and sources of repayment, the level and nature of contingencies, management strength, and the industry and geography in which the obligor operates. These factors are based on an evaluation of historical information, as well as subjective assessment and interpretation. Emphasizing one factor over another or considering additional factors that may be relevant in determining the risk rating of a particular loan, but which are not currently an explicit part of the Firm's methodology, could impact the risk rating assigned by the Firm to that loan.

Management also applies its judgment to derive loss factors associated with each credit facility. These loss factors are determined by facility structure, collateral and type of obligor. Wherever possible, the Firm uses independent, verifiable data or the Firm's own historical loss experience in its models for estimating these loss factors. 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 the possible severity of the loss. If a full credit cycle is not captured in the data, then estimates may be inaccurate. Likewise, judgment is applied to determine whether the loss severity factor should be calculated as an average over the entire credit cycle or whether to apply the loss severity factor implied at a particular point in the credit cycle. The application of different loss severity factors would change the amount of the allowance for credit losses determined appropriate by the Firm. 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.

As noted above, the Firm's allowance for loan losses is sensitive to the risk rating assigned to a loan. Assuming, for all commercial loans, a one-notch downgrade in the Firm's internal risk ratings, the allowance for loan losses for commercial loans would increase by approximately $850 million at December 31, 2002. This sensitivity analysis is hypothetical and should be used with caution. The purpose of this analysis is to provide an indication of the impact risk ratings have on the estimate of the allowance for loan losses for commercial loans. It is not intended to imply management's expectation of future deterioration in risk ratings. Given the process the Firm follows in determining risk ratings of its loans, management believes the current risk ratings assigned to commercial loans are appropriate and the likelihood of a one-notch downgrade for all commercial loans is remote.

Consumer loans

The consumer portfolio is segmented into three main business lines: Chase Home Finance, Chase Cardmember Services and Chase Auto Finance. For each major portfolio segment within each line of business, there are three primary factors that are considered in determining the expected loss component of the allowance for loan losses: period-end outstandings, expected loss factor, and average life. The various components of these factors, such as collateral, prepayment rates, credit score distributions, collections, and the historical loss experience of a business segment, differ across business lines. For example, credit card revolving credit has significantly higher charge-off ratios than fixed mortgage credit. Determination of each factor is based primarily on statistical data and macroeconomic assumptions.

Residual component

Management's judgments are also applied when considering uncertainties that relate to current macroeconomic and political conditions, the impact of currency devaluation on cross-border exposures, changes in underwriting standards, unexpected correlations within the portfolio, or other factors. For example, judgment as to political developments in a particular country will affect management's assessment of potential loss in the credits that have exposure to that country. A separate allowance component, the residual component, is maintained to cover these uncertainties, principally, at December 31, 2002, in the commercial portfolio. It is anticipated that the residual component will range between 10% and 20% of the total allowance for credit losses.

Fair value of financial instruments

A portion of JPMorgan Chase's assets and liabilities are carried at fair value, including trading assets and liabilities, AFS securities and private equity investments. Mortgage servicing rights are carried at the lower of fair value or cost. At December 31, 2002, approximately $369 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. The majority of the Firm's assets reported at fair value are based on quoted market prices or on internally developed models that are based on independently sourced market parameters, including interest rate yield curves, option volatilities and currency rates. The valuation process takes into consideration factors such as liquidity and concentration concerns and, for the derivative portfolio, counterparty credit risk. See the discussion of CVA on page 51. Management applies judgment in determining the factors used in the valuation process. For example, there is often limited market data to rely on when estimating the fair value of a large or aged position. Similarly, judgment must be applied in estimating prices for less readily observable external parameters. Finally, other factors such as model assumptions, market dislocations and unexpected correlations can affect estimates of fair value. Imprecision in estimating these factors can impact the amount of revenue or loss recorded for a particular position.

Trading and available-for-sale portfolios

Substantially all of the Firm's securities held for trading and investment purposes ("long" positions) and securities that the Firm has sold to other parties but does not own ("short" positions) are valued based on quoted market prices. However, certain of the securities, for example high yield instruments, are less actively traded. The determination of their fair value requires management judgment, as this determination may require benchmarking to similar instruments or analyzing default and recovery rates.

As few derivative contracts are listed on an exchange, the majority of the Firm's derivative positions are valued using internally developed models that use as their basis readily observable market parameters — that is, parameters that are actively quoted and can be validated to external sources, including industry-pricing services. Certain derivatives, however, are valued based on models with significant unobservable market parameters — that is, parameters that may be estimated and are, therefore, subject to management judgment to substantiate the model valuation. These instruments are less actively traded and could include, for example, long-dated interest rate or currency swaps, where swap rates may be unobservable for longer maturities.

Management judgment includes recording fair value adjustments (i.e., reductions) to model valuations to account for parameter uncertainty when valuing complex or less actively traded derivative transactions.

The following table summarizes the Firm's trading and available-for-sale portfolios by valuation methodology at December 31, 2002:

	Trading assets		Trading liabilities		
	Securities purchased[(a)]	Derivatives[(b)]	Securities sold[(a)]	Derivatives[(b)]	AFS securities
Fair value based on:					
Quoted market prices	**82%**	**4%**	**93%**	**4%**	**98%**
Internal models with significant observable market parameters	**15**	**94**	**6**	**95**	**2**
Internal models with significant unobservable market parameters	**3**	**2**	**1**	**1**	—
Total	**100%**	**100%**	**100%**	**100%**	**100%**

(a) Reflected as Debt and equity instruments on the Firm's Consolidated balance sheet.
(b) Based on valuations of the Firm's derivative portfolio prior to FIN 39 netting, as cross-product netting is not relevant to a discussion on valuation methodologies. Therefore, the analysis is based on gross mark-to-market values.

To ensure that the valuations are appropriate, the Firm has various controls in place. These include: an independent review and approval of valuation models; detailed review and explanation for profit and loss analyzed daily and through time; decomposing the model valuations for certain structured derivative instruments into their components and benchmarking valuations where possible to similar products; and validating valuation estimates through actual cash settlement. As markets and products develop and the pricing for certain derivative products becomes more transparent, the Firm refines its valuation methodologies. The Valuation Control Group within the Finance area is responsible for reviewing the accuracy of the valuations of all positions taken within the Investment Bank.

For a discussion of market risk management, including the model review process, see pages 58–62. For a discussion of the developments affecting the accounting for trading derivatives, see page 68. For further details on the trading and AFS portfolios, see Note 3 and Note 7, respectively.

Private equity investments

Valuation of private investments held by JPMorgan Partners requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity and long-term nature of such assets. Private investments are initially valued based on cost. The carrying values of private investments are adjusted from cost to reflect both positive and negative changes evidenced by financing events with third-party capital providers. In addition, these investments are subject to ongoing impairment reviews by JPMP's senior investment professionals. A variety of factors are reviewed and monitored to assess impairment, including but not limited to, operating performance and future expectations, comparable industry valuations of public companies, changes in market outlook, and third-party financing environment over time. For additional information about private equity investments, see the Private equity risk management discussion on page 65 and Note 13 on page 88.

MSRs and certain other retained interests

MSRs and certain other retained interests from securitization activities do not trade in an active open market with readily observable prices. For example, sales of MSRs do occur, but the precise terms and conditions are typically not readily available. As such, the Firm estimates the fair value of MSRs and certain other retained interests using a discounted future cash flow model. The model considers portfolio characteristics, contractually specified servicing fees and prepayment assumptions, delinquent rates, late charges, other ancillary revenues, costs to service and other economic factors. The Firm compares its fair value estimates and assumptions to observable market data where available and to recent market activity and actual portfolio experience. Management believes that the fair values and related assumptions are comparable to those used by other market participants. For a further discussion of the most significant assumptions used to value these retained interests, as well as the applicable stress tests for those assumptions, see Notes 11 and 12 on pages 83–87 and 87–88, respectively.

Accounting and reporting developments

Accounting for stock-based compensation

In August 2002, JPMorgan Chase announced its decision to adopt SFAS 123, beginning January 2003. SFAS 123 establishes accounting for stock-based compensation that requires all such transactions, including stock options, to be accounted for at fair value and such amounts to be recognized in earnings. The Firm adopted the fair value provisions of SFAS 123 effective January 1, 2003, using the prospective transition method. Under this method, all new awards granted to employees on or after January 1, 2003 will be accounted for at fair value. Awards outstanding as of December 31, 2002, if not subsequently modified, continue to be accounted for under APB 25. It is estimated that the adoption of SFAS 123, with respect to employee stock-based compensation awards granted in February 2003, will reduce the Firm's net income by approximately $0.08 per share in 2003.

Consolidation of variable interest entities

In January 2003, the FASB issued FIN 46. The entities that would be assessed for consolidation under FIN 46 are typically referred to as Special-Purpose Entities ("SPEs"), although other non-SPE-type entities may also be subject to the guidance. FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns, or both. The provisions are effective for any new entities that are originated subsequent to January 31, 2003. For entities that were originated prior to February 1, 2003, the provisions of FIN 46 are effective July 1, 2003.

The Firm is assessing the impact of FIN 46 on all variable interest entities with which it is involved, including the multi-seller conduit transactions that are further described in Note 11 on pages 83–87. In their current form, these conduits would be required to be consolidated on the Firm's balance sheet when FIN 46 is implemented. The Firm is assessing restructuring alternatives associated with the multi-seller conduits. Management's assessment of possible consolidations of other entities that could be deemed variable interest entities is ongoing as well. However, at this time, the Firm does not believe that the implementation of FIN 46 will have a material impact on the Firm's Consolidated balance sheet, earnings or capital resources.

Guarantor disclosures

In November 2002, the FASB issued Interpretation No. 45, which requires a guarantor to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN 45 also requires certain disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. The disclosure requirements of this Interpretation are effective for financial statements ending December 31, 2002. The initial recognition and measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The application of FIN 45 will not have a material impact on the Firm's Consolidated statement of income or Consolidated balance sheet. See Note 29 on pages 102–103 for FIN 45 disclosures.

Accounting for trading derivatives

In October 2002, the Emerging Issues Task Force concluded on Issue 02–03, which precludes mark-to-market accounting for energy-related contracts that do not meet the definition of a derivative under SFAS 133 (e.g., transportation, storage, or capacity contracts) effective January 1, 2003. This decision will not have a material impact on the Firm's Consolidated statement of income. In November 2002, as part of the discussion of Issue 02–03, the FASB staff further confirmed their view that an entity should not recognize profit at the inception of a trade involving a derivative financial instrument in the absence of: (a) quoted market prices in an active market, (b) observable prices of other current market transactions, or (c) other observable data supporting a valuation technique. This clarification did not have a material impact on the Firm's Consolidated statement of income in 2002. The FASB intends in 2003 to continue its focus on issues relating to the fair value of financial instruments.

Impairment of long-lived assets

In August 2001, the FASB issued SFAS 144, which addresses financial accounting and reporting for the impairment and/or disposal of long-lived assets. SFAS 144 supersedes and resolves certain implementation issues of SFAS 121, but retains its fundamental provisions for (a) the recognition and measurement of the impairment of long-lived assets to be held and used and (b) the measurement of long-lived assets to be disposed of by sale. SFAS 144 also supersedes the business segment disposal provisions of APB 30, but retains its requirement to report discontinued operations separately from continuing operations and broadens its definition of discontinued operations from "segment of a business" (activities that represent a major line of business or customer) to "component of an entity" (operations and cash flows that can clearly be distinguished, operationally and for financial reporting purposes, from the rest of the entity). SFAS 144 does not significantly affect the Firm's operating results. The Firm performs periodic impairment reviews of its long-lived assets in accordance with SFAS 144, and there are no discontinued operations to report in 2002.

Accounting for costs associated with exit or disposal activities

In June 2002, the FASB issued SFAS 146, which establishes new accounting for costs associated with exit or disposal activities initiated after December 31, 2002. SFAS 146 requires a liability for a cost associated with an exit or disposal activity to be recorded when that liability is incurred and can be measured at fair value. Under the previous rules, if management approved an exit plan in one quarter, the costs of that plan generally would have been recorded in the same quarter even if the costs were not incurred until a later quarter. In contrast, under SFAS 146, some costs may qualify for immediate recognition, while other costs may be incurred over one or more quarters. The impact of SFAS 146 will be to spread out the timing of the recognition of costs associated with exit or disposal activities.

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 2003 that will provide additional accounting and reporting guidance and clarification of the factors to consider in determining the allowance for loan losses.

Goodwill and other intangible assets

Effective January 1, 2002, the Firm adopted SFAS 142 which establishes the accounting for intangible assets (other than those acquired in a business combination). It also addresses the accounting for goodwill and other intangible assets subsequent to an acquisition. For a further discussion on the adoption of SFAS 142, see Note 14.

Comparison between 2001 and 2000

JPMorgan Chase reported 2001 net income of $1.7 billion, compared with net income of $5.7 billion in 2000. Reported net income per share was $0.80 in 2001, compared with $2.86 in 2000.

Total reported revenues for 2001 of $29.3 billion were down 12% from the prior year. These results reflected losses on private equity investments and, to a lesser degree, lower investment banking fees and trading revenues, which included $359 million of losses related to exposure to Enron and Argentina. Also contributing to the decline were net gains on sales of nonstrategic assets of $1.3 billion in 2000. The revenue declines were partially offset by higher net interest income, primarily from higher volumes of interest-earning assets (particularly credit card receivables and residential mortgages), and security gains from sales of AFS securities that had been positioned to benefit from 2001's low interest rate environment.

The Firm's business segments reported mixed revenue results in 2001. In IB, revenues were lower than the prior year, reflecting the overall market decline in equity underwriting and M&A activities; record fees from bond underwriting due to lower interest rates partially offset these declines. Trading-related revenues in 2001 were also lower than in 2000, primarily driven by thinner margins on sales of equity securities and a reduced demand for equity derivatives. IMPB's revenues declined from the prior year reflecting the lower value of assets under supervision, a lower volume of international retail fund flows and a reduction in the number of brokerage transactions. There was also a decrease in fees driven by clients shifting from higher-margin equity to lower-margin fixed-income products. JPMP recognized private equity losses of $1.2 billion in 2001, compared with gains of $1.0 billion in 2000, attributable to unfavorable valuation adjustments on both publicly- and privately-held investments – particularly in the telecommunications, media and technology sectors. Offsetting these revenue declines was a slight increase in revenue at T&SS, reflecting revenue growth at Institutional Trust Services and Treasury Services, partially offset by a decline at Investor Services resulting from depressed market prices for equity securities and lower interest rates. CFS had solid revenue growth, driven by greater consumer loan originations and higher fees from increased utilization of consumer banking and insurance products in 2001. While revenue was reduced by the negative effects of increased levels of mortgage loan prepayments due to lower interest rates, these declines were substantially offset by increased securities gains and record mortgage sales activity.

The Firm's total reported noninterest expense was $23.6 billion in 2001, up 2% from 2000, reflecting higher merger and restructuring costs, partly offset by lower compensation expense. Merger and restructuring costs increased to $2.5 billion in 2001 from $1.4 billion in 2000. The increase was primarily related to costs associated with the merger of J.P. Morgan and Chase, including systems integration, realignment of facilities and retention or severance payments. Compensation expense fell 6%, driven by staff reductions and lower incentive compensation as a result of the decline in earnings.

At the business-segment level, IB, IMPB and JPMP all reported lower noninterest expense largely driven by reductions in headcount related to the merger and lower incentive compensation. T&SS expenses rose slightly as a result of strategic investments across its three businesses, offset by expense-control initiatives. CFS also reported higher expenses in 2001, stemming from higher mortgage loan servicing costs, the acquisition of Advanta Corp.'s mortgage business and higher credit card marketing costs; these costs were partially offset by savings achieved through restructuring, productivity and quality programs.

The provision for credit losses in 2001 rose to $3.2 billion from $1.4 billion in 2000. The increase reflected the impact of higher net charge-offs in both the commercial and consumer loan portfolios, as well as an increase in the loan loss allowance by $850 million (due to provisions in excess of net charge-offs). The increase in commercial charge-offs was primarily the result of higher domestic commercial net charge-offs, particularly in the telecom and related sector and for Enron. The higher charge-offs in the consumer loan portfolio were due to higher consumer bankruptcy levels, as well as higher nonbankruptcy-related losses.

Income tax expense in 2001 was $847 million, compared with $3.0 billion in 2000. The effective tax rate was 33% for 2001, compared with 34% for 2000. The decrease in the effective tax rate was principally the result of the decrease in reported pre-tax income.

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

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 provide reasonable assurance of 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 at December 31, 2002, 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 21, 2003

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, 2002 and December 31, 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, 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.

As noted in Note 14 to the financial statements, J.P. Morgan Chase & Co. adopted, as of January 1, 2002, Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

PricewaterhouseCoopers LLP

January 21, 2003

Consolidated statement of income

J.P. Morgan Chase & Co.

Year ended December 31, (in millions, except per share data)	**2002**	2001	2000
Revenue			
Investment banking fees	**$ 2,763**	$ 3,612	$ 4,362
Trading revenue	**2,594**	4,918	6,298
Fees and commissions	**10,756**	9,481	9,466
Private equity – realized gains (losses)	**(105)**	651	2,051
Private equity – unrealized gains (losses)	**(641)**	(1,884)	(1,036)
Securities gains	**1,563**	866	229
Other revenue	**1,158**	898	2,304
Total noninterest revenue	**18,088**	18,542	23,674
Interest income	**25,284**	32,181	36,643
Interest expense	**13,758**	21,379	27,131
Net interest income	**11,526**	10,802	9,512
Revenue before provision for credit losses	**29,614**	29,344	33,186
Provision for credit losses	**4,331**	3,182	1,380
Total net revenue	**25,283**	26,162	31,806
Expense			
Compensation expense	**10,983**	11,844	12,639
Occupancy expense	**1,606**	1,348	1,294
Technology and communications expense	**2,554**	2,631	2,454
Amortization of intangibles	**323**	729	528
Other expense	**4,788**	4,521	4,727
Surety settlement and litigation reserve	**1,300**	—	—
Merger and restructuring costs	**1,210**	2,523	1,431
Total noninterest expense	**22,764**	23,596	23,073
Income before income tax expense and effect of accounting change	**2,519**	2,566	8,733
Income tax expense	**856**	847	3,006
Income before effect of accounting change	**1,663**	1,719	5,727
Net effect of change in accounting principle	**—**	(25)	—
Net income	**$ 1,663**	$ 1,694	$ 5,727
Net income applicable to common stock	**$ 1,612**	$ 1,628	$ 5,631
Average common shares outstanding			
Basic	**1,984**	1,972	1,884
Diluted	**2,009**	2,024	1,969
Net income per common share[(a)]			
Basic	**$ 0.81**	$ 0.83	$ 2.99
Diluted	**0.80**	0.80	2.86
Cash dividends per common share	**1.36**	1.36	1.28

(a) Basic and diluted earnings per share have been reduced by $0.01 in 2001 because of 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)	**2002**	2001
Assets		
Cash and due from banks	**$ 19,218**	$ 22,600
Deposits with banks	**8,942**	12,743
Federal funds sold and securities purchased under resale agreements	**65,809**	63,727
Securities borrowed	**34,143**	36,580
Trading assets:		
Debt and equity instruments (including assets pledged of $88,900 in 2002 and $48,570 in 2001)	**165,199**	118,248
Derivative receivables	**83,102**	71,157
Securities:		
Available-for-sale (including assets pledged of $50,468 in 2002 and $30,178 in 2001)	**84,032**	59,284
Held-to-maturity (fair value: $455 in 2002 and $490 in 2001)	**431**	476
Loans (net of allowance for loan losses of $5,350 in 2002 and $4,524 in 2001)	**211,014**	212,920
Private equity investments	**8,228**	9,197
Accrued interest and accounts receivable	**14,137**	14,799
Premises and equipment	**6,829**	6,292
Goodwill	**8,096**	8,336
Mortgage servicing rights	**3,230**	6,579
Other intangibles:		
Purchased credit card relationships	**1,269**	519
All other intangibles	**307**	44
Other assets	**44,814**	50,074
Total assets	**$ 758,800**	$ 693,575
Liabilities		
Deposits:		
U.S.:		
Noninterest-bearing	**$ 74,664**	$ 69,364
Interest-bearing	**109,743**	105,058
Non-U.S.:		
Noninterest-bearing	**7,365**	7,610
Interest-bearing	**112,981**	111,618
Total deposits	**304,753**	293,650
Federal funds purchased and securities sold under repurchase agreements	**169,483**	128,445
Commercial paper	**16,591**	18,510
Other borrowed funds	**8,946**	10,835
Trading liabilities:		
Debt and equity instruments	**66,864**	52,988
Derivative payables	**66,227**	56,063
Accounts payable, accrued expenses and other liabilities (including the allowance for lending-related commitments of $363 in 2002 and $282 in 2001)	**38,440**	47,813
Long-term debt	**39,751**	39,183
Guaranteed preferred beneficial interests in the Firm's junior subordinated deferrable interest debentures	**5,439**	4,439
Total liabilities	**716,494**	651,926
Commitments and contingencies (see Note 27)		
Preferred stock of subsidiary	**—**	550
Stockholders' equity		
Preferred stock	**1,009**	1,009
Common stock (authorized 4,500,000,000 shares, issued 2,023,566,387 shares in 2002 and 1,996,929,012 shares in 2001)	**2,024**	1,997
Capital surplus	**13,222**	12,495
Retained earnings	**25,851**	26,993
Accumulated other comprehensive income (loss)	**1,227**	(442)
Treasury stock, at cost (24,859,844 shares in 2002 and 23,545,702 shares in 2001)	**(1,027)**	(953)
Total stockholders' equity	**42,306**	41,099
Total liabilities, preferred stock of subsidiary and stockholders' equity	**$ 758,800**	$ 693,575

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)	**2002**	2001	2000
Preferred stock			
Balance at beginning of year	**$ 1,009**	$ 1,520	$ 1,622
Redemption of stock	**—**	(450)	(100)
Retirement of treasury stock	**—**	—	(2)
Purchase of treasury stock	**—**	(61)	—
Balance at end of year	**1,009**	1,009	1,520
Common stock			
Balance at beginning of year	**1,997**	1,940	1,625
Issuance of common stock for a three-for-two stock split	**—**	—	441
Issuance of common stock	**27**	55	—
Issuance of common stock for purchase accounting acquisitions	**—**	2	—
Retirement of treasury stock	**—**	—	(126)
Balance at end of year	**2,024**	1,997	1,940
Capital surplus			
Balance at beginning of year	**12,495**	11,598	12,724
Issuance of common stock and options for purchase accounting acquisitions	**—**	79	136
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	**727**	818	(584)
Balance at end of year	**13,222**	12,495	11,598
Retained earnings			
Balance at beginning of year	**26,993**	28,096	28,455
Net income	**1,663**	1,694	5,727
Retirement of treasury stock	**—**	—	(3,636)
Cash dividends declared:			
Preferred stock	**(51)**	(66)	(96)
Common stock ($1.36, $1.36 and $1.28 per share)	**(2,754)**	(2,731)	(2,354)
Balance at end of year	**25,851**	26,993	28,096
Accumulated other comprehensive income (loss)			
Balance at beginning of year	**(442)**	(241)	(1,428)
Other comprehensive income (loss)	**1,669**	(201)	1,187
Balance at end of year	**1,227**	(442)	(241)
Treasury stock, at cost			
Balance at beginning of year	**(953)**	(575)	(7,942)
Retirement of treasury stock	**—**	—	4,001
Purchase of treasury stock	**—**	(871)	(2,950)
Reissuance from treasury stock	**107**	710	3,039
Reissuance from treasury stock for purchase accounting acquisitions	**—**	—	3,415
Forfeitures to treasury stock	**(181)**	(217)	(138)
Balance at end of year	**(1,027)**	(953)	(575)
Total stockholders’ equity	**$ 42,306**	$ 41,099	$ 42,338

Comprehensive income			
Net income	**$ 1,663**	$ 1,694	$ 5,727
Other comprehensive income (loss)	**1,669**	(201)	1,187
Comprehensive income	**$ 3,332**	$ 1,493	$ 6,914

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)		2002	2001	2000
Operating activities				
Net income		**$ 1,663**	$ 1,694	$ 5,727
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for credit losses		**4,331**	3,182	1,380
Depreciation and amortization		**3,426**	2,891	2,545
Deferred tax provision (benefit)		**1,636**	(638)	(550)
Surety settlement and litigation reserve		**1,300**	—	—
Private equity unrealized losses and write-offs		**641**	1,884	1,036
Net change in:				
Trading assets		**(58,183)**	26,217	(34,761)
Securities borrowed		**2,437**	(4,209)	3,157
Accrued interest and accounts receivable		**677**	5,819	(64)
Other assets		**5,735**	(26,756)	(4,110)
Trading liabilities		**25,402**	(20,143)	9,684
Accounts payable, accrued expenses and other liabilities		**(12,964)**	7,472	5,956
Other, net		**(1,235)**	(520)	(3,676)
Net cash used in operating activities		**(25,134)**	(3,107)	(13,676)
Investing activities				
Net change in:				
Deposits with banks		**3,801**	(4,410)	22,088
Federal funds sold and securities purchased under resale agreements		**(2,082)**	5,747	(10,493)
Loans due to sales and securitizations		**97,004**	69,575	33,062
Other loans, net		**(98,695)**	(72,149)	(47,672)
Other, net		**(3,398)**	3,431	(2,210)
Held-to-maturity securities:	Proceeds	**85**	113	415
	Purchases	**(40)**	(2)	(114)
Available-for-sale securities:	Proceeds from maturities	**5,094**	7,980	9,393
	Proceeds from sales	**219,385**	186,434	104,322
	Purchases	**(244,547)**	(182,920)	(109,051)
Cash used in acquisitions		**(72)**	(1,677)	(2,195)
Proceeds from divestitures of nonstrategic businesses and assets		**121**	196	1,469
Net cash (used in) provided by investing activities		**(23,344)**	12,318	(986)
Financing activities				
Net change in:				
U.S. deposits		**9,985**	29,119	10,596
Non-U.S. deposits		**1,118**	(14,834)	(18,295)
Federal funds purchased and securities sold under repurchase agreements		**41,038**	(3,293)	21,897
Commercial paper and other borrowed funds		**(4,675)**	(15,346)	8,925
Other, net		**—**	(91)	(436)
Proceeds from the issuance of long-term debt and capital securities		**11,971**	8,986	14,861
Repayments of long-term debt		**(12,185)**	(12,574)	(14,442)
Proceeds from the net issuance of stock and stock-related awards		**725**	1,429	2,278
Redemption of preferred stock		**—**	(511)	(100)
Redemption of preferred stock of subsidiary		**(550)**	—	—
Treasury stock purchased		**—**	(871)	(2,950)
Cash dividends paid		**(2,784)**	(2,697)	(2,282)
Net cash provided by (used in) financing activities		**44,643**	(10,683)	20,052
Effect of exchange rate changes on cash and due from banks		**453**	100	(110)
Net (decrease) increase in cash and due from banks		**(3,382)**	(1,372)	5,280
Cash and due from banks at the beginning of the year		**22,600**	23,972	18,692
Cash and due from banks at the end of the year		**$ 19,218**	$ 22,600	$ 23,972
Cash interest paid		**$ 13,534**	$ 22,987	$ 27,217
Taxes paid		**$ 1,253**	$ 479	$ 3,396

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

Note 1 Basis of Presentation

Consolidation

J.P. Morgan Chase & Co. ("JPMorgan Chase" or the "Firm") 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 the Firm's business segment information, see Note 33 on page 108.

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. The merger was accounted for as a pooling of interests. Accordingly, the information included in the consolidated financial statements and 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.

The accounting and financial reporting policies of JPMorgan Chase and its subsidiaries conform to U.S. generally accepted accounting principles ("GAAP") 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 accounts of JPMorgan Chase and its majority-owned subsidiaries after eliminating intercompany balances and transactions.

Investments in companies in which the Firm 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. For a discussion of private equity investments, see Note 13 on page 88.

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

Certain amounts in prior periods have been reclassified to conform to the current presentation. Effective January 1, 2002, the Firm implemented EITF Issue No. 01-14 which requires reimbursements received for out-of-pocket expenses incurred to be characterized as revenue in the Consolidated statement of income. The adoption resulted in reclassifications of previously disclosed amounts.

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 non-U.S. operation where the functional currency is not the U.S. dollar are included in Accumulated other comprehensive income (loss) within Stockholders' equity. For non-U.S. operations where the functional currency is the U.S. dollar, including 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 are 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 76
Fee revenue	Note 4	Page 77
Securities	Note 7	Page 79
Securities financing activities	Note 8	Page 80
Loans	Note 9	Page 80
Allowance for credit losses	Note 10	Page 82
Special-purpose entities	Note 11	Page 83
Mortgage servicing rights	Note 12	Page 87
Private equity investments	Note 13	Page 88
Goodwill and other intangibles	Note 14	Page 89
Premises and equipment	Note 15	Page 89
Income taxes	Note 22	Page 93
Postretirement employee benefit plans	Note 23	Page 94
Employee stock-based incentives	Note 24	Page 96
Derivative instruments and hedging activities	Note 28	Page 101
Off-balance sheet lending-related financial instruments and guarantees	Note 29	Page 102
Fair value of financial instruments	Note 31	Page 104

Note 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). Each series of preferred stock of J.P. Morgan was exchanged on a one-for-one basis for a corresponding series of preferred stock of JPMorgan Chase having substantially the same terms.

Acquisition of the Providian Master Trust

On February 5, 2002, JPMorgan Chase acquired the Providian Master Trust from Providian National Bank. The acquisition consisted of credit card receivables of approximately $7.9 billion and related relationships. The acquired portfolio consisted of approximately 3.3 million credit card accounts.

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 portfolios 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 minimum proceeds to be received from the Euroclear Bank during the following two years. 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. There were no additional proceeds in 2002.

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 totaled approximately $220 million (after-tax) and were expensed over the two years following the acquisition. The transaction was accounted for under the purchase method.

Note 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 the Firm has sold to other parties but does not own ("short" positions). The Firm is obligated to purchase securities at a future date to cover the short position. Also included in Trading liabilities are structured notes that the Firm sells as part of its trading activities. Included in Trading assets and Trading liabilities are the reported receivables (unrealized gains) and payables (unrealized losses) related to derivatives. These amounts include the effect of master netting agreements as permitted under FIN 39. Trading positions are carried at fair value on the Consolidated balance sheet.

Trading revenue

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

Year ended December 31, (in millions)	**2002**	2001	2000
Equities[(a)]	**$ 331**	$ 1,541	$ 1,762
Fixed income and other[(b)]	**2,263**	3,377	4,536
Total	**$ 2,594**	$ 4,918	$ 6,298

(a) Includes equity securities and equity derivatives.
(b) Includes bonds and commercial paper, various types of interest rate derivatives (including credit derivatives), as well as foreign exchange and commodities.

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)	2002	2001
Trading assets		
Debt and equity instruments:		
U.S. government, federal agencies and municipal securities	**$ 68,906**	$ 41,666
Certificates of deposit, bankers' acceptances and commercial paper	**4,545**	8,492
Debt securities issued by non-U.S. governments	**29,709**	22,465
Corporate securities and other	**62,039**	45,625
Total trading assets – debt and equity instruments	**$ 165,199**	$ 118,248
Derivative receivables:		
Interest rate contracts	**$ 60,771**	$ 44,732
Foreign exchange contracts	**7,487**	9,815
Debt, equity, commodity and other contracts	**14,844**	16,610
Total trading assets – derivative receivables	**$ 83,102**	$ 71,157
Trading liabilities		
Debt and equity instruments[(a)]	**$ 66,864**	$ 52,988
Derivative payables:		
Interest rate contracts	**$ 46,639**	$ 33,066
Foreign exchange contracts	**8,036**	9,410
Debt, equity, commodity and other contracts	**11,552**	13,587
Total trading liabilities – derivative payables	**$ 66,227**	$ 56,063

(a) Primarily represents securities sold, not yet purchased.

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

Year ended December 31, (in millions)	2002	2001
Trading assets – debt and equity instruments	**$ 149,173**	$ 145,364
Trading assets – derivative receivables	**73,641**	78,461
Trading liabilities – debt and equity instruments[(a)]	**$ 64,725**	$ 53,976
Trading liabilities – derivative payables	**57,607**	69,676

(a) Primarily represents securities sold, not yet purchased.

Note 4 Other noninterest revenue

Investment banking fees

Investment banking fees include advisory, and equity and debt underwriting fees. Advisory fees are recognized as revenue when related services are performed. Underwriting fees are recognized as revenue when the Firm has rendered all services to the issuer and is entitled to collect the fee from the issuer, as long as there are no other contingencies associated with the fee (e.g., not contingent on the customer obtaining financing). 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)	2002	2001	2000
Advisory	**$ 756**	$ 1,248	$ 1,739
Underwriting:			
Equity	**464**	525	859
Debt	**1,543**	1,839	1,764
Total	**$ 2,763**	$ 3,612	$ 4,362

Fees and commissions

Fees and commissions primarily include fees from investment management, custody and processing services, deposit accounts, brokerage services, mortgage servicing (net of amortization, write-downs and derivatives hedging), loan commitments, standby letters of credit and financial guarantees, compensating balances, insurance products and other financial service-related products. These fees are recognized over the period that the related service is provided. Also included are credit card revenues, which primarily include interchange income (transaction-processing fees), late fees, cash advance, annual and overlimit fees, and servicing fees earned in connection with securitization activities. Credit card revenues are 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)	2002	2001	2000
Investment management, custody and processing services	**$ 3,759**	$ 3,951	$ 3,775
Credit card revenue	**2,869**	2,108	1,771
Brokerage and investment services	**1,231**	1,244	1,228
Mortgage servicing fees, net of amortization, write-downs and derivatives hedging	**298**	(230)	441
Other lending-related service fees	**546**	495	590
Deposit service fees	**1,128**	1,023	906
Other fees	**925**	890	755
Total fees and commissions	**$ 10,756**	$ 9,481	$ 9,466

Other revenue

Details of Other revenue were as follows:

Year ended December 31, (in millions)	2002	2001	2000
Other revenue			
Gains on sales of nonstrategic assets	**$ —**	$ —	$ 1,307
Residential mortgage origination/sales activities	**671**	576	206
Loss on economic hedge of the Flemings purchase price	**—**	—	(176)
All other revenue	**487**	322	967
Total other revenue	**$ 1,158**	$ 898	$ 2,304

Note 5 Interest income and interest expense

Details of interest income and expense were as follows:

Year ended December 31, (in millions)	2002	2001	2000
Interest income			
Loans	**$ 12,057**	$ 15,544	$ 17,243
Securities	**3,367**	3,647	4,422
Trading assets	**6,798**	7,390	7,160
Federal funds sold and securities purchased under resale agreements	**2,061**	3,805	4,751
Securities borrowed	**698**	1,343	2,294
Deposits with banks	**303**	452	773
Total interest income	**$ 25,284**	$ 32,181	$ 36,643
Interest expense			
Deposits	**$ 5,253**	$ 7,998	$ 10,835
Short-term and other liabilities	**7,038**	11,098	13,105
Long-term debt	**1,467**	2,283	3,191
Total interest expense	**$ 13,758**	$ 21,379	$ 27,131
Net interest income	**$ 11,526**	$ 10,802	$ 9,512
Provision for credit losses (a)	**4,331**	3,182	1,380
Net interest income after provision for credit losses	**$ 7,195**	$ 7,620	$ 8,132

(a) Includes the provision for lending-related commitments of $292 million, $(3) million and $3 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Note 6 Noninterest expense

Merger and restructuring costs

The following table shows the components of Merger and restructuring costs associated with various programs announced prior to January 1, 2002:

Year ended December 31, (in millions)	2002	2001	2000
Merger and restructuring costs			
Merger, right-sizing, and other restructuring costs:			
Severance and stay bonuses	**$ 284**	$ 1,665	$ 688
Facilities and equipment write-offs	**288**	73	412
Technology and consulting	**447**	306	52
Other	**43**	278	171
Total merger, right-sizing, and other restructuring costs	**1,062**	2,322	1,323
Relocation costs:			
Severance and stay bonuses	**73**	48	4
Facilities and equipment write-offs	**7**	14	2
Technology and consulting	**4**	12	17
Dual salary, occupancy and equipment	**32**	87	46
Other	**32**	40	39
Total relocation costs	**148**	201	108
Total merger and restructuring costs	**$ 1,210**	$ 2,523(a)	$ 1,431(b)

(a) Includes $300 million right-sizing liability recorded in the 2001 third quarter.
(b) Includes $1.25 billion merger liability recorded in the 2000 fourth quarter.

The Firm recorded liabilities of $1.25 billion in the fourth quarter of 2000 and $300 million in the third quarter of 2001 in connection with, respectively, the merger of J.P. Morgan and Chase and with the right-sizing of employee levels beyond that planned at the time of the merger. In addition to these charges, the Firm incurred additional expenses in 2000, 2001, and 2002 relating to the merger, right-sizing, relocation and other restructuring initiatives. These additional costs were expensed as incurred. With the exception of facility and equipment write-offs, all of the costs in the table above required the expenditure of cash.

The table below shows the utilization of the $1.25 billion merger-related charge and the $300 million right-sizing charge. At December 31, 2002, these liabilities had been fully utilized.

(in millions)	Merger	Right-sizing
Liability balance at January 1, 2000	$ —	$ —
Merger charge	1,250	—
Liability utilized during year 2000	(333)	—
Liability balance at December 31, 2000	917	—
Right-sizing charge	—	300
Liability utilized during year 2001	(763)	(259)
Liability balance at December 31, 2001	154	41
Liability utilized during year 2002	(154)	(41)
Liability balance at December 31, 2002	$ —	$ —

Other expense

Details of Other expense were as follows:

Year ended December 31, (in millions)	2002	2001	2000
Other expense			
Professional services	**$ 1,303**	$ 1,139	$ 1,203
Outside services	**994**	888	840
Marketing	**689**	601	595
Travel and entertainment	**411**	453	490
All other	**1,391**	1,440	1,599
Total other expense	**$ 4,788**	$ 4,521	$ 4,727

Note 7 Securities

Securities are classified as Available-for-sale ("AFS"), Held-to-maturity ("HTM") or Trading. Trading securities are discussed within Note 3 on pages 76–77. 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 SFAS 133 valuation adjustments are reported as net 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 the Firm 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)	2002	2001	2000[a]
Realized gains	**$ 1,904**	$ 1,438	$ 727
Realized losses	**(341)**	(572)	(498)
Net realized gains (losses)	**$ 1,563**	$ 866	$ 229

(a) Includes the impact of related derivatives.

In calculating the effective yield for mortgage-backed securities ("MBS") and collateralized mortgage obligations ("CMO"), JPMorgan Chase actively monitors the likelihood of principal prepayment 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 are reported at fair value.

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

	2002				2001			
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	**$ 40,148**	**$ 449**	**$ 141**	**$ 40,456**	$ 30,192	$ 115	$ 417	$ 29,890
Collateralized mortgage obligations	**3,271**	**63**	**21**	**3,313**	2,295	91	89	2,297
U.S. Treasuries	**22,870**	**531**	**24**	**23,377**	9,987	73	157	9,903
Obligations of state and political subdivisions	**1,744**	**145**	**14**	**1,875**	2,429	86	15	2,500
Debt securities issued by non-U.S. governments	**11,873**	**58**	**19**	**11,912**	11,636	65	24	11,677
Corporate debt securities	**870**	**20**	**8**	**882**	108	35	1	142
Equity securities	**1,198**	**16**	**18**	**1,196**	1,102	4	9	1,097
Other, primarily asset-backed securities[a]	**978**	**113**	**70**	**1,021**	1,785	3	10	1,778
Total available-for-sale securities	**$ 82,952**	**$ 1,395**	**$ 315**	**$ 84,032**	$ 59,534	$ 472	$ 722	$ 59,284
Held-to-maturity securities								
Total held-to-maturity securities[b]	**$ 431**	**$ 24**	**$ —**	**$ 455**	$ 476	$ 14	$ —	$ 490

(a) Includes CMOs of private issuers, which generally have underlying collateral consisting of obligations of U.S. government and federal agencies and corporations.
(b) Consists primarily of mortgage-backed securities.

The following table presents the amortized cost, estimated fair value and average yield at December 31, 2002, of JPMorgan Chase's AFS and HTM securities by contractual maturity:

Maturity schedule of securities December 31, 2002 (in millions)	Available-for-sale securities Amortized cost	Fair value	Average yield[(a)]	Held-to-maturity securities Amortized cost	Fair value	Average yield[(a)]
Due in one year or less	$ 10,075	$ 10,041	3.14%	$ 35	$ 35	2.09%
Due after one year through five years	17,922	18,331	3.76	—	—	—
Due after five years through 10 years	9,445	9,728	4.48	—	—	—
Due after 10 years[(b)]	45,510	45,932	5.17	396	420	6.80
Total securities	$ 82,952	$ 84,032	4.54%	$ 431	$ 455	6.42%

(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) Includes securities with no stated maturity. 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.

Note 8 Securities financing activities

JPMorgan Chase enters into reverse repurchase agreements, repurchase agreements, securities borrowed transactions and securities loaned transactions primarily to finance the Firm's inventory positions, acquire securities to cover short positions and settle other securities obligations and to accommodate customers' needs.

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. Where appropriate, resale and repurchase agreements with the same counterparty are reported on a net basis in accordance with FIN 41. JPMorgan Chase takes possession of securities purchased under resale agreements. On a daily basis, JPMorgan Chase monitors the market value of the underlying collateral received from its counterparties, which consists primarily of U.S. and foreign government and agency securities, and requests additional collateral from its counterparties when necessary.

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. These transactions are accounted for as a purchase (sale) of the underlying securities with a forward obligation to sell (purchase) the securities. The forward purchase (sale) obligation, a derivative, is recorded on the Consolidated balance sheet at its fair value with changes in the fair value recorded in trading revenue. Notional amounts of transactions accounted for as purchases under SFAS 140 were $8 billion and $6 billion at December 31, 2002 and 2001, respectively. Notional amounts of transactions accounted for as sales under SFAS 140 were $13 billion and $27 billion at December 31, 2002 and 2001, respectively. Based on the short-term duration of these contracts, the unrealized gain or loss is insignificant.

Securities borrowed and securities lent 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.

Year ended December 31, (in millions)	**2002**	2001
Securities purchased under resale agreements	**$ 57,645**	$ 61,519
Securities borrowed	**34,143**	36,580
Securities sold under repurchase agreements	**$ 161,394**	$ 117,684
Securities loaned	**1,661**	1,413

JPMorgan Chase pledges certain financial instruments it owns to collateralize repurchase agreements and other securities financings. Pledged securities that can be sold or repledged by the secured party are identified as financial instruments owned (pledged to various parties) on the Consolidated balance sheet.

At December 31, 2002, the Firm had received securities as collateral that can be repledged, delivered or otherwise used with a fair value of approximately $214 billion. This collateral was generally obtained under reverse repurchase or securities borrowing agreements. Of these securities, approximately $199 billion were repledged, delivered or otherwise used, generally as collateral under repurchase agreements, securities lending agreements, or to cover short sales.

Note 9 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. Loans held for sale are carried at the lower of aggregate cost or fair value. Loans are classified as "trading" for secondary market trading activities where positions are bought and sold to make profits from short-term movements in price. 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 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 90 days or more past due 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. 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 loan principal, all cash thereafter received is 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:

	2002			2001		
December 31, (in millions)	**U.S.**	**Non-U.S.**	**Total**	U.S.	Non-U.S.	Total
Commercial loans:						
Commercial and industrial	**$ 49,205**	**$ 31,446**	**$ 80,651**	$ 56,680	$ 33,530	$ 90,210
Commercial real estate:						
Commercial mortgage	**3,176**	**2**	**3,178**	3,533	16	3,549
Construction	**516**	**379**	**895**	615	151	766
Financial institutions	**3,770**	**2,438**	**6,208**	5,608	3,570	9,178
Foreign governments	**—**	**616**	**616**	—	1,161	1,161
Total commercial loans	**56,667**	**34,881**	**91,548**	66,436	38,428	104,864
Consumer loans:						
1-4 family residential mortgages:						
First liens	**49,357**	**12**	**49,369**	47,786	506	48,292
Home equity loans	**14,643**	**—**	**14,643**	11,644	—	11,644
Credit card	**19,677**	**—**	**19,677**	19,387	7	19,394
Auto financings	**33,615**	**—**	**33,615**	25,667	38	25,705
Other consumer	**7,395**	**117**	**7,512**	7,366	179	7,545
Total consumer loans	**124,687**	**129**	**124,816**	111,850	730	112,580
Total loans(a)(b)	**$ 181,354**	**$ 35,010**	**$ 216,364**	$ 178,286	$ 39,158	$ 217,444

(a) Loans are presented net of unearned income of $1.89 billion and $1.83 billion at December 31, 2002 and 2001, respectively.
(b) Includes loans held for sale (principally mortgage-related loans) of $25.0 billion and $16.6 billion at December 31, 2002 and 2001, respectively.

The following table reflects information about the Firm's loans held for sale, principally mortgage-related:

Year ended December 31, (in millions)	**2002**	2001	2000
Net gains on sales of loans held for sale	**$ 754**	$ 581	$ 248
Lower of cost or market adjustments	**(36)**	(177)	(4)

Impaired loans

JPMorgan Chase accounts for and discloses nonaccrual commercial loans as impaired loans and recognizes their interest income as discussed previously for nonaccrual loans. The Firm 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. The Firm uses discounted cash flow as its primary method for valuing impaired loans:

December 31, (in millions)	**2002**	2001
Impaired loans with an allowance	**$ 3,250**	$ 1,523
Impaired loans without an allowance(a)	**412**	457
Total impaired loans	**$ 3,662**	$ 1,980
Allowance for impaired loans under SFAS 114(b)	**$ 1,106**	$ 448
Average balance of impaired loans during the year	**2,805**	1,840
Interest income recognized on impaired loans during the year	**$ 14**	$ 18

(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.

Note 10 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 the Firm to be criticized. The Firm internally categorizes its criticized commercial loans into three groups: doubtful, substandard and special mention.

Criticized 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 are lower than the carrying value of that loan. To compute 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. Criticized but 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. These factors 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 in the underlying assumptions used for estimating specific losses and expected losses. It is anticipated that the residual component of the allowance will range between 10% and 20% of the total Allowance for credit losses.

JPMorgan Chase's Risk Management Committee reviews, at least quarterly, the Allowance for credit 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, 2002, JPMorgan Chase deemed the allowance to be adequate (i.e., sufficient to absorb losses that are inherent in the portfolio but are not yet identifiable).

To provide for the 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:

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

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

Year ended December 31, (in millions)	**2002**	2001	2000
Allowance at January 1	**$ 4,524**	$ 3,665	$ 3,738
Provision for loan losses	**4,039**	3,185	1,377
Charge-offs	**(4,060)**	(2,582)	(1,634)
Recoveries	**384**	247	234
Net charge-offs	**(3,676)**	(2,335)	(1,400)
Charge to conform to FFIEC revised policy	**—**	—	(80)
Allowance related to purchased portfolios	**460**	—	29
Other	**3**	9	1
Allowance at December 31	**$ 5,350**	$ 4,524	$ 3,665

The table below summarizes the changes in the Allowance for lending-related commitments:

Year ended December 31, (in millions)	**2002**	2001	2000
Allowance at January 1	**$ 282**	$ 283	$ 295
Provision for lending-related commitments	**292**	(3)	3
Charge-offs	**(212)**	—	(15)
Recoveries	**—**	3	—
Net charge-offs	**(212)**	3	(15)
Other	**1**	(1)	—
Allowance at December 31	**$ 363**	$ 282	$ 283

Note 11 Special-purpose entities

The terms special-purpose entity ("SPE") and special-purpose vehicle ("SPV") are used interchangeably in practice. SPEs are an important part of the financial markets, providing market liquidity by facilitating investors' access to specific portfolios of assets and risks. They are, for example, critical to the functioning of the mortgage- and asset-backed securities and commercial paper markets. SPEs may be organized as trusts, partnerships or corporations and 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 must be allocated to its investors and other parties that have rights to those 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.

Where JPMorgan Chase is a transferor of financial assets to an SPE, the assets sold are derecognized and the SPE is not consolidated on the Firm's balance sheet when the assets are: (1) legally isolated from the Firm's creditors, (2) the accounting criteria for a sale are met, and (3) the SPE is a qualifying special-purpose entity ("QSPE") under SFAS 140. 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 in the SPE. Consideration is given to, among other factors, 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. All transactions and retained interests between the Firm and SPEs are reflected on JPMorgan Chase's Consolidated balance sheet or in the Notes to the financial statements.

The Firm has no commitments to issue its own stock to support an SPE transaction, and its 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 SPEs with which the Firm is involved where such investment would violate the Firm's Worldwide Rules of Conduct. These rules prohibit employees from self-dealing and from acting on behalf of the Firm in transactions with which they or their family have any significant financial interest.

JPMorgan Chase is involved with SPEs in three broad categories of transactions: loan securitizations, multi-seller conduits and client intermediation.

Loan securitizations

JPMorgan Chase securitizes, sells and services residential mortgage, credit card, automobile and commercial loans. Assets sold to SPEs as part of the securitization process are not reflected in JPMorgan Chase's Consolidated 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, 2002 and 2001, were as follows:

Year ended December 31, (in billions)	**2002**	2001
Credit card receivables	**$ 40.2**	$ 25.6
Residential mortgage receivables	**20.6**	24.3
Commercial loans	**25.2**	19.8
Auto loans	**4.5**	3.4
Other receivables	**0.1**	1.4

Interests in securitized and sold loans are generally retained by the Firm in the form of senior or subordinated interest-only strips, subordinated tranches, escrow accounts and servicing rights, and they are primarily recorded in Other assets. In addition, credit card securitization trusts require the Firm to maintain a minimum undivided interest in the trusts, which represents the Firm's interests in the receivables transferred to the trust that have not been securitized. These interests are not represented by security certificates. The Firm's undivided interests are carried at historical cost and are classified in Loans.

JPMorgan Chase retains servicing responsibilities for all residential mortgage, credit card and automobile loan securitizations and for certain commercial loan securitizations it establishes. The Firm receives annual servicing fees based on the securitized loan balance plus certain ancillary fees. It also retains the right to service the residential mortgage loans it sells in connection with mortgage-backed securities 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 12.

Gains or losses recorded on securitizations and sales depend, in part, on the carrying amount of the assets sold and are allocated between the assets sold and the retained interests based on their relative fair values at the date of sale. Since quoted market prices are generally not available, the Firm usually estimates fair value of these retained interests by determining the present value of future expected cash flows using modeling techniques. Such models incorporate management's best estimates of key variables, such as expected credit losses, prepayment speeds and discount rates appropriate for 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 2002, the Firm securitized approximately $7.2 billion of residential mortgage loans, $9.4 billion of credit card loans, $3.4 billion of automobile loans and $4.3 billion of commercial loans, resulting in pre-tax gains on securitizations of $214 million, $45 million, $6 million and $53 million, respectively. During 2001, the Firm securitized approximately $7.9 billion of residential mortgage loans, $6 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. In addition, the Firm sold residential mortgage loans totaling $62.2 billion and $45.8 billion during 2002 and 2001, respectively, primarily as GNMA, FNMA and Freddie Mac mortgage-backed securities; these sales resulted in gains of $388 million in 2002 and $262 million in 2001.

The following table summarizes certain cash flows received from securitization trusts for sales that were completed during 2002 and 2001 and the key economic assumptions used in measuring the retained interests as of the dates of such sales:

	2002				2001			
($ in millions)	**Mortgage**	**Credit card**	**Auto**	**Commercial**	Mortgage	Credit card	Auto	Commercial
Cash flow information:								
Proceeds from securitizations	**$ 7,403**	**$ 9,350**	**$ 3,386**	**$ 4,284**	$ 7,932	$ 6,038	$ 2,496	$ 5,543
Servicing fees collected	**15**	**73**	**20**	**—**	12	36	5	—
Other cash flows received	**11**	**211**	**27**	**2**	99	101	3	2
Proceeds from collections reinvested in previous revolving securitizations	**—**	**44,645**	**—**	**334**	—	31,191	—	2,164
Key assumptions (rates per annum):								
Prepayment rate[a]	**10.1-25.0% CPR**	**14.6-14.9%**	**1.51-1.52% WAC/WAM**	**NA**[b]	8.5-34.0% CPR	14.0-14.4%	1.47% WAC/WAM	NA[b]
Weighted-average life	**3.0-7.7 years**	**7 months**	**1.8 years**	**7.3 years**	2.6-8.5 years	7 months	1.8 years	1.1 years
Expected credit losses	**0-1.0%**[c]	**5.4-5.9%**	**0.5%**	**NA**[d]	0.1-0.8%	5.5-6.0%	0.4-0.5%	NA[d]
Discount rate	**15.0-30.0%**	**5.1-5.9%**	**5.7-5.9%**	**8.8%**	15.0-19.0%	3.5-6.5%	5.3-7.0%	5.0%

(a) CPR: Constant prepayment rate; WAC/WAM: Weighted-average coupon/weighted-average maturity.
(b) Not applicable since these retained interests are not subject to prepayment risk.
(c) Expected credit losses for prime mortgage securitizations are minimal and are incorporated into other assumptions.
(d) Not applicable due to collateral coverage on loans in commercial securitizations.

On February 5, 2002, JPMorgan Chase acquired the Providian Master Trust, consisting of credit card receivables of approximately $7.9 billion and related relationships. Accounting principles required that all of the purchased receivables, including those that had been securitized, be initially reflected on the Firm's Consolidated balance sheet, together with a related liability to reflect the securities issued by the trust to third parties. This liability totaled $6.3 billion on February 5, 2002, and was recorded in Other borrowed funds. As credit card receivables revolve, and new receivables are sold to investors through the securitization trust, these newly sold receivables and related liability are removed from the balance sheet as permitted by securitization accounting principles. During the period from the acquisition date to December 31, 2002, $5.6 billion of the liability had been removed from the Consolidated balance sheet, either through the revolving sales of new receivables to investors or the maturing of investor securities. At December 31, 2002, $0.7 billion of the originally purchased and securitized receivables, and the related liability of $0.7 billion, remained on the balance sheet. The interest rate of the remaining liability is a combination of fixed and variable rates, which reflects the coupon rates of the securities issued to third parties. These rates ranged from 1.53% to 7.98% at December 31, 2002. The liability is expected to be substantially removed from the balance sheet by June 2003. In addition, at December 31, 2002, the Firm had on its balance sheet $2.7 billion relating to its undivided interest in the Providian Master Trust and $117 million related to its subordinated interest in accrued interest and fees on securitized receivables.

At December 31, 2002 and 2001, JPMorgan Chase had $4.6 billion and $3.9 billion, respectively, related to its undivided interest in its Chase Credit Card Master Trust, and $861 million and $878 million, respectively, in its subordinated interest in accrued interest and fees on the securitized receivables. The Firm also maintains escrow accounts up to predetermined limits for some of its residential mortgage, credit card and automobile securitizations, in the unlikely event of deficiencies in cash flows owed to investors. The amounts available in such escrow accounts are recorded in Other assets and, as of December 31, 2002, amounted to $510 million and $94 million for credit card and automobile securitizations, respectively; as of December 31, 2001, these amounts were $1 million, $341 million and $79 million for residential mortgage, credit card and automobile securitizations, respectively. Additionally, the Firm had other retained securitization interests as of December 31, 2002 and 2001, of $684 million and $1 billion from residential mortgages, $92 million and $38 million from credit cards, $151 million and $141 million from auto loans, and $94 million and $66 million from commercial loans. These retained interests are primarily subordinated or residual interests.

The table below outlines the key economic assumptions and the sensitivity of fair values at December 31, 2002 of the remaining retained interests to immediate 10% and 20% adverse changes in those assumptions:

($ in millions)	Mortgage[(a)]	Credit card	Auto	Commercial
Carrying value / fair value of retained interests[(b)]	$ 684	$ 92	$ 151	$ 94
Weighted-average life	1.7-2.1 years	5-24 months	1.7 years	1-7.3 years
Prepayment rate	28.7-43.7% CPR	14.9%	1.64% WAC/WAM	NA[(c)]
Impact of 10% adverse change	$ (7)	$ (5)	$ (10)	—
Impact of 20% adverse change	(26)	(5)	(20)	—
Loss assumption	0-2.9%[(d)]	5.9%	0.55%	NA[(e)]
Impact of 10% adverse change	$ (31)	$ (6)	$ (4)	—
Impact of 20% adverse change	(59)	(11)	(8)	—
Discount rate	13.0-30.0%[(f)]	5.2-7.3%	4.7%	3.5-11.7%
Impact of 10% adverse change	$ (18)	$ (1)	$ (1)	$ (2)
Impact of 20% adverse change	(36)	(2)	(2)	(5)

(a) Includes approximately $345 million of retained interests resulting from the acquisition of Advanta's mortgage operations.
(b) Unrealized gains (losses) recorded in Stockholders' equity that relate to these retained interests totaled $156 million, $(1) million and $21 million for residential mortgage, credit card and automobile, respectively.
(c) Not applicable since predominantly all of these retained interests are not subject to prepayment risk.
(d) Expected credit losses for prime mortgage securitizations are minimal and are incorporated into other assumptions.
(e) Not applicable as modeling assumptions for predominantly all of the commercial retained interests consider overcollateralization coverage and cash collateralized credit default swaps.
(f) During 2002, the Firm sold certain residual interests of approximately $244 million from sub-prime mortgage securitizations via Net Interest Margin ("NIM") securitizations. The Firm retained residual interests in the NIM securitizations of approximately $58 million that are valued using a 30% discount rate.

The sensitivity analysis in the preceding table is hypothetical. Changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated easily, 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 assumption, which might counteract or magnify 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 2002, 2001 and 2000 based on securitizations occurring in that year:

	Loans securitized in:[(a)(b)]					
	2002		2001		2000	
	Mortgage	**Auto**	Mortgage	Auto	Mortgage	Auto
December 31, 2002	**0.1-3.7%**	**0.9%**	0.1-3.8%	0.9%	0.1-4.1%[(c)]	1.1%
December 31, 2001	**NA**	**NA**	0.1-2.3	0.8	0.1-2.7[(c)]	0.8
December 31, 2000	**NA**	**NA**	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, 2002 and 2001, would be 11.1% and 8.2%, respectively for the three securitization transactions completed by Advanta Corp. 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, 2002:

Type of loan	Total loans		Loans 90 days or more past due		Net charge-offs	
(in millions)	**2002**	2001	**2002**	2001	**2002**	2001
Mortgage[(a)(b)]	**$ 81,570**	$ 82,546	**$ 956**	$ 933	**$ 272**	$ 252
Credit card	**50,399**	40,811	**1,096**	928	**2,828**	2,038
Auto	**37,980**	28,950	**130**	129	**184**	149
Other[(c)]	**7,524**	8,096	**98**	115	**189**	176
Consumer loans	**177,473**	160,403	**2,280**	2,105	**3,473**	2,615
Commercial loans	**92,866**	107,468	**3,749**	2,046	**1,881**	982
Total loans reported and securitized[(d)]	**270,339**	267,871	**6,029**	4,151	**5,354**	3,597
Less: Loans securitized[(a)(b)]	**(53,975)**	(50,427)	**(1,306)**	(1,134)	**(1,678)**	(1,262)
Reported	**$216,364**	$217,444	**$ 4,723**	$ 3,017	**$ 3,676**	$ 2,335

(a) Includes $12.2 billion of outstanding principal balances on securitized sub-prime 1-4 family residential mortgage loans as of December 31, 2002, of which $3.5 billion relates to Advanta's mortgage operations acquired in 2001.
(b) Delinquency information for securitized mortgage loans has been adjusted to reflect the inclusion of loans in bankruptcy and foreclosure.
(c) Includes non-U.S. consumer loans.
(d) Represents both loans on the Consolidated balance sheet and loans that have been securitized, but excludes loans for which the Firm's only continuing involvement is servicing of the assets.

Total assets held in securitization-related SPEs, as of December 31, 2002, were $90.6 billion (see table on page 83). The $54.0 billion of loans securitized at December 31, 2002 shown in the table above excludes: $26.9 billion of securitized loans in which the Firm's only continuing involvement is the servicing of the assets; $8.2 billion of seller's interests in credit card master trusts and subordinated accrued interest and fees; $0.7 billion of Providian Master Trust receivables (which are reflected as receivables on the Firm's Consolidated balance sheet until paid off or revolve into new receivables sold to investors); and $0.8 billion of escrow accounts and other assets.

Multi-seller conduits

JPMorgan Chase serves as the administrator and provides contingent liquidity support and limited credit enhancement for several commercial paper conduits. These conduits provide clients access to liquidity in the commercial paper markets by allowing them to sell assets to the conduit, which then issues commercial paper to investors to fund the purchases. The Firm does not sell assets to these commercial paper conduits. Commercial paper issued by conduits for which the Firm acts as administrator aggregated $17.5 billion at December 31, 2002. The commercial paper issued is backed by sufficient collateral, credit enhancements and commitments to provide liquidity to support receiving at least an A-1, P-1 and, in certain cases, an F-1 rating.

JPMorgan Chase Bank has commitments to provide liquidity to these vehicles in an amount up to $23.5 billion. The Firm would be required to provide funding under the liquidity commitments in the event that funding for such SPEs became unavailable in the commercial paper market. In addition, if JPMorgan Chase Bank were downgraded below A-1, P-1 and, in certain cases, F-1, the Firm could also be required to provide funding under these commitments, since commercial paper rated below A-1, P-1 or F-1 would generally not be issuable by the vehicle. Under these circumstances, JPMorgan Chase Bank could either replace itself as liquidity provider or facilitate the sale or refinancing of the assets held in the SPE in other markets. JPMorgan Chase applies the same underwriting standards in making liquidity commitments to conduits as the Firm would with other extensions of credit.

For certain multi-seller conduits, JPMorgan Chase also provides limited credit enhancement, primarily through the issuance of letters of credit. Under the letters of credit, the Firm could be required to fund the difference between the commercial paper outstanding and amounts drawn under the liquidity commitment, if any. As of December 31, 2002, commitments under these letters of credit totaled $3.4 billion.

The Firm has limited credit exposure to multi-seller conduit transactions. This is because, for the most part, the Firm is not required to fund under the liquidity facilities if the assets in the SPE are in default. Additionally, the Firm's obligations under the letters of credit are secondary to the risk of first loss provided by the client or other third parties – for example, by the overcollateralization of the SPE with the assets sold to it.

Client intermediation

As a financial intermediary, the Firm is involved in structuring SPE transactions to meet investor and client needs. The Firm intermediates various types of risks (including, for example, fixed income, equity and credit) typically using derivative instruments. In certain circumstances, the Firm also provides liquidity and other support to the SPEs to facilitate the transaction. Each of the Firm's relationships with the SPEs is reflected on the Firm's Consolidated balance sheet or in the Notes to the financial statements. The risks inherent in derivative instruments or liquidity commitments are managed similar to other credit, market and liquidity risks to which the Firm is exposed.

In its capacity as a financial intermediary, the Firm 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 and funded by issuing commercial paper. Investors provide collateral and have a first risk of loss up to the amount of collateral pledged. The Firm retains a second risk of loss position for these vehicles. The documentation includes provisions intended, subject to certain conditions, to enable JPMorgan Chase to terminate the transactions related to a particular loan vehicle if the value of the relevant portfolio declines below a specified level. The amount of the commercial paper issued by these vehicles, as of December 31, 2002, totaled $7.2 billion. JPMorgan Chase Bank has a commitment to provide liquidity to these SPEs in an amount up to $12.0 billion.

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. For example, the Firm structures credit-linked notes in which the SPE purchases highly-rated assets (such as asset-backed securities) and enters into a credit derivative contract with the Firm to obtain exposure to a referenced credit not held by the SPE. Credit-linked notes are issued by the SPE to transfer the risk of the referenced credit to the investors in the SPE. As of December 31, 2002, the aggregate assets held by the credit-linked note vehicles were $7.9 billion. Additionally, JPMorgan Chase structures, on behalf of clients, vehicles in which the Firm transfers the risks and returns of the assets held by the SPE, typically debt and equity instruments, to clients through derivative contracts. The Firm's net exposure arising from these intermediation transactions is not significant. The aggregate assets held by these client intermediation vehicles were $7.4 billion at December 31, 2002. The Firm's current exposure to all of these vehicles is reflected in its Consolidated financial statements as the fair value of the derivative contracts are recorded in Trading assets or Trading liabilities and changes in fair value are recognized in Trading revenue.

Finally, the Firm may enter into transactions with SPEs structured by other parties. These transactions can include, for example, acting as derivative counterparty, liquidity provider, investor, underwriter, trustee or custodian. These transactions are conducted at arms' length and individual credit decisions are based upon the analysis of the specific SPE, taking into consideration the quality of the underlying assets. Typically, the Firm would not be the sole liquidity provider to a third-party SPE. JPMorgan Chase records and reports these positions similar to any other third-party transaction. For example, derivative contracts are recorded at fair value and reported in Note 3, whereas liquidity facilities are included within the Firm's lending-related commitments described in more detail in Note 29. Fees received when the Firm operates in an administrative capacity, such as underwriter, trustee or custodian, are recorded in Fees and commissions.

Variable interest entities

In January 2003, the FASB issued FIN 46. Entities that would be assessed for consolidation under FIN 46 are typically SPEs, although other non-SPE-type entities may also be subject to the guidance. FIN 46 requires a variable interest entity to be consolidated by a company if that company will absorb a majority of the expected losses, will receive a majority of the expected residual returns, or both. Transferors to a QSPE, which represent a majority of the Firm's loan securitization transactions discussed above, and certain other interests in a QSPE, are not subject to the requirements of FIN 46. The Firm is required to apply FIN 46 for variable interest entities created or modified after January 31, 2003, in which the Firm has an interest. For variable interest entities created prior to February 1, 2003, the provisions of FIN 46 are effective July 1, 2003.

Variable interest entities with which the Firm is involved that do not meet the QSPE criteria primarily include the multi-seller conduits and the client intermediation vehicles described above. The Firm is also involved with other entities that could be deemed variable interest entities and, therefore, could be subject to FIN 46. These entities would include certain majority-owned subsidiaries reported in the Firm's consolidated financial statements.

The Firm is assessing the impact of FIN 46 on all variable interest entities with which it is involved. The multi-seller conduits, which have $17.5 billion of commercial paper outstanding as of December 31, 2002, would, in their current form, be required to be consolidated on the Firm's balance sheet when FIN 46 is implemented. The Firm is analyzing restructuring options for the multi-seller conduits. Based upon its current interpretation of FIN 46, the Firm does not believe that it would be required to consolidate the vehicles related to the credit-linked notes or the client intermediation transactions (with assets of $7.9 billion and $7.4 billion, respectively, as of December 31, 2002). Management is continuing to assess the possible consolidation of other entities that could be deemed variable interest entities, including the structured commercial loan vehicles. At this time, management does not believe that the implementation of FIN 46 will have a material impact on the Firm's Consolidated balance sheet, earnings or capital resources.

Note 12 Mortgage servicing rights

JPMorgan Chase recognizes as intangible assets Mortgage servicing rights ("MSRs"),which represent the right to perform specified residential mortgage servicing activities for others. Servicing activities include collecting principal, interest, and escrow payments from borrowers; making tax and insurance payments on behalf of the borrowers; monitoring delinquencies and executing foreclosure proceedings; and accounting for and remitting principal and interest payments to the investors of the mortgage-backed securities. MSRs are either purchased from third parties or retained upon sale or securitization of mortgage loans.

The amount capitalized as MSRs represents the current fair value of future net cash flows expected to be realized for performing the servicing activities. MSR fair values are estimated using a discounted future cash flow model that considers portfolio characteristics, contractually specified servicing fees and management's assumptions regarding prepayment speeds, delinquency rates, late charges, other ancillary revenues, the cost to service the mortgage loans, as well as other economic factors. Management uses its best judgment to estimate fair value. Since many economic factors can affect the estimate of the fair value of MSRs, the Firm periodically assesses the assumptions and modeling techniques used to estimate the fair value of its MSRs.

MSRs are amortized as a reduction of the actual servicing income received in proportion to, and over the period of, the estimated future net servicing income stream of the underlying mortgage loans. 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.

The carrying value of MSRs is sensitive to changes in interest rates, including their effect on prepayment speeds. The Firm offsets this interest rate risk by designating certain interest rate derivatives (e.g., a combination of swaps, swaptions and floors that produces an interest rate profile opposite to the MSRs) as fair value hedges of specified MSRs under SFAS 133. SFAS 133 hedge accounting allows the carrying value of the hedged MSRs to be adjusted through earnings in the same period that the change in value of the hedging derivatives is recognized through earnings. Both of these valuation adjustments are recorded in the mortgage servicing fees component within Fees and commissions. For a further discussion on derivative instruments and hedging activities, see Note 28 on pages 101 and 102.

AFS securities and certain "nonhedge" derivatives are also used to manage the risk exposure of MSRs. These instruments are accounted for as stand-alone instruments because AFS securities do not qualify as hedges under SFAS 133, and the derivatives have not been designated by management as hedging derivatives. Accordingly, the securities are accounted for as AFS securities under SFAS 115 and the "nonhedge" derivatives are accounted for as trading derivatives. Realized gains and losses on the AFS securities are recognized in earnings in Securities gains (losses); gains and losses on the "nonhedge" derivatives are recognized in earnings in Trading revenue. Unrealized gains and losses on AFS securities are reported in Other comprehensive income. For a further discussion of the risk management activities regarding MSRs, see the Chase Financial Services segment discussion on pages 35 and 36.

The following table summarizes mortgage servicing rights activity and related amortization for the dates indicated. It also includes the key assumptions and the sensitivity of the fair value of MSRs at December 31, 2002 to immediate 10% and 20% adverse changes in each of those assumptions:

Year ended December 31, (in millions)	2002	2001	2000
Balance at beginning of year	**$ 7,749**	$ 6,461	$ 5,187
Additions	**2,071**	3,394	2,194
Sales	**—**	(103)	(290)
SFAS 133 hedge valuation adjustments	**(3,589)**	(880)	—
Pre-SFAS 133 hedging activities	**—**	—	78
Amortization	**(1,367)**	(1,123)	(708)
Balance at end of year	**4,864**	7,749	6,461
Less: Valuation allowance	**(1,634)**	(1,170)	(99)
Balance at end of year, after valuation allowance	**$ 3,230**	$ 6,579	$ 6,362
Estimated fair value at year-end	**$ 3,230**	$ 6,579	$ 6,411

	2002
Weighted-average prepayment speed assumption (CPR)	**28.5%**
Impact on fair value with 10% adverse change	**$ (256)**
Impact on fair value with 20% adverse change	**$ (479)**
Weighted-average discount rate	**7.7%**
Impact on fair value with 10% adverse change	**$ (55)**
Impact on fair value with 20% adverse change	**$ (108)**

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.

The valuation allowance represents the extent to which the carrying value of MSRs exceeds its estimated fair value. Changes in the valuation allowance are the result of the recognition of impairment or the recovery of previously recognized impairment charges due to changes in market conditions during the period. The changes in the valuation allowance for MSRs for the dates indicated were as follows:

Year ended December 31, (in millions)	2002	2001	2000
Balance at beginning of year	**$ 1,170**	$ 99	$ —
Impairment adjustment	**464**	1,071	99
Balance at end of year	**$ 1,634**	$ 1,170	$ 99

Note 13 Private equity investments

Private equity investments are primarily held by JPMorgan Partners ("JPMP"), the Firm's global private equity investment business segment. These investments include public and private investments that are made in the normal course of JPMP's business. Private equity investments are accounted for under investment company guidelines. Accordingly, these investments, irrespective of the percentage of equity ownership interest held by JPMP, are carried on the Consolidated balance sheet at fair value.

The fair value of public investments held by JPMP are marked-to-market at the quoted public value. To determine the carrying values of these investments, JPMP incorporates the use of liquidity discounts to take into account the fact that it cannot immediately realize or hedge the quoted public values as a result of regulatory, corporate and/or contractual sales restrictions imposed on these holdings. Private investments are initially valued based on cost. The carrying values of private investments are adjusted from cost to reflect both positive and negative changes evidenced by financing events with third-party capital providers. In addition, these investments are subject to ongoing impairment reviews by JPMP's senior investment professionals. A variety of factors are reviewed and monitored to assess impairment including, but not limited to, operating performance and future expectations, comparable industry valuations of public companies, changes in market outlook and changes in the third-party financing environment.

Realized and unrealized gains and losses arising from changes in value are reported in Private equity realized gains (losses) and Private equity unrealized gains (losses), respectively, in the Consolidated statement of income in the period that the gain or loss occurs.

The following table presents the carrying value and cost of the private equity investment portfolio for the dates indicated:

	2002		2001	
December 31, (in millions)	Carrying value	Cost	Carrying value	Cost
Total investment portfolio	**$ 8,228**	**$ 10,312**	$ 9,197	$ 10,528

The following table presents private equity investment realized and unrealized gains and losses for the periods indicated:

Year ended December 31, (in millions)	2002	2001	2000
Realized gains (losses)	**$ (105)**	$ 651	$ 2,051
Unrealized gains (losses)	**(641)**	(1,884)	(1,036)
Private equity gains (losses)[a]	**$ (746)**	$ (1,233)	$ 1,015

(a) Includes the impact of portfolio hedging activities.

Note 14 Goodwill and other intangibles

Effective January 1, 2002, the Firm adopted SFAS 142, reclassifying certain intangible assets from Goodwill to Other intangible assets. There was no impairment of goodwill upon adoption of SFAS 142.

Goodwill is not amortized, but instead tested for impairment at the reporting unit segment (which is one level below the five major business segments as described in Note 33 on page 108). Goodwill is tested annually (during the fourth quarter) or more often if events or circumstances, such as adverse changes in the business climate, indicate that there may be impairment. Other acquired intangible assets determined to have finite lives, such as core deposits and credit card relationships, are amortized over their estimated useful lives in a manner that best reflects the economic benefits of the intangible asset. In addition, impairment testing is performed periodically on these amortizing intangible assets. For a discussion of capitalized MSRs, see Note 12 on page 87.

The following table presents the impact of SFAS 142 on net income and earnings per share had the accounting standard been in effect for 2001 and 2000:

(in millions, except earnings per share)	2002	Pro Forma 2001	Pro Forma 2000
Net Income			
Income before effect of accounting change	**$1,663**	$ 1,719	$ 5,727
Net effect of change in accounting principle	—	(25)	—
Net income	**1,663**	1,694	5,727
Goodwill amortization, net of taxes	—	393	249
Adjusted net income	**$1,663**	$ 2,087	$ 5,976
Basic Earnings per Share			
Reported basic earnings per share[(a)]	**$ 0.81**	$ 0.83	$ 2.99
Goodwill amortization	—	0.19	0.13
Adjusted basic earnings per share	**$ 0.81**	$ 1.02	$ 3.12
Diluted Earnings per Share			
Reported diluted earnings per share[(a)]	**$ 0.80**	$ 0.80	$ 2.86
Goodwill amortization	—	0.19	0.13
Adjusted diluted earnings per share	**$ 0.80**	$ 0.99	$ 2.99

(a) Based on Net income.

Goodwill

After giving effect to the adoption of SFAS 142, goodwill increased during 2002 by $63 million, principally in connection with acquisitions of businesses by Treasury & Securities Services. Goodwill was also reduced during the year by purchase accounting adjustments. Goodwill was not impaired at December 31, 2002, nor was any goodwill written off during 2002. As of December 31, 2002, the Firm had goodwill of $8,096 million. Goodwill by business segment is as follows: Investment Bank, $2,051 million; Investment Management & Private Banking, $4,165 million; Treasury & Securities Services, $996 million; JPMorgan Partners, $377 million and Chase Financial Services, $507 million.

Other intangible assets

For the year ended December 31, 2002, purchased credit card relationship intangibles increased by approximately $1,030 million, primarily due to the acquisition of Providian intangibles, which have an estimated life of seven years. In addition, other intangibles, primarily customer relationships other than credit card, increased by $72 million. All of the Firm's acquired intangible assets are subject to amortization. For the year ended December 31, 2002, intangible assets amortization expense was $323 million. This amount included a $12 million impairment write-down on purchased credit card relationships related to a small credit card portfolio that had been acquired previously.

The components of other intangible assets were as follows:

	December 31, 2002			2002 Full Year
(in millions)	Gross amount	Accumulated amortization	Net carrying value	Amortization expense
Purchased credit card relationships	**$1,884**	**$ 615**	**$ 1,269**	$ 280
All other intangibles	**672**	**365**	**307**	43

Amortization expense for the net carrying amount of intangible assets is estimated to be $302 million in 2003, $285 million in 2004, $270 million in 2005, $255 million in 2006 and $219 million in 2007.

The Other intangible assets above do not include mortgage servicing rights; amortization of mortgage servicing rights is recorded as a reduction of mortgage servicing revenues within Fees and commissions. See Note 12 for a discussion of Mortgage servicing rights.

Note 15 Premises and equipment

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.

Note 16 Long-term debt

JPMorgan Chase issues long-term debt denominated in various currencies, although predominately U.S. dollars, with both fixed and variable interest rates. The following table is a summary of long-term debt (net of unamortized original issue debt discount and SFAS 133 valuation adjustments):

By remaining contractual maturity at December 31, (in millions)		Under 1 year	1-5 years	After 5 years	2002 total	2001 total
Parent company						
Senior debt:	Fixed rate	$ 353	$ 9,938	$ 1,225	$ 11,516	$ 6,679
	Variable rate	4,736	3,540	381	8,657	11,777
	Interest rates[a]	1.47% – 5.50%	1.22% – 7.50%	0.96% – 6.63%	0.96% – 7.50%	0.20% – 8.00%
Subordinated debt:	Fixed rate	$ 617	$ 3,604	$ 9,618	$ 13,839	$ 12,451
	Variable rate	441	312	330	1,083	2,325
	Interest rates[a]	4.35% – 8.50%	4.78% – 7.88%	5.75% – 8.25%	4.35% – 8.50%	2.56% – 8.63%
	Subtotal	$ 6,147	$17,394	$ 11,554	$ 35,095	$ 33,232
Subsidiaries						
Senior debt:	Fixed rate	$ 496	$ 1,344	$ 1,008	$ 2,848	$ 2,407
	Variable rate	132	149	444	725	1,930
	Interest rates[a]	1.55% – 10.23%	3.63% – 10.95%	3.55% – 27.39%	1.55% – 27.39%	1.06% – 26.97%
Subordinated debt:	Fixed rate	$ —	$ 426	$ 379	$ 805	$ 1,149
	Variable rate	278	—	—	278	465
	Interest rates[a]	4.20% – 4.55%	6.63% – 7.00%	6.13% – 6.70%	4.20% – 7.00%	4.12% – 7.38%
	Subtotal	$ 906	$ 1,919	$ 1,831	$ 4,656	$ 5,951
Total long-term debt		$ 7,053	$19,313	$ 13,385	$39,751[b][c][d]	$ 39,183

(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. Including the effects of derivatives, the range of modified rates in effect at December 31, 2002, for total long-term debt was 0.15% to 10.95%, versus the contractual range of 0.96% to 27.39% presented in the table above.
(b) At December 31, 2002, long-term debt aggregating $2.5 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 2002 is $7.1 billion in 2003, $6.3 billion in 2004, $3.8 billion in 2005, $2.8 billion in 2006 and $6.4 billion in 2007.
(d) Includes $1.1 billion of outstanding zero-coupon notes at December 31, 2002. The aggregate principal amount of these notes at their respective maturities is $4.1 billion.

The weighted-average contractual interest rate for total long-term debt was 5.51% and 5.12% as of December 31, 2002 and 2001, respectively. In order to modify exposure to interest rate and currency exchange rate movements, JPMorgan Chase utilizes derivative instruments, primarily interest rate and cross-currency interest rate 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 3.42% and 4.64% as of December 31, 2002 and 2001, respectively.

JPMorgan Chase has guaranteed certain debt of its subsidiaries, including both long-term debt and structured notes sold as part of the Firm's trading activities. These guarantees rank on a parity with all other unsecured and unsubordinated indebtedness of JPMorgan Chase. Guaranteed liabilities totaled $1.5 billion and $805 million at December 31, 2002 and 2001, respectively.

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

At December 31, 2002, 12 wholly owned Delaware statutory business trusts established by JPMorgan Chase had issued an aggregate $5.4 billion 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, 2002:

($ in millions)

Name of trust	Amount of capital securities, net of discount issued by trust(a)	Principal amount of debenture, held by trust(b)	Issue date	Stated maturity of capital securities and debentures	Earliest redemption date	Interest rate of capital securities and debentures	Interest payment/distribution dates
Chase Capital I	$ 600	$ 619	1996	2026	2006	7.67%	Semiannually - Commencing 1997
Chase Capital II	495	516	1997	2027	2017	LIBOR + 0.50%	Quarterly - Commencing 1997
Chase Capital III	296	309	1997	2027	2012	LIBOR + 0.55%	Quarterly - Commencing 1997
Chase Capital IV	350	361	1997	2027	Anytime	7.34%	Quarterly - Commencing 1998
Chase Capital V	200	206	1998	2028	2003	7.03%	Quarterly - Commencing 1998
Chase Capital VI	248	258	1998	2028	2003	LIBOR + 0.625%	Quarterly - Commencing 1998
Chase Capital VII	350	361	1999	2029	2004	7.00%	Quarterly - Commencing 1999
Chase Capital VIII	250	258	2000	2030	2005	8.25%	Quarterly - Commencing 2000
JPM Capital Trust I	750	773	1996	2027	2007	7.54%	Semiannually - Commencing 1997
JPM Capital Trust II	400	412	1997	2027	2007	7.95%	Semiannually - Commencing 1997
JPMorgan Chase Capital IX	500	515	2001	2031	2006	7.50%	Quarterly - Commencing 2001
JPMorgan Chase Capital X	1,000	1,031	2002	2032	2007	7.00%	Quarterly - Commencing 2002
Total	$ 5,439	$ 5,619					

(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.

Note 17 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), or $550 million. The Series A preferred shares qualified as Tier 1 capital of the parent holding company. On February 28, 2002, Chase Preferred Capital redeemed all 22 million outstanding shares at a redemption price per share of $25 plus accrued and unpaid dividends.

Note 18 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 preferred stock at both December 31, 2002 and 2001 was 17.8 million shares. The Firm did not redeem or repurchase any preferred stock during 2002. 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 119,567 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, (in millions) **2002**	2001	Earliest redemption date	Rate in effect at December 31, 2002
Adjustable rate, Series A cumulative	$ 100.00	2.42	**$ 242**	$ 242	See Note(b)	5.00%(c)
Adjustable rate, Series L cumulative	100.00	2.00	**200**	200	See Note(b)	4.50(c)
Adjustable rate, Series N cumulative	25.00	9.10	**228**	228	See Note(b)	4.50(c)
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**	139	3/31/2006	6.63
Total preferred stock			**$ 1,009**	$ 1,009		

(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.

Note 19 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 at each of the dates indicated were as follows:

December 31, (in millions)	2002	2001	2000
Issued	**2,023.6**	1,996.9	1,940.1[a]
Held in treasury	**(24.9)**	(23.5)	(11.6)[a]
Outstanding	**1,998.7**	1,973.4	1,928.5

(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.

The Firm did not repurchase shares of its common stock during 2002. During 2001, the Firm repurchased 21.9 million shares of common stock under a plan which began on July 19, 2001.

During 2002, approximately 25.3 million shares were issued under various employee stock option and other stock-based plans. 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 acquisitions accounted by the purchase method.

JPMorgan Chase shareholders approved a three-for-two stock split at their annual meeting on May 16, 2000. 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, 2002, approximately 424 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 2002, 2001 and 2000 were as follows:

Year ended December 31, (in millions)	2002	2001	2000
Employee benefit and compensation plans[a]	**24.1**	64.4	79.4
Dividend reinvestment and stock purchase plans	**1.2**	0.6	2.4
Purchase accounting acquisitions and other	**—**	1.8	69.0
Total shares newly issued or distributed from treasury[b]	**25.3**	66.8	150.8

(a) See Note 24 for a discussion of JPMorgan Chase's employee stock option plans.
(b) Shares distributed from treasury were 2.5 million in 2002, 15.8 million in 2001 and 153.2 million in 2000. Shares forfeited to treasury were 3.9 million in 2002, 5.8 million in 2001 and 2.4 million in 2000.

Note 20 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)	2002	2001	2000
Basic earnings per share			
Net income	**$ 1,663**	$ 1,694	$ 5,727
Less: Preferred stock dividends	**51**	66	96
Net income applicable to common stock	**$ 1,612**	$ 1,628	$ 5,631
Weighted-average basic shares outstanding	**1,984.3**	1,972.4	1,884.1
Net income per share	**$ 0.81**	$ 0.83	$ 2.99
Diluted earnings per share			
Net income applicable to common stock	**$ 1,612**	$ 1,628	$ 5,631
Weighted-average basic shares outstanding	**1,984.3**	1,972.4	1,884.1
Add: Broad-based options	**2.8**	6.6	10.1
Key employee options	**22.0**	44.6	74.8
Weighted-average diluted shares outstanding	**2,009.1**	2,023.6	1,969.0
Net income per share(a)	**$ 0.80**	$ 0.80	$ 2.86

(a) Options issued under employee benefit plans to purchase 362 million, 190 million and 36 million shares of common stock were outstanding for the years ended 2002, 2001 and 2000, respectively, but were not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of the common shares.

Note 21 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 ("OCI") 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, 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)	$ (305)	(201)
Balance December 31, 2001	(135)	(2)	(305)	(442)
Net change	**866**	**(4)**[(b)]	**807**[(d)]	**1,669**
Balance December 31, 2002	**$ 731**	**$ (6)**[(c)]	**$ 502**	**$ 1,227**

(a) Primarily represents the after-tax difference between the fair value and amortized cost of the AFS securities portfolio. The net change for 2000 includes unrealized gains and losses on related hedges.
(b) Includes $195 million of after-tax gains on foreign currency translation from operations for which the functional currency is other than the U.S. dollar, which was offset by $199 million of after-tax losses 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 $144 million of after-tax losses recognized in income and $663 million of after-tax gains representing the net change in derivative fair values 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 include 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)	**2002**	2001	2000
Net unrealized holdings gains (losses) arising during the period, net of taxes[(a)]	**$ 1,090**	$ 443	$ 1,212
Reclassification adjustment for (gains) losses included in net income, net of taxes[(b)]	**(224)**	(334)	(29)
Net change	**$ 866**	$ 109	$ 1,183

(a) Net of tax expense of $758 million for 2002, $308 million for 2001 and $808 million for 2000.
(b) Net of tax expense of $156 million for 2002, $232 million for 2001 and $20 million in 2000.

Note 22 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 and 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 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)	**2002**	2001
Deferred tax assets		
Allowance for loan losses	**$ 1,675**	$ 1,502
Employee benefits	**1,621**	2,748
Allowance for other than loan losses	**1,251**	768
Non-U.S. operations	**652**	632
Fair value adjustments	**—**	384
Foreign tax credit carryforward	**25**[(a)]	100
Gross deferred tax assets	**$ 5,224**	$ 6,134
Deferred tax liabilities		
Leasing transactions	**$ 3,175**	$ 2,700
Fair value adjustments	**1,107**	—
Depreciation and amortization	**857**	773
Other	**379**	255
Gross deferred tax liabilities	**$ 5,518**	$ 3,728
Valuation allowance	**$ 165**	$ 165
Net deferred tax asset (liability)	**$ (459)**	$ 2,241

(a) Includes $20 million, $2 million, and $3 million expiring in 2005, 2006 and 2007, respectively.

A valuation allowance has been recorded in accordance with SFAS 109, primarily relating to tax benefits associated with non-U.S. operations and with U.S. 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)	2002	2001	2000
Current income tax expense (benefit)			
U.S. federal	**$ (1,334)**	$ 598	$ 1,976
Non-U.S.	**461**	822	1,224
U.S. state and local	**93**	65	356
Total current expense (benefit)	**(780)**	1,485	3,556
Deferred income tax expense (benefit)			
U.S. federal	**1,630**	(618)	(695)
Non-U.S.	**(352)**	(73)	187
U.S. state and local	**358**(a)	53	(42)
Total deferred expense (benefit)	**1,636**	(638)	(550)
Total income tax expense	**$ 856**	$ 847	$ 3,006

(a) The increase in 2002 is principally attributable to the level of income in certain state and local tax jurisdictions in 2002.

The preceding table does not reflect the tax effects of unrealized gains and losses on AFS securities, SFAS 133 hedge 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 decreased by $1.1 billion and $281 million in 2002 and 2000, respectively, and increased by $541 million in 2001 as a result of these tax effects.

U.S. federal income taxes have not been provided on the undistributed earnings of certain non-U.S. subsidiaries to the extent such earnings have been reinvested abroad for an indefinite period of time. For 2002, such earnings approximated $274 million on a pre-tax basis. At December 31, 2002, the cumulative amount of undistributed earnings in these subsidiaries approximated $1.9 billion. It is not practicable at this time to determine the income tax liability that would result upon repatriation of these earnings.

The tax expense applicable to securities gains and losses for the years 2002, 2001 and 2000 was $531 million, $286 million and $78 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,	2002	2001	2000
Statutory U.S. federal tax rate	**35.0%**	35.0%	35.0%
Increase (decrease) in tax rate resulting from:			
U.S. state and local income taxes, net of federal income tax benefit	**11.6**(a)	3.0	2.3
Tax-exempt income	**(6.8)**	(5.8)	(2.1)
Non-U.S. subsidiary earnings	**(3.2)**	(3.1)	(1.1)
General business credits	**(3.5)**	(1.8)	(0.4)
Other, net	**0.9**	5.7	0.7
Effective tax rate	**34.0%**	33.0%	34.4%

(a) The increase in 2002 is principally attributable to the level of income in certain state and local tax jurisdictions in 2002.

The following table presents the U.S. and non-U.S. components of income before income tax expense:

Year ended December 31, (in millions)	2002	2001	2000
U.S.	**$ 1,834**	$ 1,258	$ 5,844
Non-U.S.(a)	**685**	1,308	2,889
Income before income tax expense	**$ 2,519**	$ 2,566	$ 8,733

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

Note 23 Postretirement employee benefit plans

Defined Benefit Pension Plans and Postretirement Medical and Life Insurance

JPMorgan Chase has a qualified noncontributory U.S. pension plan that provides defined benefits to substantially all U.S. employees. The U.S. plan employs a cash balance defined benefit formula in the form of service and interest credits in determining the benefits to be provided at retirement based on eligible compensation and years of service. Employees begin to accrue plan benefits after completing one year of service and benefits vest after five years of service.

The prior plans of Chase and J.P. Morgan were merged as of December 31, 2001. 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 years of service through December 31, 2003. The Firm also offers defined benefits to qualifying employees in certain non-U.S. locations based on eligible compensation and years of service. The Firm's defined benefit pension plans are accounted for in accordance with SFAS 87 and SFAS 88.

It is JPMorgan Chase's policy to fund its pension plans in amounts sufficient to meet the requirements under applicable employee benefit and local tax laws. In 2002, the Firm made cash contributions totaling $1.2 billion to fund fully the accumulated benefit obligations of the U.S. and certain non-U.S. defined benefit pension plans at December 31, 2002. On February 10, 2003, the Firm made an additional cash contribution of $127 million to fund fully the U.S. defined benefit pension plan to its projected benefit obligation at December 31, 2002. These contributions were made following the decline in value of plan assets resulting from adverse capital market conditions. The Firm's U.S. pension assets are held in a trust and are invested in equity, fixed income, cash equivalent and other securities. U.S. pension assets do not include JPMorgan Chase common stock except in connection with investments in third-party stock-index funds.

The Firm offers postretirement medical and life insurance benefits to qualifying U.S. 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. Postretirement medical benefits are also offered to qualifying U.K. employees. The Firm's postretirement benefit plans are accounted for in accordance with SFAS 106.

The following tables present the funded status and amounts reported on the Consolidated balance sheet and the components of net periodic benefit costs reported in the Consolidated statement of income for the Firm's U.S. and non-U.S. defined benefit pension and postretirement benefit plans:

	Defined benefit pension plans				Postretirement benefit plans[(a)]	
	U.S.		Non-U.S.			
As of December 31, (in millions)	**2002**	2001	**2002**	2001	**2002**	2001
Change in benefit obligation						
Benefit obligation at beginning of year	**$ (4,007)**	$ (3,898)	**$ (1,100)**	$ (1,135)	**$ (1,056)**	$ (941)
Benefits earned during the year	**(174)**	(202)	**(16)**	(46)	**(12)**	(16)
Interest cost on benefit obligations	**(275)**	(285)	**(62)**	(65)	**(69)**	(71)
Plan amendments	**—**	21	**—**	(4)	**10**	3
Employee contributions	**—**	—	**(1)**	(1)	**(14)**	(13)
Actuarial gain (loss)	**(226)**	5	**(92)**	43	**(50)**	(102)
Benefits paid	**377**	352	**47**	64	**99**	85
Curtailment gain	**64**	—	**22**	—	**27**	—
Settlement gain	**—**	—	**6**	—	**—**	—
Special termination benefits	**—**	—	**(3)**	—	**(57)**	—
Foreign exchange impact and other	**—**	—	**(130)**	44	**(4)**	(1)
Benefit obligation at end of year	**$ (4,241)**	$ (4,007)	**$ (1,329)**	$ (1,100)	**$ (1,126)**	$ (1,056)
Change in plan assets						
Fair value of plan assets at beginning of year	**$ 4,048**	$ 4,314	**$ 1,058**	$ 1,055	**$ 1,089**	$ 358
Actual return on plan assets	**(406)**	(240)	**(150)**	(83)	**(74)**	(15)
Firm contributions	**849**	326	**304**	188	**16**	757
Settlement payments	**—**	—	**(6)**	—	**—**	—
Benefits paid	**(377)**	(352)	**(47)**	(64)	**(11)**	(14)
Foreign exchange impact and other	**—**	—	**122**	(38)	**—**	3
Fair value of plan assets at end of year	**$ 4,114**[(b)]	$ 4,048[(b)]	**$ 1,281**	$ 1,058	**$ 1,020**	$ 1,089
Reconciliation of prepaid (accrued) benefit cost and total amounts recognized						
Funded status	**$ (127)**[(c)]	$ 41	**$ (48)**	$ (42)	**$ (106)**	$ 33
Unrecognized amounts:						
Net transition asset	**—**	—	**(1)**	(1)	**—**	—
Prior service cost	**56**	78	**4**	4	**10**	27
Net actuarial (gain) loss	**1,224**	298	**477**	151	**86**	(132)
Prepaid (accrued) benefit cost reported in Other assets and Accrued expenses, respectively	**$ 1,153**	$ 417	**$ 432**[(d)]	$ 112[(d)]	**$ (10)**	$ (72)

(a) Includes postretirement benefit obligation of $38 million and $37 million and postretirement benefit liability (included in Accrued expenses) of $49 million and $44 million at December 31, 2002 and 2001, respectively, for the U.K. plans, which are unfunded.
(b) At December 31, 2002 and 2001, approximately $295 million and $307 million, respectively, of U.S. plan assets relate to surplus assets of group annuity contracts.
(c) On February 10, 2003, the Firm made an additional cash contribution of $127 million to fund fully the projected benefit obligation as of December 31, 2002.
(d) At December 31, 2002 and 2001, the liability (included in Accrued expenses) related to non-U.S. defined benefit pension plans that JPMorgan Chase elected not to prefund fully totaled $81 million and $73 million, respectively.

	Defined benefit pension plans						Postretirement benefit plans[(a)]		
	U.S.			Non-U.S.					
For the year ended December 31, (in millions)	**2002**	2001	2000	**2002**	2001	2000	**2002**	2001	2000
Components of net periodic benefit costs									
Benefits earned during the year	**$ 174**	$ 202	$ 191	**$ 16**	$ 46	$ 32	**$ 12**	$ 16	$ 14
Interest cost on benefit obligations	**275**	285	275	**62**	65	38	**69**	71	66
Expected return on plan assets	**(358)**	(379)	(385)	**(76)**	(78)	(46)	**(98)**	(48)	(27)
Amortization of unrecognized amounts:									
Prior service cost	**7**	10	9	**—**	—	—	**2**	—	(3)
Net actuarial (gain) loss	**—**	(5)	(14)	**6**	(1)	(1)	**(10)**	(12)	(18)
Curtailment (gain) loss[(b)]	**15**	—	—	**(3)**	—	—	**(8)**	—	—
Settlement gain	**—**	—	—	**(2)**	—	—	**—**	—	—
Special termination benefits[(b)]	**—**	—	—	**3**	—	—	**57**	—	—
Net periodic benefit costs reported in Compensation expense	**$ 113**	$ 113	$ 76	**$ 6**[(c)]	$ 32	$ 23	**$ 24**	$ 27	$ 32

(a) Includes net periodic postretirement benefit costs of $2 million in 2002, $2 million in 2001, and $0.6 million in 2000 for the U.K. plans.
(b) Reflects expense recognized in 2002 due to management-initiated and outsourcing-related employee terminations.
(c) Decrease in net periodic pension benefit costs resulted from conversion of certain non-U.S. defined benefit pension plans to defined contribution plans.

JPMorgan Chase's U.S. postretirement benefit obligation is partially funded with corporate-owned life insurance (COLI) purchased on the lives of eligible employees and retirees. Assets of the COLI policies are held in separate accounts with an insurance company and are invested 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.

The following table presents the weighted-average annualized actuarial assumptions for the Firm's U.S. and non-U.S. defined benefit pension and postretirement benefit plans as of December 31:

	U.S.		Non-U.S.	
	2002	2001	**2002**	2001
Discount rate	**6.50%**	7.25%	**1.50%-5.60%**	2.50%-6.00%
Assumed rate of long-term return on plan assets:				
Pension	**8.00%**	9.25%	**2.70%-6.50%**	3.25%-7.25%
Postretirement benefit	**8.00%**	9.00%	**NA**	NA
Rate of increase in future compensation	**4.50%**	4.50%	**1.25%-3.00%**	2.00%-4.00%

NA–Not applicable

With all other assumptions held constant, a 25-basis point decline in the assumed long-term rate of return on U.S. plan assets would result in an increase of approximately $13 million in 2003 U.S. pension and other postretirement benefit expenses. A 25–basis point decline in the discount rate for the U.S. plans would result in an increase in 2003 U.S. pension and other postretirement benefit expenses of approximately $10 million and an increase in the related benefit obligation of approximately $122 million. These increases would be mostly offset by the effect of a similar reduction in the assumed interest rate used for crediting participant balances.

JPMorgan Chase has a number of other defined benefit pension plans (i.e., U.S. plans not subject to Title IV of the Employee Retirement Income Security Act). The most significant of these plans is the Excess Retirement Plan, where certain employees earn service credits on compensation amounts above the maximum limitation stipulated by law. This plan is a nonqualified noncontributory U.S. pension plan and is unfunded. Compensation expense related to the Firm's other defined benefit pension plans totaled $15 million in 2002, $22 million in 2001 and $22 million in 2000.

At December 31, 2002, JPMorgan Chase's assumed weighted-average medical benefits cost trend rate used to measure the expected cost of benefits covered was 10.0% for 2002, declining gradually over eight 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, 2002 benefit obligation and 2002 periodic expense by up to 4.4%.

Defined Contribution Plans

JPMorgan Chase offers several defined contribution plans in the U.S. and certain non-U.S. locations. The most significant of these plans is the 401(k) Savings Plan covering substantially all U.S. employees. This plan allows employees to make pre-tax contributions to tax-deferred investment portfolios. The Firm matches the employee's contributions dollar for dollar up to a certain percentage of eligible compensation per pay period, subject to plan and legal limits. Employees begin to receive matching contributions after completing one year of service and benefits vest after three years of service. The Firm's defined contribution plans are administered in accordance with applicable local laws and regulations. Compensation expense related to these plans totaled $251 million in 2002, $208 million in 2001 and $213 million in 2000.

Note 24 Employee stock-based incentives

Through December 31, 2002, JPMorgan Chase accounted for its employee stock-based compensation plans under the intrinsic value method in accordance with APB 25. There is no expense recognized for stock options as they were granted at the stock price on the grant date and, therefore, they have no intrinsic value. Compensation expense for restricted stock and restricted stock units ("RSUs") is measured based on the number of shares granted and the stock price at the grant date and recognized over the required service period. Effective January 1, 2003, JPMorgan Chase will adopt SFAS 123 using the prospective transition method. SFAS 123 requires all stock-based compensation awards, including stock options, to be accounted for at fair value. Under the prospective transition method, all new awards granted to employees on or after January 1, 2003 will be accounted for at fair value. Awards outstanding as of December 31, 2002, if not subsequently modified, continue to be accounted for under APB 25. Fair value will be based on a Black-Scholes valuation model with compensation expense recognized in earnings over the required service period. It is estimated that the adoption of SFAS 123, with respect to employee stock-based compensation awards granted in February 2003, will reduce the Firm's net income by approximately $0.08 per share in 2003.

The following table details the total number of shares available for issuance under JPMorgan Chase employee stock-based incentive plans (including shares available for issuance to nonemployee directors). The Firm is not authorized to grant stock-based incentive awards to nonemployees other than to nonemployee directors.

December 31, 2002 (Shares in thousands)	Number of shares to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of shares remaining available for future issuance under equity compensation plans
Employee stock-based incentive plans approved by shareholders	**221,353**	**$ 38.54**	**248,800**(a)
Employee stock-based incentive plans not approved by shareholders	**189,442**	**43.37**	**162,000**
Total	**410,795**	**$ 40.77**	**410,800**

(a) Includes 101 million shares of restricted stock/RSUs available for grant in lieu of cash.

Key employee stock-based awards

JPMorgan Chase grants long-term stock-based incentive awards to certain key employees under two plans (the "LTI Plans"): the Long-Term Incentive Plan, approved by shareholders in May 2000, provides for grants of stock options, stock appreciation rights ("SARs"), restricted stock and RSU awards, and the Stock Option Plan, a nonshareholder-approved plan, provides for grants of stock options and SARs. SARs have not been granted under either of these plans.

Under the LTI Plans, stock options are granted with an exercise price 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. Because the corporate and business unit performance goals for this award were not achieved, these options will become exercisable in January 2007, and expire ten years after the grant date. Forfeitures of GPIP options aggregated 14.9 million shares through December 31, 2002.

The following table, which includes the GPIP awards, presents a summary of JPMorgan Chase's option activity under the LTI Plans during the last three years:

Year ended December 31,	**2002**		2001		2000	
(Options in thousands)	**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	**272,304**	**$ 41.23**	175,232	$ 31.52	183,456	$ 27.99
Granted	**53,230**	**36.41**	136,863	51.07	22,488	48.24
Exercised	**(9,285)**	**16.85**	(28,954)	25.69	(25,106)	20.25
Canceled	**(17,518)**	**45.59**	(10,837)	49.94	(5,606)	34.29
Options outstanding, December 31	**298,731**	**$ 40.84**	272,304	$ 41.23	175,232	$ 31.52
Options exercisable, December 31	**144,421**	**$ 34.91**	123,045	$ 30.34	130,479	$ 27.46

The following table, which includes the GPIP awards, details the distribution of options outstanding under the LTI Plans at December 31, 2002:

	Options outstanding			Options exercisable	
(Options in thousands) 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	27,563	$ 16.04	1.7	27,453	$ 16.04
$20.01 – $35.00	32,921	27.77	4.0	30,420	27.64
$35.01 – $50.00	123,956	40.22	7.0	66,583	41.08
$50.01 – $65.58	114,291	51.27	7.7	19,965	51.35
Total	298,731	$ 40.84	6.4	144,421	$ 34.91

Restricted stock and RSUs are granted by JPMorgan Chase under the LTI Plans at no cost to the recipient. Restricted stock/RSUs 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 2002, 24.0 million restricted stock/RSU awards (all payable solely in stock) were granted by JPMorgan Chase under the LTI Plans. In 2001 and 2000, 25.9 million and 36.1 million awards, respectively, were granted under these plans. The 2001 and 2000 grants each included 1.3 million restricted stock/RSU awards that are forfeitable. The vesting of these awards is conditioned upon certain vesting periods being met and JPMorgan Chase's common stock price reaching and sustaining target prices within a five-year performance period. The expense related to the forfeitable awards is recognized over the designated performance period and measured based on the number of shares granted and the target stock price. If the target stock price is achieved, then any unrecognized amount is recognized as compensation expense either immediately or over the remaining minimum required service period if the target stock price is achieved prior to completion of such period. The 2001, 2000 and 1999 forfeitable awards have not vested as the target stock prices have not been achieved. See comparison of the fair and intrinsic value measurement methods on the following page for a discussion of the reversal of compensation expense related to these forfeitable awards.

A portion of certain employees' incentive compensation that exceeds specified levels is awarded in restricted stock or RSU awards (the "required deferral plan") issued under the LTI Plans. These restricted stock/RSU awards vest solely based on continued employment. During 2001 and 2000, 137,500 and 160,000, respectively, of such awards were granted. The required deferral plan was discontinued in 2002.

Broad-based employee stock options

In January 2002, JPMorgan Chase granted 32.6 million options to all eligible full-time (375 options each) and part-time (188 options each) employees under the Value Sharing Plan, a nonshareholder-approved plan. This award is the third 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 respective grant date. The options become exercisable after five years, or earlier if JPMorgan Chase's common stock price reaches and sustains a target price for a minimum period. Options generally expire ten years after the grant date. The 2002, 2001 and 2000 grants have not vested as the target stock prices have not been achieved.

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,	**2002**		2001		2000	
(Options in thousands)	**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	**87,393**	**$ 41.86**	67,237	$ 38.17	50,937	$ 31.66
Granted	**32,550**	**36.85**	26,042	51.22	28,054	49.79
Exercised	**(674)**	**15.01**	(2,267)	27.65	(8,019)	31.44
Canceled	**(6,114)**	**41.14**	(3,619)	49.54	(3,735)	51.15
Options outstanding, December 31	**113,155**	**$ 40.62**	87,393	$ 41.86	67,237	$ 38.17
Options exercisable, December 31	**38,864**	**$ 31.95**	40,390	$ 31.76	42,768	$ 31.51

The following table details the distribution of broad-based employee stock options outstanding at December 31, 2002:

	Options outstanding			Options exercisable	
(Options in thousands) 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	7,147	$ 12.81	1.3	7,147	$ 12.81
$20.01 – $35.00	7,942	28.79	4.0	7,942	28.79
$35.01 – $50.00	74,516	41.19	7.4	23,775	38.76
$50.01 – $65.58	23,550	51.22	8.1	—	—
Total	113,155	$ 40.62	6.9	38,864	$ 31.95

Comparison of the fair and intrinsic value measurement methods

Pre-tax employee stock-based compensation expense recognized in reported earnings totaled $0.6 billion in 2002, $0.8 billion in 2001 and $1.1 billion in 2000. Compensation expense for 2002 included the reversal of previously accrued expenses in the amount of $120 million related to the forfeitable key employee awards granted in 1999, 2000 and 2001. During 2002, it was determined that it was no longer probable that the target stock prices would be achieved within their respective performance periods. The target stock prices for these forfeitable awards ranged from $73.33 to $85.00.

The following table presents net income and basic and diluted earnings per share as reported and after the impact of applying SFAS 123. The increase in compensation expense after applying SFAS 123 in 2002 compared to 2001 reflects expense related to a higher level of options granted in prior years that are not fully vested. This increase is partially offset by a decline in the weighted-average grant-date fair value of options granted in 2002. The higher expense from applying SFAS 123 in 2001 compared to 2000 results from the increase in the number of options granted in 2001.

Year ended December 31, (in millions, except per share data)		**2002**	2001	2000
Net income as reported		**$ 1,663**	$ 1,694	$ 5,727
Add:	Employee stock-based compensation expense included in reported net income, net of related tax effects	**354**	479	661
Deduct:	Employee stock-based compensation expense determined under the fair value method for all awards, net of related tax effects	**(1,232)**	(1,101)	(1,017)
Pro Forma net income		**$ 785**	$ 1,072	$ 5,371
Earnings per share:				
Basic	As reported	**$ 0.81**	$ 0.83	$ 2.99
	Pro Forma	**0.37**	0.51	2.80
Diluted	As reported	**$ 0.80**	$ 0.80	$ 2.86
	Pro Forma	**0.37**	0.50	2.68

The following table presents JPMorgan Chase's weighted-average grant-date fair values for the employee stock-based compensation awards granted and the assumptions used to value stock options under a Black-Scholes valuation model:

Year ended December 31,	2002	2001	2000
Weighted-average grant-date fair value			
Stock options:			
Key employee	**$11.57**	$ 18.39	$ 18.79
Broad-based employee	**9.49**	14.60	17.66
Restricted stock and RSUs (all payable solely in stock)	**36.28**	49.21	42.88
Weighted-average annualized stock option valuation assumptions			
Risk-free interest rate	**4.61%**	5.08%	6.65%
Expected dividend yield[a]	**3.72**	2.51	2.25
Expected common stock price volatility	**39**	37	38
Assumed weighted-average expected life of stock options (in years)			
Key employee	**6.8**	6.8	6.8
Broad-based employee	**3.8**	3.8	5.5

(a) Based primarily on historical data at the grant dates.

Note 25 Restrictions on cash and intercompany funds transfers

The Board of Governors of the Federal Reserve System ("FRB") 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 $2.2 billion in 2002 and $1.1 billion in 2001.

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 FRB, 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 January 1, 2003 and 2002, JPMorgan Chase's bank subsidiaries could pay, in the aggregate, $1.3 billion and $2.2 billion, respectively, in dividends to their respective bank holding companies without prior approval of their relevant banking regulators. Dividend capacity in 2003 will be supplemented by the banks' earnings during the year.

In compliance with rules and regulations established by U.S. and non-U.S. regulators, as of December 31, 2002 and 2001, cash in the amount of $2.1 billion and $2.0 billion, respectively, and securities with a market value of $3.0 billion and $4.4 billion, respectively, were segregated in special bank accounts for the benefit of securities and futures brokerage customers.

Note 26 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 FRB, 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 FRB. Bank subsidiaries also are subject to these capital requirements by their respective primary regulators. Management believes that as of December 31, 2002, 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, 2002 (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)]	**$ 37,570**	**$ 54,495**	**$ 455,948**	**$ 741,862**	**8.24%**	**11.95%**	**5.06%**
JPMorgan Chase Bank	**31,908**	**43,348**	**389,731**	**607,200**	**8.19%**	**11.12%**	**5.25%**
Chase Manhattan Bank USA, N.A.	**3,993**	**5,908**	**43,723**	**31,927**	**9.13%**	**13.51%**	**12.51%**
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 the FRB 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 16 and 17.
(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 $170.4 billion, $148.4 billion and $12.9 billion, respectively, at December 31, 2002.
(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 FRB, 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)	2002	2001
Tier 1 capital		
Common stockholders' equity	**$ 40,065**	$ 40,530
Nonredeemable preferred stock	**1,009**	1,009
Minority interest	**5,520**[(a)]	5,084[(b)]
Less: Goodwill and investments in certain subsidiaries	**8,122**	8,231
Nonqualifying intangible assets and other	**902**	679
Tier 1 capital	**$ 37,570**	$ 37,713
Tier 2 capital		
Long-term debt and other instruments qualifying as Tier 2	**$ 11,801**	$ 12,051
Qualifying allowance for credit losses	**5,458**	4,759
Less: Investment in certain subsidiaries	**334**	450
Tier 2 capital	**$16,925**	$ 16,360
Total qualifying capital	**$ 54,495**	$ 54,073

(a) Minority interest includes trust preferred stocks of certain business trust subsidiaries.
(b) 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 16 and 17.

Note 27 Commitments and contingencies

At December 31, 2002, 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, 2002 were as follows:

Year ended December 31, (in millions)	
2003	$ 737
2004	720
2005	651
2006	616
2007	545
After	4,849
Total minimum payments required	8,118
Less: Sublease rentals under noncancelable subleases	274
Net minimum payment required	$ 7,844

Total rental expense was as follows:

Year ended December 31, (in millions)	2002	2001	2000
Gross rentals	**$ 1,012**	$ 804	$ 716
Sublease rentals	**(134)**	(135)	(79)
Net rental expense	**$ 878**	$ 669	$ 637

At December 31, 2002, 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)	2002	2001
Reverse repurchase/securities borrowing agreements	**$ 199**	$ 134
Securities	**73**	50
Loans	**40**	31
Other[(a)]	**112**	54
Total assets pledged	**$ 424**	$ 269

(a) Primarily composed of trading assets.

The Firm established a reserve of $900 million related to costs anticipated to be incurred in connection with the various private litigations and regulatory inquiries involving Enron Corp. ("Enron") and the other material legal actions, proceedings and investigations in which the Firm is currently involved. This reserve represents management's best estimate, after consultation with counsel, of the current probable aggregate costs associated with these matters. Of the $900 million, $600 million has been allocated to the various cases, proceedings and investigations associated with Enron. The balance of $300 million has been allocated to the various material litigation, proceedings and investigations involving the Firm's debt and equity underwriting activities and equity research practices, and includes $80 million relating to the Firm's settlement in December 2002 with various regulators relating to equity research practices. It is possible that the reserve could be subject to revision in the future.

In addition to the various cases, proceedings and investigations for which the reserve has been established, JPMorgan Chase and its subsidiaries are named as defendants in a number of other legal actions and governmental proceedings arising in connection with their respective businesses. Additional actions, investigations or proceedings may be brought from time to time in the future. In view of the inherent difficulty of predicting the outcome of legal matters, particularly where the claimants seek very large or indeterminate damages or where the cases present novel legal theories or involve a large number of parties, the Firm cannot state with confidence what the eventual outcome of the pending matters (including the pending material matters as to which the reserve has been established) will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss related to each pending matter will be. Subject to the foregoing caveat, JPMorgan Chase anticipates, based upon its current knowledge, after consultation with counsel and after taking into account the establishment of the aforementioned $900 million reserve, that the outcome of the legal actions, proceedings and investigations currently pending against it should not have a material adverse effect on the consolidated financial condition of the Firm, although the outcome of a particular proceeding or the imposition of a particular fine or penalty may be material to JPMorgan Chase's operating results for a particular period depending upon, among other factors, the size of the loss or liability and the level of JPMorgan Chase's income for that period.

Note 28 Accounting for derivative instruments and hedging activities

SFAS 133 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. The accounting for changes in value of a derivative depends on whether the contract has been designated and qualifies for hedge accounting. The majority of JPMorgan Chase's derivatives are entered into for trading purposes. 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.

Derivatives designated as hedges for accounting purposes 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 to be assessed prospectively and retrospectively.

For qualifying fair value hedges, all changes in the fair value of the derivative and changes in the fair value of the hedged item are recognized in earnings. If the hedge relationship is terminated, then the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and is amortized to earnings as a yield adjustment. For qualifying cash flow hedges, the effective portion of the change in the fair value of the derivative is recorded in other comprehensive income and recognized in the income statement when the hedged cash flows affect earnings. The ineffective portions of cash flow hedges are immediately recognized in earnings. If the hedge relationship is terminated, then the change in fair value of the derivative recorded in other comprehensive income is recognized consistent with the original hedge strategy, when the hedged cash flows occur. For hedge relationships discontinued because the forecasted transaction is not expected to occur according to the original strategy, any related derivative amounts recorded in other comprehensive income are immediately recognized in earnings. For qualifying net investment hedges, changes in the fair value of the derivative or the revaluation of the foreign currency–denominated debt instrument are recorded in the translation adjustments account within other comprehensive income.

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. Interest rate options and swaptions are also used in combination with interest rate swaps to hedge the fair value of the Firm's mortgage servicing rights. All amounts have been included in earnings consistent with the classification of the hedged item, primarily Net interest income, Fees and commissions and Other revenue. JPMorgan Chase did not recognize any gains or losses during 2002 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 from floating-rate financial instruments and forecasted transactions, primarily the rollover of short-term assets and liabilities and anticipated securities transactions. Interest rate swaps, futures, options and foreign exchange forwards are the most common instruments used to reduce the impact of interest rate and foreign exchange rate changes on future earnings. All amounts have been included in earnings consistent with the classification of the hedged item, 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 non-U.S. 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)	2002	2001
Fair value hedge ineffective net gains[(a)]	**$ 441**	$ 386
Cash flow hedge ineffective net losses[(a)]	**(1)**	(7)
Cash flow hedging gains on forecasted transactions that failed to occur	**—**	40[(b)]
Expected reclassifications from OCI to earnings[(c)]	**317**	(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 after-tax gains (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 and borrowing activities.

In 2001, the adoption of SFAS 133 resulted in an after-tax reduction to net income of $25 million and an after-tax reduction to Other comprehensive income 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.

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.

Note 29 Off-balance sheet lending-related financial instruments and guarantees

JPMorgan Chase utilizes lending-related financial instruments (e.g., commitments and guarantees) to meet the financing needs of its customers. The contractual amount of these financial instruments represents the maximum possible credit risk should the counterparty draw down the commitment or the Firm fulfill its obligation under the guarantee, and the counterparty subsequently fails to perform according to the terms of the contract. Most of these commitments and guarantees expire without a default occurring or without being drawn. As a result, the total contractual amount of these instruments is not, in the Firm's view, representative of the Firm's actual future credit exposure or funding requirements. Further, certain commitments, primarily related to consumer financings, are cancelable, upon notice, at the option of the Firm.

To provide for the risk of loss inherent in commercial-related contracts, an allowance for credit losses is maintained. See Note 10 for a further discussion on the allowance for credit losses on lending-related commitments.

The following table summarizes the contract amounts relating to off-balance sheet lending-related financial instruments and guarantees at December 31, 2002 and 2001:

Off-balance sheet lending-related financial instruments

December 31, (in millions)	2002	2001
Consumer-related	**$ 151,138**	$ 131,854
Commercial-related:		
Other unfunded commitments to extend credit[(a)(b)]	**$ 196,654**	$ 204,397
Standby letters of credit and guarantees[(a)]	**38,848**	41,163
Other letters of credit[(a)]	**2,618**	2,151
Total commercial-related	**$ 238,120**	$ 247,711
Customers' securities lent	**$ 101,503**	$ 111,167

(a) Net of risk participations totaling $15.6 billion and $13.9 billion at December 31, 2002 and 2001.
(b) Includes unused advised lines of credit totaling $22.0 billion at December 31, 2002 and $19.2 billion at December 31, 2001. In regulatory filings with the FRB, unused advised lines are not reportable.

In November 2002, the FASB issued FIN 45, which requires the Firm to disclose information about obligations under certain guarantee arrangements. FIN 45 defines a guarantee as a contract that contingently requires the Firm to pay a guaranteed party based on: (a) changes in an underlying asset, liability, or equity security of the guaranteed party, or (b) a third party's failure to perform under a specified agreement. The Firm considers the following off-balance sheet lending arrangements to be guarantees under FIN 45: certain asset purchase agreements; standby letters of credit and financial guarantees; and securities lending indemnifications.

Unfunded commitments to extend credit are agreements to lend only when a customer has complied with predetermined conditions, and they generally expire on fixed dates. The allowance for credit losses on lending-related commitments includes $213 million at December 31, 2002, related to unfunded commitments to extend credit. The majority of the Firm's unfunded commitments are not guarantees as defined in FIN 45, except for asset purchase agreements of $36 billion at December 31, 2002. These agreements are primarily used as a mechanism to provide liquidity to SPEs. Of the $36 billion of asset purchase agreements at December 31, 2002, $33 billion related to the Firm's multi-seller conduits and structured commercial loan vehicles described in Note 11.

Certain asset purchase agreements can be exercised at anytime by the SPE's administrator, while others require a triggering event to occur. Triggering events include, but are not limited to, a need for liquidity, a market value decline of the assets or downgrade in the rating of JPMorgan Chase Bank. These agreements may cause the Firm to purchase an asset from the SPE at an amount above the asset's fair value, in effect, providing a guarantee of the initial value of the reference asset as of the date of the agreement. In most instances, third-party credit enhancements of the SPE mitigate the Firm's potential losses on these agreements. The allowance for credit losses on lending-related commitments related to these agreements was not material at December 31, 2002.

Standby letters of credit and financial guarantees are conditional lending commitments issued by JPMorgan Chase to guarantee the performance of a customer to a third party under borrowing arrangements such as commercial paper facilities, bond financings and similar transactions. More than 90% of these arrangements mature within three years. The Firm typically has recourse to recover from the customer any amounts paid under these guarantees; in addition, the Firm may hold cash or other highly liquid collateral to support these guarantees. Collateral held at December 31, 2002 relating to these arrangements was $8 billion. The allowance for credit losses on lending-related commitments included $150 million related to standby letters of credit and financial guarantees.

JPMorgan Chase holds customers' securities under custodial arrangements. At times, these securities are loaned to third parties, and the Firm issues **securities lending indemnification** agreements to the customer that protect the customer against the risk of loss if the third party fails to return the securities. To support these indemnification agreements, JPMorgan Chase generally obtains from the third party cash or other highly liquid collateral with a market value exceeding 100% of the value of the loaned securities. At December 31, 2002, the Firm held $110 billion in collateral in support of these agreements.

In connection with issuing securities to investors, the Firm may enter into contractual arrangements with third parties that may require the Firm to make a payment to them in the event of a change in tax law or an adverse interpretation of tax law. In certain of these cases, the contract may also include a termination clause which would allow the Firm to settle the contract at its fair value, thus not requiring the Firm to make a payment under the indemnification agreement. Even without the termination clause, management does not expect such indemnification agreements to have a material adverse effect on the consolidated financial condition of JPMorgan Chase. The Firm may also enter into indemnification clauses when it sells a business or assets to a third party pursuant to which it indemnifies that third party for losses they may incur due to actions taken by the Firm prior to the sale. It is difficult to estimate the Firm's maximum exposure under these indemnification arrangements since this would require an assessment of future changes in tax laws and future claims that may be made against the Firm that have not yet occurred. However, based on historical experience, management expects the risk of loss to be remote.

In addition to the contracts described above, there are certain derivative contracts to which the Firm is a counterparty that meet the characteristics of a guarantee under FIN 45. These derivatives are recorded on the Consolidated balance sheet at fair value. These contracts include written put options that require the Firm to purchase assets from the option holder at a specified price by a specified date in the future, as well as derivatives that effectively guarantee the return on a counterparty's reference portfolio of assets. The total notional value of the derivatives that the Firm deems to be guarantees was $47 billion at December 31, 2002. The Firm reduces its exposures to these contracts by entering into offsetting transactions or by entering into contracts that hedge the market risk related to these contracts. The fair value related to these contracts was a derivative receivable of $141 million and a derivative payable of $814 million at December 31, 2002.

Finally, certain written put options and credit derivatives permit cash settlement and do not require the option holder or the buyer of credit protection to own the reference asset. The Firm does not consider these contracts to be guarantees as described in FIN 45.

Note 30 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. In the Firm's commercial portfolio, risk concentrations are primarily evaluated by industry, and also by geographic region. In the consumer portfolio, concentrations are primarily evaluated by product, and by U.S. geographic region.

For further information regarding on-balance sheet credit concentrations by major product and geography, see Note 9 on page 80. For information regarding concentrations of off-balance sheet lending-related financial instruments by major product, see Note 29 on page 102. More information about concentrations can be found on the following tables in the MD&A:

Commercial exposure	Page 47
Commercial selected industry concentrations	Page 48
Selected country exposure	Page 53
Residential mortgage loans by geographic region	Page 55
Managed credit card loans by geographic region	Page 55
Auto financings by geographic region	Page 55

The table below presents both on-balance sheet and off-balance sheet commercial- and consumer-related credit exposure as of December 31, 2002 and 2001:

	2002			2001		
December 31, (in billions)	**Credit exposure**	**On-balance sheet**(a)	**Off-balance sheet**(b)	Credit exposure	On-balance sheet(a)	Off-balance sheet(b)
Commercial-related:						
Commercial banking	**$ 44.5**	**$ 36.5**	**$ 8.0**	$ 36.0	$ 26.9	$ 9.1
Finance companies	**24.2**	**1.7**	**22.5**	23.5	4.0	19.5
All other commercial	**344.2**	**136.6**	**207.6**	364.2	145.1	219.1
Total commercial-related	**$ 412.9**	**$ 174.8**	**$ 238.1**	$ 423.7	$ 176.0	$ 247.7
Consumer-related:						
Credit cards(c)	**$ 143.1**	**$ 19.7**	**$ 123.4**	$ 124.2	$ 19.4	$ 104.8
Residential mortgages	**84.0**	**64.0**	**20.0**	77.6	59.9	17.7
Auto financings	**35.4**	**33.6**	**1.8**	27.6	25.7	1.9
All other consumer	**13.4**	**7.5**	**5.9**	15.1	7.6	7.5
Total consumer-related	**$ 275.9**	**$ 124.8**	**$ 151.1**	$ 244.5	$ 112.6	$ 131.9
Total exposure	**$ 688.8**	**$ 299.6**	**$ 389.2**	$ 668.2	$ 288.6	$ 379.6

(a) Represents loans, and derivative and other receivables.
(b) Represents lending-related financial instruments.
(c) Excludes securitized credit card receivables.

Note 31 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 Consolidated balance sheet with changes in fair value recorded each period in the Consolidated statement of income;
- Recorded at fair value on the Consolidated 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 fair value.

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. Primary market prices are used to determine the fair value of certain of the Firm's financial instruments, such as loans and lending-related commitments, as they provide an estimate of prices at which such financial instruments could currently be originated.

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 review, which includes valuation model and methodology reviews and price testing with independent sources where appropriate.

These methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, the use of different methodologies or secondary market prices to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date; for example, the cost of credit derivatives can be used to estimate the fair value of commercial loans and lending-related commitments, rather than discounting them using primary market rates. Following such an approach, the fair value of the Firm's commercial loans would approximate carrying value (i.e., commercial loans net of the allowance for loan losses) at December 31, 2002. Following the same approach, the maximum incremental depreciation in fair value of the Firm's commercial lending-related commitments would be approximately 40 basis points of the total notional amount of these commitments at December 31, 2002.

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, 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 risk.

Assets where fair value differs from cost

JPMorgan Chase's debt, equity and derivative trading 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.

Federal funds sold and securities purchased under resale agreements

Federal funds sold and securities purchased under resale agreements are typically short-term in nature, and as such, for a significant majority of the Firm's transactions, cost approximates carrying value. This balance sheet item also includes structured resale agreements and similar products with long-dated maturities. To estimate the fair value of these instruments, the cash flows are discounted using the appropriate market rates for the applicable maturity.

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 liquidity, 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 discounted using a primary market rate appropriate for each maturity that incorporates the effects of interest rate changes and then are adjusted to reflect the inherent credit risk.
- 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 only the effects of interest rate changes 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, credit derivatives and loans with similar characteristics. 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 MSRs.

For a discussion of the fair value methodology of private equity investments, see Note 13 on page 88.

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 their carrying value. SFAS 107 does not allow for the recognition of the inherent funding value of these instruments.

Fair value of 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 values of interest-bearing deposits are estimated by discounting cash flows based on contractual maturities of funds having similar interest rates and similar maturities.

Federal funds purchased and securities sold under repurchase agreements

Federal funds purchased and securities sold under repurchase agreements are typically short-term in nature, and as such, for a significant majority of the Firm's transactions, cost approximates carrying value. This balance sheet item also includes structured repurchase agreements and similar products with long-dated maturities. To estimate the fair value of these instruments, the cash flows are discounted using the appropriate market rates for the applicable maturity.

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.

Lending-related commitments

The Firm estimates the fair value of its commitments to extend credit based on the primary market prices to originate new commitments at December 31, 2002. It is the change in current primary market prices relative to the original prices that provides the estimate of the fair value of these commitments. On this basis, the fair value of the Firm's lending-related commitments approximated the allowance for lending-related commitments of $363 million at December 31, 2002.

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.

	2002			2001		
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	**$ 76.4**	**$ 76.4**	**$ —**	$ 86.7	$ 86.7	$ —
Fed funds sold and securities purchased under resale agreements	**65.8**	**66.0**	**0.2**	63.7	63.7	—
Trading assets	**248.3**	**248.3**	**—**	189.4	189.4	—
Securities available-for-sale	**84.0**	**84.0**	**—**	59.3	59.3	—
Securities held-to-maturity	**0.4**	**0.4**	**—**	0.5	0.5	—
Loans-commercial, net of allowance for loan losses	**88.6**	**89.1**	**0.5**	102.4	102.8	0.4
Loans-consumer, net of allowance for loan losses	**122.4**	**124.7**	**2.3**	110.5	112.2	1.7
Other assets	**53.3**	**53.5**	**0.2**	65.5	65.8	0.3
Total financial assets	**$ 739.2**	**$ 742.4**	**$ 3.2**	$ 678.0	$ 680.4	$ 2.4
Financial liabilities						
Liabilities for which fair value approximates carrying value	**$ 145.1**	**$ 145.1**	**$ —**	$ 153.6	$ 153.6	$ —
Interest-bearing deposits	**222.7**	**223.1**	**(0.4)**	216.7	216.8	(0.1)
Fed funds purchased and securities sold under repurchase agreements	**169.5**	**169.5**	**—**	128.4	128.4	—
Trading liabilities	**133.1**	**133.1**	**—**	109.1	109.1	—
Long-term debt-related instruments	**45.2**	**45.5**	**(0.3)**	43.6	44.4	(0.8)
Total financial liabilities	**$ 715.6**	**$ 716.3**	**$ (0.7)**	$ 651.4	$ 652.3	$ (0.9)
Net appreciation			**$ 2.5**			$ 1.5

Note 32 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 U.S. operations serve international businesses.

As the Firm's operations are highly integrated, estimates and subjective assumptions have been made to apportion revenue and expense between U.S. 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 33.

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 the Firm's long-lived assets are located in the United States.

For the year ended December 31, (in millions)	Revenue(a)	Expense(b)	Income (loss) before income taxes	Net income (loss)
2002				
Europe/Middle East and Africa	**$ 5,120**	**$ 4,882**	**$ 238**	**$ 157**
Asia and Pacific	**1,900**	**1,820**	**80**	**53**
Latin America and the Caribbean	**685**	**557**	**128**	**85**
Other	**42**	**34**	**8**	**5**
Total international	**7,747**	**7,293**	**454**	**300**
Total U.S.	**21,867**	**19,802**(c)	**2,065**	**1,363**
Total	**$ 29,614**	**$ 27,095**	**$ 2,519**	**$ 1,663**
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 U.S.	19,956	18,680	1,276	843
Total	$ 29,344	$ 26,778	$ 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 U.S.	21,490	17,503	3,987	2,764
Total	$ 33,186	$ 24,453	$ 8,733	$ 5,727

(a) Revenue is composed of net interest income and noninterest revenue.
(b) Expense is composed of noninterest expense and provision for credit losses. The amounts include an allocation of merger and restructuring costs.
(c) Includes the $1.3 billion (pre-tax) charge related to the settlement of the Enron Surety litigation and the establishment of a litigation reserve for certain material litigation, proceedings and investigations.

Note 33 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 served, and reflect the manner in which financial information is evaluated by management.

JPMorgan Chase uses shareholder value added ("SVA") and operating earnings as its principal measures of segment profitability. For a definition of these measurements, see the Glossary of terms on page 114.

Operating revenues and expenses directly associated with each segment are included in determining the segment's operating earnings. Guidelines exist for allocating to the segments expenses that are not directly incurred by them, such as corporate overhead and taxes. In addition, management has developed a risk-adjusted capital methodology that quantifies different types of risk – credit, market, operational and private equity – within the

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)	**2002**	2001	2000	**2002**	2001	2000	**2002**	2001	2000
Operating net interest income	**$ 2,613**	$ 2,943	$ 2,450	**$ 1,390**	$ 1,472	$ 1,538	**$ 483**	$ 587	$ 707
Operating noninterest revenue	**9,911**	11,848	13,506	**2,515**	2,311	2,172	**2,244**	2,494	2,600
Equity-related income[(b)]	**(2)**	(8)	15	**—**	—	22	**23**	36	105
Intersegment revenue[(c)]	**(123)**	(112)	(279)	**141**	195	198	**118**	109	131
Total operating revenue	**12,399**	14,671	15,692	**4,046**	3,978	3,930	**2,868**	3,226	3,543
Total operating expense	**7,978**	8,782	9,819	**3,001**	3,006	2,875	**2,336**	2,570	2,588
Operating margin	**4,421**	5,889	5,873	**1,045**	972	1,055	**532**	656	955
Credit costs	**2,392**	1,148	245	**1**	7	4	**85**	35	25
Operating earnings (loss) before taxes	**2,029**	4,741	5,628	**1,044**	965	1,051	**447**	621	930
Income taxes (benefit)	**664**	1,823	2,106	**367**	333	380	**63**	142	317
Operating earnings (loss)	**$ 1,365**	$ 2,918	$ 3,522	**$ 677**	$ 632	$ 671	**$ 384**	$ 479	$ 613
Merger and restructuring costs and special items[(d)]									
Pre-SFAS 142 goodwill amortization[(d)]									
Net income (loss)	**$ 1,365**	$ 2,918	$ 3,522	**$ 677**	$ 632	$ 671	**$ 384**	$ 479	$ 613
Average common equity	**$ 18,323**	$ 18,964	$ 18,335	**$ 2,998**	$ 2,958	$ 2,883	**$ 6,115**	$ 6,275	$ 4,447
Average managed assets[(e)]	**$ 494,958**	$ 510,282	$ 469,791	**$ 18,018**	$ 18,794	$ 16,548	**$ 35,729**	$ 36,896	$ 33,674
Shareholder value added	**$ (853)**	$ 615	$ 1,280	**$ 313**	$ 272	$ 319	**$ (357)**	$ (284)	$ 70
Return on common equity	**7%**	15%	19%	**23%**	21%	23%	**6%**	8%	14%
Overhead ratio	**64%**	60%	63%	**74%**	76%	73%	**81%**	80%	73%

(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) Represents the after-tax amounts.
(e) Includes credit card receivables that have been securitized. The impact of securitizations on total average assets was $26.5 billion in 2002, $18.0 billion in 2001 and $18.8 billion in 2000.
NA- Not applicable.
NM- Not meaningful.

various businesses and assigns capital accordingly. Each business segment is responsible for its credit costs, including actual net charge-offs and changes in the specific and expected components of the allowance for credit losses. The residual component of the allowance for credit losses, available for losses in any business segment, is maintained at the corporate level.

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 segments' operating earnings. This column includes the accounting 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 24 and 25. Additionally, financial information relating to JPMorgan Chase's operations by geographic area is provided in Note 32.

(table continued from previous page)

JPMorgan Partners			Chase Financial Services			Corporate/ reconciling items[a]			Total		
2002	2001	2000	**2002**	2001	2000	**2002**	2001	2000	**2002**	2001	2000
$ (321)	$ (350)	$ (343)	**$ 8,395**	$ 6,933	$ 6,202	**$ (741)**	$ (739)	$ (536)	**$ 11,819**	$ 10,846	$ 10,018
(617)	(1,112)	1,111	**5,123**	3,971	3,798	**(16)**	(1)	(300)	**19,160**	19,511	22,887
(2)	(1)	(1)	**58**	47	37	**(3)**	(39)	(38)	**74**	35	140
(14)	(7)	19	**(35)**	—	22	**(87)**	(185)	(91)	**—**	—	—
(954)	(1,470)	786	**13,541**	10,951	10,059	**(847)**	(964)	(965)	**31,053**	30,392	33,045
298	293	395	**6,421**	5,617	5,298	**122**	220	283	**20,156**	20,488	21,258
(1,252)	(1,763)	391	**7,120**	5,334	4,761	**(969)**	(1,184)	(1,248)	**10,897**	9,904	11,787
—	—	—	**3,159**	2,873	2,094	**133**	167	2	**5,770**	4,230	2,370
(1,252)	(1,763)	391	**3,961**	2,461	2,667	**(1,102)**	(1,351)	(1,250)	**5,127**	5,674	9,417
(463)	(647)	129	**1,471**	923	1,029	**(359)**	(702)	(720)	**1,743**	1,872	3,241
$ (789)	$ (1,116)	$ 262	**$ 2,490**	$ 1,538	$ 1,638	**$ (743)**	$ (649)	$ (530)	**$ 3,384**	$ 3,802	$ 6,176
						(1,721)	(1,715)	(200)	**(1,721)**	(1,715)	(200)
						NA	(393)	(249)	**NA**	(393)	(249)
$ (789)	$ (1,116)	$ 262	**$ 2,490**	$ 1,538	$ 1,638	**$ (2,464)**	$ (2,757)	$ (979)	**$ 1,663**	$ 1,694	$ 5,727
$ 5,454	$ 6,475	$ 7,590	**$ 10,293**	$ 9,118	$ 8,668	**$ (1,815)**	$ (2,266)	$ (5,747)	**$ 41,368**	$ 41,524	$ 36,176
$ 10,210	$ 12,143	$ 13,654	**$ 179,404**	$ 162,753	$ 146,962	**$ 21,557**	$ 13,080	$ 14,951	**$ 759,876**	$ 753,948	$ 695,580
$ (1,614)	$ (2,097)	$ (894)	**$ 1,242**	$ 430	$ 578	**$ (362)**	$ (183)	$ 386	**$ (1,631)**	$ (1,247)	$ 1,739
NM	NM	3%	**24%**	17%	19%	**NM**	NM	NM	**8%**	9%	17%
NM	NM	50%	**47%**	51%	53%	**NM**	NM	NM	**65%**	67%	64%

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 on page 71.

Year ended December 31, (in millions)	2002	2001	2000
Segments' operating revenue	**$ 31,900**	$ 31,356	$ 34,010
Corporate/reconciling items	**(847)**	(964)	(965)
Consolidated operating revenue	**31,053**	30,392	33,045
Impact of securitizations	**(1,439)**	(1,048)	(990)
Special items	**—**	—	1,131
Consolidated revenue	**$ 29,614**	$ 29,344	$ 33,186

Year ended December 31, (in millions)	2002	2001	2000
Segments' operating earnings	**$ 4,127**	$ 4,451	$ 6,706
Corporate/reconciling items	**(743)**	(649)	(530)
Consolidated operating earnings	**3,384**	3,802	6,176
Merger and restructuring costs and special items[a]	**(1,721)**	(1,715)	(200)
Pre-SFAS 142 goodwill amortization[a]	**NA**	(393)	(249)
Consolidated net income	**$ 1,663**	$ 1,694	$ 5,727

(a) Represents the after-tax amounts.

Note 34 Parent company

Parent company – statement of income

Year ended December 31, (in millions)	2002	2001	2000
Income			
Dividends from subsidiaries[(a)]	**$ 3,501**	$ 10,554	$ 5,404
Interest from subsidiaries	**1,174**	2,090	3,038
All other income	**1,079**	563	664
Total income	**5,754**	13,207	9,106
Expense			
Interest expense	**1,916**	2,927	3,859
Noninterest expense	**1,077**	526	922
Total expense	**2,993**	3,453	4,781
Income before income tax benefit and undistributed net income of subsidiaries	**2,761**	9,754	4,325
Income tax benefit	**432**	394	602
Equity in undistributed net income (loss) of subsidiaries	**(1,530)**	(8,458)	800
Income before effect of accounting change	**1,663**	1,690	5,727
Net effect of change in accounting principle	**—**	4	—
Net income	**$ 1,663**	$ 1,694	$ 5,727

Parent company – balance sheet

December 31, (in millions)	2002	2001
Assets		
Cash with banks	**$ 108**	$ 412
Deposits with banking subsidiaries	**9,994**	6,239
Securities purchased under resale agreements	**384**	344
Trading assets	**4,087**	1,106
Securities-AFS	**1,081**	1,692
Advances to subsidiaries:		
Bank and bank holding company	**9,343**	6,953
Nonbank	**20,984**	29,546
Investment (at equity) in subsidiaries:		
Bank and bank holding company	**40,709**	39,588
Nonbank	**10,826**	8,401
Other assets	**9,892**	9,274
Total assets	**$ 107,408**	$ 103,555
Liabilities and stockholders' equity		
Other borrowed funds, primarily commercial paper	**$ 19,330**	$ 20,703
Other liabilities	**4,930**	3,805
Long-term debt[(b)]	**40,842**	37,948
Total liabilities	**65,102**	62,456
Stockholders' equity	**42,306**	41,099
Total liabilities and stockholders' equity	**$ 107,408**	$ 103,555

Parent company – statement of cash flows

Year ended December 31, (in millions)	2002	2001	2000
Operating activities			
Net income	**$ 1,663**	$ 1,694	$ 5,727
Less: Net income of subsidiaries	**1,971**	2,096	6,204
Parent company net loss	**(308)**	(402)	(477)
Add cash dividends from subsidiaries:[(a)]			
Bank and bank holding company	**1,898**	2,650	4,952
Nonbank	**422**	7,904	452
Other, net	**(912)**	(926)	(1,712)
Net cash provided by operating activities	**1,100**	9,226	3,215
Investing activities			
Net change in:			
Deposits with banking subsidiaries	**(3,755)**	2,557	(1,907)
Advances to subsidiaries	**6,172**	3,931	(347)
Investment (at equity) in subsidiaries	**(2,284)**	(5,303)	(3,305)
Securities purchased under resale agreements, primarily with nonbank subsidiaries	**(40)**	953	372
Securities	**668**	(1,605)	1,186
Other, net	**(26)**	—	(295)
Net cash provided by (used in) investing activities	**735**	533	(4,296)
Financing activities			
Net change in other borrowed funds	**(1,373)**	(4,313)	3,195
Proceeds from the issuance of long-term debt	**13,564**	7,773	11,127
Repayments of long-term debt	**(12,271)**	(10,184)	(10,208)
Proceeds from the issuance of stock and stock-related awards	**725**	1,429	2,278
Redemption of preferred stock	**—**	(511)	(100)
Treasury stock purchased	**—**	(871)	(2,950)
Cash dividends paid	**(2,784)**	(2,697)	(2,282)
Net cash (used in) provided by financing activities	**(2,139)**	(9,374)	1,060
Net increase (decrease) in cash with banks	**(304)**	385	(21)
Cash with banks at the beginning of the year	**412**	27	48
Cash with banks at the end of the year, primarily with bank subsidiaries	**$ 108**	$ 412	$ 27
Cash interest paid	**$ 1,829**	$ 2,950	$ 3,927
Taxes paid (refund received)	**$ 592**	$ (250)	$ 1,694

(a) Dividends in 2002 include a stock dividend of $1.2 billion from the mortgage business, which was contributed to JPMorgan Chase Bank. Cash dividends in 2001 include funds from Flemings and Beacon.
(b) Includes debt with subsidiaries of $5.7 billion and $4.7 billion at December 31, 2002 and 2001, respectively. At December 31, 2002, all debt that contractually matures in 2003 through 2007 totaled $6.15 billion, $5.75 billion, $3.00 billion, $2.32 billion and $6.33 billion, respectively.

Supplementary information

Selected quarterly financial data

(unaudited)

As of or for the period ended (in millions, except per share and ratio data)	2002				2001			
	4th	**3rd**	**2nd**	**1st**	4th	3rd	2nd	1st
REPORTED BASIS								
Revenue	**$ 7,495**	**$ 6,947**	**$ 7,574**	**$ 7,598**	$ 6,652	$ 7,421	$ 6,949	$ 8,322
Noninterest expense (excluding merger and restructuring costs)	**6,768**[a]	**4,718**	**4,965**	**5,103**	4,911	5,131	5,361	5,670
Merger and restructuring costs	**393**	**333**	**229**	**255**	841	876	478	328
Provision for credit losses	**921**	**1,836**	**821**	**753**	1,468	745	525	444
Income tax expense (benefit)	**(200)**	**20**	**531**	**505**	(236)	220	207	656
Net effect of change in accounting principle	**—**	**—**	**—**	**—**	—	—	—	(25)
Net income (loss)	**$ (387)**	**$ 40**	**$ 1,028**	**$ 982**	$ (332)	$ 449	$ 378	$ 1,199
Per Common Share:								
Net income (loss) per share:								
Basic	**$ (0.20)**	**$ 0.01**	**$ 0.51**	**$ 0.49**	$ (0.18)	$ 0.22	$ 0.18	$ 0.60
Diluted	**(0.20)**	**0.01**	**0.50**	**0.48**	(0.18)	0.22	0.18	0.58
Cash dividends	**0.34**	**0.34**	**0.34**	**0.34**	0.34	0.34	0.34	0.34
Book value at period-end	**20.66**	**21.26**	**20.93**	**20.16**	20.32	21.15	20.81	21.17
Performance Ratios:								
Return on average assets	**NM**	**0.02%**	**0.56%**	**0.55%**	NM	0.24%	0.21%	0.67%
Return on average common equity	**NM**	**0.25**	**9.96**	**9.72**	NM	4.17	3.45	11.58
Capital Ratios:								
Tier 1 capital ratio	**8.24%**	**8.69%**	**8.82%**	**8.61%**	8.29%	8.18%	8.66%	8.72%
Total capital ratio	**11.95**	**12.43**	**12.66**	**12.48**	11.88	11.58	12.20	12.31
Tier 1 leverage ratio	**5.06**	**5.40**	**5.38**	**5.44**	5.17	5.29	5.37	5.44
Selected Balance Sheet Items:								
Net loans	**$ 211,014**	**$ 206,215**	**$ 207,080**	**$ 209,541**	$ 212,920	$ 219,411	$ 216,245	$ 213,116
Total assets	**758,800**	**741,759**	**740,546**	**712,508**	693,575	799,300	712,702	713,624
Deposits	**304,753**	**292,171**	**293,829**	**282,037**	293,650	281,604	276,804	272,572
Long-term debt[b]	**45,190**	**44,552**	**47,802**	**42,761**	43,622	46,754	45,356	47,048
Common stockholders' equity	**41,297**	**42,428**	**41,727**	**40,122**	40,090	41,726	41,401	42,004
Total stockholders' equity	**42,306**	**43,437**	**42,736**	**41,131**	41,099	42,735	42,426	43,366
Share price[c]								
High	**$ 26.14**	**$ 33.68**	**$ 38.75**	**$ 39.68**	$ 40.95	$ 46.01	$ 50.60	$ 59.19
Low	**15.26**	**17.86**	**30.15**	**26.70**	31.30	29.04	39.21	37.58
Close	**24.00**	**18.99**	**33.92**	**35.65**	36.35	34.15	44.60	44.90
OPERATING BASIS[d]								
Revenue	**$ 7,925**	**$ 7,301**	**$ 7,908**	**$ 7,919**	$ 6,916	$ 7,691	$ 7,222	$ 8,563
Expense	**5,468**	**4,620**	**4,965**	**5,103**	4,760	4,985	5,214	5,529
Operating margin	**2,457**	**2,681**	**2,943**	**2,816**	2,156	2,706	2,008	3,034
Credit costs	**1,351**	**2,190**	**1,155**	**1,074**	1,732	1,015	798	685
Earnings	**$ 730**	**$ 325**	**$ 1,179**	**$ 1,150**	$ 356	$ 1,133	$ 786	$ 1,527
Operating Performance:								
Shareholder value added	**$ (551)**	**$ (964)**	**$ (57)**	**$ (59)**	$ (915)	$ (136)	$ (481)	$ 285
Return on average common equity	**7%**	**3%**	**11%**	**11%**	3%	11%	7%	15%
Overhead ratio	**69**	**63**	**63**	**64**	69	65	72	65
Common dividend payout ratio	**96**	**222**	**59**	**60**	199	61	89	45
Selected Balance Sheet Items:								
Managed net loans	**$241,736**	**$236,058**	**$234,579**	**$232,766**	$234,344	$ 238,135	$ 233,998	$229,741
Total managed assets	**789,522**	**771,602**	**768,045**	**735,733**	714,999	818,024	730,455	730,249

(a) Includes a $1.3 billion charge in connection with the settlement of the Enron-related surety litigation and the establishment of a reserve related to certain material litigations, proceedings and investigations.
(b) Includes Guaranteed preferred beneficial interests in the Firm's junior subordinated deferrable interest debentures.
(c) 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.
(d) Includes credit card receivables that had been securitized. Amounts shown exclude merger and restructuring costs, special items and the amortization of goodwill. For a description of special items, see Glossary of terms on page 114.
NM- Not meaningful.

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)	**2002**	2001	2000	1999	1998
REPORTED BASIS					
Revenue	**$ 29,614**	$ 29,344	$ 33,186	$ 31,146	$ 25,873
Noninterest expense (excluding merger and restructuring costs)	**21,554**[(a)]	21,073	21,642	18,188	16,246
Merger and restructuring costs	**1,210**	2,523	1,431	23	887
Provision for credit losses	**4,331**	3,182	1,380	1,446	1,393
Income tax expense	**856**	847	3,006	3,988	2,602
Net effect of change in accounting principle	**—**	(25)	—	—	—
Net income	**$ 1,663**	$ 1,694	$ 5,727	$ 7,501	$ 4,745
Per Common Share:					
Net income per share					
Basic	**$ 0.81**	$ 0.83	$ 2.99	$ 3.87	$ 2.37
Diluted	**0.80**	0.80	2.86	3.69	2.27
Cash dividends	**1.36**	1.36	1.28	1.08	0.96
Book value at December 31	**20.66**	20.32	21.17	18.07	17.39
Performance Ratios:					
Return on average assets	**0.23%**	0.23%	0.85%	1.19%	0.72%
Return on average common equity	**3.90**	3.92	15.56	22.46	14.35
Capital Ratios:					
Tier 1 capital ratio	**8.24%**	8.29%	8.46%	8.54%	8.23%
Total capital ratio	**11.95**	11.88	12.03	12.34	11.94
Tier 1 leverage ratio	**5.06**	5.17	5.43	5.85	5.34
Selected Balance Sheet Items:					
Net loans	**$ 211,014**	$ 212,920	$ 212,385	$ 199,270	$ 194,227
Total assets	**758,800**	693,575	715,348	667,003	626,942
Deposits	**304,753**	293,650	279,365	287,064	267,465
Long-term debt[(b)]	**45,190**	43,622	47,238	45,540	47,132
Common stockholders' equity	**41,297**	40,090	40,818	33,434	33,377
Total stockholders' equity	**42,306**	41,099	42,338	35,056	35,099
Share price[(c)]					
High	**$ 39.68**	$ 59.19	$ 67.17	$ 60.75	$ 51.71
Low	**15.26**	29.04	32.38	43.88	23.71
Close	**24.00**	36.35	45.44	51.79	47.33
OPERATING BASIS[(d)]					
Revenue	**$ 31,053**	$ 30,392	$ 33,045	$ 31,911	$ 26,643
Expense	**20,156**	20,488	21,258	17,903	16,060
Operating margin	**10,897**	9,904	11,787	14,008	10,583
Credit costs	**5,770**	4,230	2,370	2,439	2,541
Earnings	**$ 3,384**	$ 3,802	$ 6,176	$ 7,554	$ 5,177
Operating Performance:					
Shareholder value added	**$ (1,631)**	$ (1,247)	$ 1,739	$ 3,496	$ 1,187
Return on average common equity	**8%**	9%	17%	23%	16%
Overhead ratio	**65**	67	64	56	60
Common dividend payout ratio	**83**	73	39	28	38
Selected Balance Sheet Items:					
Managed net loans	**$ 241,736**	$ 234,344	$ 230,256	$ 217,209	$ 212,260
Total managed assets	**789,522**	714,999	733,219	684,942	644,975

(a) Includes a $1.3 billion charge in connection with the settlement of the Enron-related surety litigation and the establishment of a reserve related to certain material litigations, proceedings and investigations.

(b) Includes Guaranteed preferred beneficial interests in the Firm's junior subordinated deferrable interest debentures.

(c) 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.

(d) Includes credit card receivables that had been securitized. Amounts shown exclude merger and restructuring costs, special items and the amortization of goodwill. For a reconciliation from reported results to operating basis, see page 22. For a description of special items, see Glossary of terms on page 114.

Glossary of terms

J.P. Morgan Chase & Co.

APB: Accounting Principles Board opinion.

APB 25: "Accounting for Stock Issued to Employees."

APB 30: "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions."

Asset capital tax: The capital that is allocated to each business unit based on their average asset levels and certain off-balance sheet credit-related exposures to reflect the need for the Firm to maintain minimum leverage ratios to meet bank regulatory definitions of "well capitalized."

Basis point value ("BPV"): This measurement quantifies the change in the market value of assets and liabilities (that are not part of 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.

Credit derivatives are contractual agreements that provide protection against a credit event of one or more referenced credits. The nature of a credit event is established by the protection buyer and protection seller at the inception of a 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 payment by the protection seller upon the occurrence, if any, of a credit event.

Credit risk: The risk of loss due to borrower or counterparty default.

Criticized: An indication of credit quality of a portfolio, based on JPMorgan Chase's internal risk assessment system. "Criticized" assets generally represent a risk profile similar to a rating of a CCC+/Caa1 or lower, as defined by the independent rating agencies.

Cross-currency interest rate swaps are contracts that 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 option contracts that are similar to interest rate contracts except the underlying instrument is debt-, equity- or commodity-related.

EITF: Emerging Issues Task Force.

EITF Issue 01-14: "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred."

EITF Issue 02-03: "Issues Involved in Accounting for Derivative Contract Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities."

FASB: Financial Accounting Standards Board.

FIN 39: FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts."

FIN 41: FASB Interpretation No. 41, "Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements."

FIN 45: FASB interpretation No. 45, "Guarantor's Accounting and Disclosure Requirement for Guarantees, including Indirect Guarantees of Indebtedness of Others."

FIN 46: FASB interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51."

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 and 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. A writer of interest rate options receives a premium in exchange for bearing the risk of unfavorable changes in interest rates. Conversely, a purchaser of an option 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 payments in a single currency are exchanged over a prescribed period. An example of a situation in which an interest rate swap would be used would be to convert 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 from fixed to variable.

Investment-grade: An indication of credit quality based on JPMorgan Chase's internal risk assessment system. "Investment-grade" represents a risk profile similar to a rating of a BBB-/Baa3 or better, as defined by the independent rating agencies.

Liquidity risk: The risk of being unable to fund a 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: Refers to credit card receivables on the Firm's balance sheet plus credit card receivables that have been securitized.

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 value is positive, it indicates the counterparty owes JPMorgan Chase and, therefore, creates a repayment risk for the Firm. When the mark-to-market value is negative, JPMorgan Chase owes the counterparty. In this situation, the Firm 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.

Master netting agreement: An agreement between two counterparties that have multiple derivative contracts with each other that provides for the net settlement of all contracts through a single payment, in a single currency, in the event of default on or termination of any one contract. See FIN 39.

Merger: Refers to the December 31, 2000, merger of The Chase Manhattan Corporation and J.P. Morgan & Co. Incorporated.

Net interest spread on interest-earning assets: The average rate for interest-earning assets less the average rate paid for all interest-bearing liabilities.

Operating basis or operating earnings: Reported results excluding the impact of merger and restructuring costs, special items, credit card securitizations and the amortization of goodwill.

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

Overhead ratio: Operating expense (excluding merger and restructuring costs and special items) as a percentage of operating revenue.

SFAS: Statement of Financial Accounting Standards.

SFAS 5: "Accounting for Contingencies."

SFAS 87: "Employers' Accounting for Pensions."

SFAS 88: "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits."

SFAS 106: "Employers' Accounting for Postretirement Benefits Other Than Pensions."

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 121: "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of."

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."

SFAS 144: "Accounting for the Impairment or Disposal of Long-Lived Assets."

SFAS 146: "Accounting for Costs Associated with Exit or Disposal Activities."

Shareholder value added ("SVA"): Represents 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 unless otherwise noted. Special items in 2002 included a $1.3 billion charge for the settlement of the Enron surety litigation and the establishment of a litigation reserve and a $98 million charge for excess real estate capacity related to facilities in the West Coast of the United States. Special items in 2001 included a $25 million loss (after-tax) from the cumulative effect of a transition adjustment related to the adoption of SFAS 133. Special items in 2000 included an $827 million gain on the sale of the Hong Kong retail banking business, a $399 million gain from the transfer of Euroclear-related business, an $81 million gain from the sale of the Panama operations and a $176 million loss resulting from the economic hedge of the purchase price of Flemings prior to its acquisition. Special items in 1999 were interest income of $62 million from prior years' tax refunds, gains of $166 million from sales of nonstrategic assets and a $100 million special contribution to The Chase Manhattan Foundation. In 1998, special items were interest income of $191 million from prior years' tax refunds, a $131 million gain from the sale of a global trust and agency services business, a $56 million gain from the sale of an investment management business in Australia and costs incurred of $37 million for accelerated vesting of stock-based incentive awards.

Stress testing: A scenario that measures market risk under unlikely but plausible events in abnormal markets.

Value-at-Risk ("VAR"): A measure of the dollar amount of potential loss from adverse market moves in an ordinary market environment.

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Chief Executive Officer
J.P. Morgan Chase & Co.
New York, New York

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Vice Chairman of the Board
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Chairman and
Chief Executive Officer

Helene L. Kaplan
Of Counsel
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Lee R. Raymond
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and Chief Executive Officer
Exxon Mobil Corporation

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Retired Chairman of the Board
Wyeth

Executive Committee

William B. Harrison, Jr.
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Chief Executive Officer,
Chairman of the
Executive Committee

Steven D. Black
Investment Bank

David A. Coulter
Investment Bank
Investment Management
& Private Banking

Dina Dublon
Finance

John J. Farrell
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Thomas B. Ketchum
Technology Council

Donald H. Layton
Chase Financial Services
Treasury & Securities Services

James B. Lee, Jr.
Investment Bank

Marc J. Shapiro
Finance, Risk Management
& Administration

James E. Staley
Investment Management
& Private Banking

Jeffrey C. Walker
JPMorgan Partners

Don M. Wilson III
Investment Bank

William T. Winters
Investment Bank

Other corporate officers

David B. Edelson
Treasury

Frederick W. Hill
Marketing & Communications

Anthony J. Horan
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Donald H. McCree, III
Credit

William H. McDavid
Legal

William J. Moran
Audit

Joseph L. Sclafani
Controller

Lesley Daniels Webster
Market Risk Management

Report on governance and business practices

One of the tests of leadership is adjusting to changing standards in recognition of the Firm's responsibilities as a corporate citizen and in consideration of the interests of clients, employees and shareholders.

During 2002 and continuing in 2003, the Firm undertook a series of actions designed to meet new and emerging standards for sound corporate governance and ethical business practices. Some actions were in response to new rules and regulations, which we have sought to implement vigorously. Some were in anticipation of expected changes, such as our implementation of proposed New York Stock Exchange ("NYSE") listing standards on corporate governance. Others have been a strengthening of policies or procedures already in place, as for example those designed to assess reputational risk associated with products and transactions.

Many of the policies and procedures adopted or amended as a result of these actions are described elsewhere in this Annual Report, the proxy statement and the Firm's website. The following summarizes some of the more significant ones. The Firm's objective is to be a leader in everything it does, and the areas of ethical business practices and corporate governance are no exception. Because standards will continue to evolve, the Firm will continue to review its policies and procedures and adapt them as may be necessary or appropriate.

Corporate governance

In February 2003, the Firm launched a governance section on the corporate website designed to provide investors with access to the Firm's governance materials, including the Board of Directors' corporate governance practices, charters of the principal Board committees and descriptions of management committees. You may view these materials online by going to www.jpmorganchase.com and clicking on Governance. The Board's corporate governance practices and the charter of the Audit Committee are also set out in the proxy statement. The following are some key points from the Governance website:

Independence. A substantial majority of directors must be independent under the Board's independence definition adopted in accordance with the NYSE's proposed listing standards.

The Board determined on January 21, 2003 that each of the nonmanagement directors is independent in accordance with the Board's independence definition. William B. Harrison, Jr. is the only management director.

Each of the Board's principal committees is composed solely of nonmanagement directors, and members of the Audit Committee, the Compensation & Management Development Committee and the Governance Committee must also be independent.

Executive sessions for nonmanagement directors. The nonmanagement directors meet outside the presence of management at least twice each year. One meeting, generally in January, is to evaluate the CEO and determine his annual incentive compensation. That meeting is led by the chairman of the Compensation & Management Development Committee. A second meeting, generally in July, is for a review of the Board and its corporate governance practices, and is led by the chairman of the Governance Committee. Meetings of nonmanagement directors for other purposes will be led by the chairman of the committee most relevant to the topic.

Access to outside resources and to management. The Board and Board committees are authorized to seek legal or other expert advice from sources independent of management and will be provided the resources for such purposes. In particular, the Compensation & Management Development Committee has authority to retain independent consulting firms to assist it in determining executive compensation, while the Governance Committee has authority to retain a search firm to identify director candidates. Directors have complete access to management.

Director compensation. The Board believes that it is desirable that a significant portion of overall director compensation be linked to our common stock. The Board's total compensation includes about one-third cash and two-thirds stock-based compensation.

Auditor independence

Auditor independence is central to the confidence shareholders and others place in the Firm. The Audit Committee adopted a policy in March 2002 that prohibited any new engagements of the Firm's external auditors, PricewaterhouseCoopers LLP ("PwC"), other than for audit and audit-related services and for tax advice. The proxy statement contains a report of the Audit Committee and also a report of fees paid to PwC. NYSE proposed listing standards highlighted the importance of open communications between the Audit Committee and a company's external auditors. As a standard practice, PwC attends meetings of the Audit Committee. In addition, the Audit Committee meets periodically with PwC in a private session without management present. Practices supportive of auditor independence are reflected in the charter of the Audit Committee, a copy of which is in the proxy statement and also is available on the Firm's website.

Certified financial statements

The accompanying financial statements were certified by the Chairman and Chief Executive Officer and by the Chief Financial Officer as required under the Sarbanes-Oxley Act. The Firm views the CEO/CFO certification process as one fully consistent with management's acceptance of responsibility for preparing the consolidated financial statements that accompany the Annual Report (see page 70). The Firm instituted a more detailed and formal review process as part of its implementation of the CEO/CFO certification requirement. This year's financial section, which starts at page 17, has increased by 19 pages from last year. This is the result of new reporting requirements and of our goal of increased transparency in our financial disclosures.

Report on governance and business practices

Policy review office

Primary responsibility for adherence with all policies and procedures, including those designed to address reputational risk and to assure a high level of integrity and ethical conduct, lies with the business units conducting the transactions in question. In addition to this framework, in August 2002 the Firm put in place a new set of procedures designed to reinforce the focus on integrity, ethics and reputational risk and provide a senior level of review of transactions with clients. Business units are required to submit to regional Policy Review Committees proposed transactions that raise an issue or question in this area for any reason but specifically including (i) transactions where a material objective is to achieve a particular accounting treatment, (ii) transactions designed to achieve a particular tax treatment, (iii) transactions where there is material uncertainty about legal or regulatory treatment, (iv) transactions with unusual or highly complex structures or cash flow profiles, and (v) transactions which have as a significant purpose or effect the providing of financing but which take the form of derivatives. Transactions are reviewed for factors that could affect reputational risk, including where applicable the intended financial disclosure of the transaction by the client. The committees and their deliberations are overseen by a central Policy Review Office. For a further description of this process and the Policy Review Office, see Reputation risk on page 64.

Investment protection principles and analyst independence

During 2002, the Firm undertook a number of steps to ensure the integrity of equity research by the Firm's analysts. Among these were implementation of new rules of the NYSE and the National Association of Securities Dealers ("NASD") affecting equity research and the adoption of investment protection principles. In December 2002, the Firm was among the financial institutions which reached an agreement in principle with the Securities and Exchange Commission ("SEC"), the NASD, the NYSE, the New York State Attorney General's Office, and the North American Securities Administrators Association regarding the reform of research operations. Pursuant to the agreement in principle, the Firm will agree, among other things (i) to pay $50 million for retrospective relief, (ii) to adopt internal structural and operational reforms that will further augment the steps it has already taken to ensure the integrity of the Firm's analyst research, (iii) to pay $25 million spread over five years to provide independent third-party research to clients, and (iv) to pay $5 million towards investor education. The agreement is subject to finalization of mutually satisfactory settlement documents and approval by the SEC and state regulatory authorities.

Stock options

In August 2002, the Firm announced that it would expense all stock options granted to employees beginning January 2003. This announcement was made in partnership with other leading financial services firms because the Firm believed it would be best for investors to have consistency across the industry. For a description of employee stock-based incentives and the expensing of stock options, see Note 24 on page 96.

Stock ownership

The Board considers it desirable that directors own a significant number of shares of JPMorgan Chase stock or stock equivalents. The Board believes that current holdings of Board members, which are set out in the proxy statement, meet this objective. For officers who are members of the Executive Committee, stock ownership guidelines implemented in July 2002 require that each executive retain 75% of the net shares of stock received from stock grants and options, after taxes and, for options, the cost of exercise. Any exception to this policy would require approval by the Chairman of the Board.

Worldwide rules of conduct

In April 2002, the Firm issued its code of conduct and business ethics, referred to as the Worldwide Rules of Conduct, to all employees and, as modified by applicable addenda, to directors. The Worldwide Rules address compliance with law; reporting of violations of the Worldwide Rules or of laws or regulations; employment and diversity; confidentiality of information; protection and proper use of the Firm's assets; conflicts of interest; and personal securities and other financial transactions. The Audit Committee is responsible for oversight of management's responsibilities to maintain compliance with the Firm's ethical standards and procedures and with laws and regulations.

401(k) matching choices

Commencing October 2002, the Firm eliminated a requirement that half of its matching contribution for employees participating in the 401(k) plan be invested in JPMorgan Chase common stock until the participant met certain age and service requirements. This allows all participants to diversify their investments and decide for themselves appropriate levels of stock ownership.

J.P. Morgan Chase & Co.

Corporate headquarters

270 Park Avenue
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

Directors

To contact any of the Board members please mail correspondence to:

J.P. Morgan Chase & Co.
Attention (Board member)
Office of the Secretary
270 Park Avenue
New York, New York 10017-2070

The corporate governance practices of the board, the charters of the principal board committees and other governance information can be accessed by visiting www.jpmorganchase.com and clicking on "Governance." Stockholders may request a copy of such materials by writing to the Office of the Secretary at the above address.

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.melloninvestor.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 07660-2108

Dividend reinvestment plan

Stockholders 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

PricewaterhouseCoopers LLP
1177 Avenue of the Americas
New York, New York 10036

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