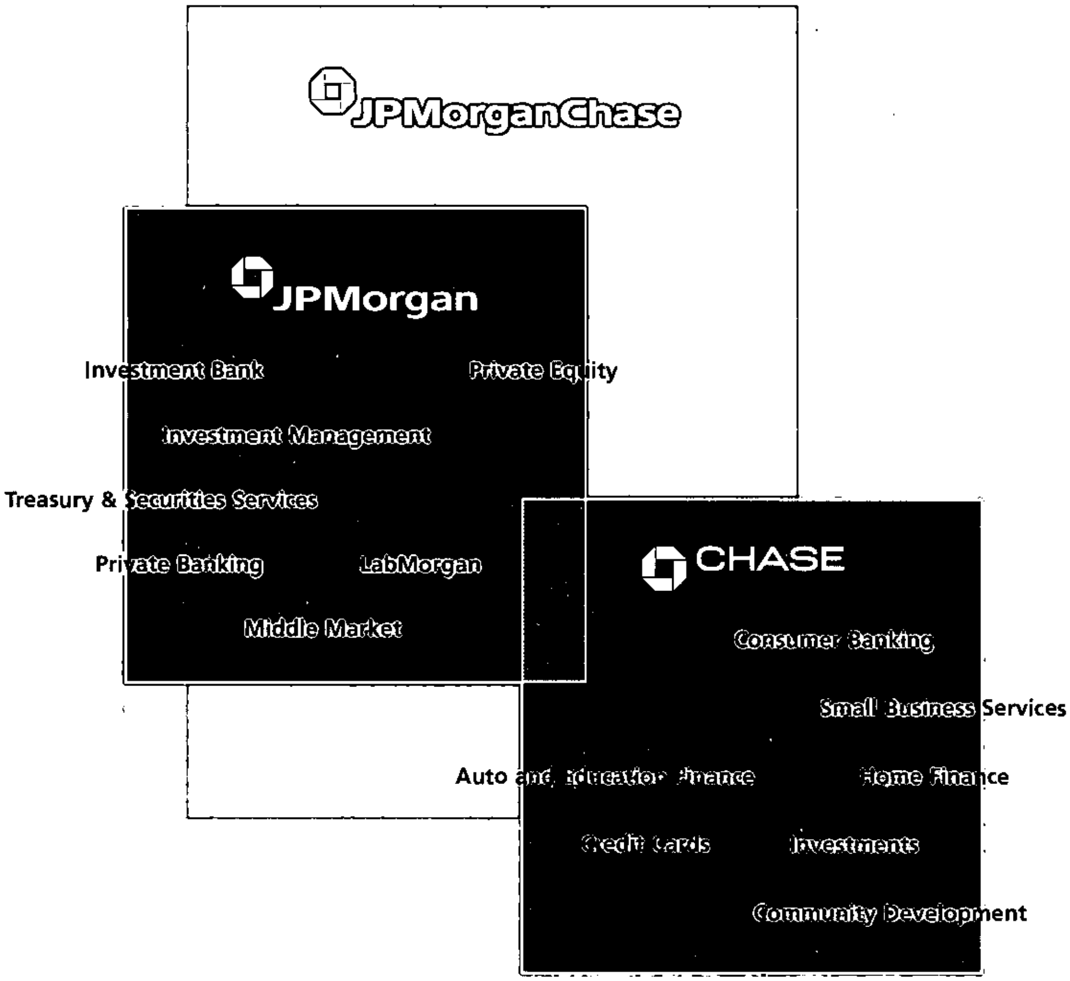
2000

Annual Report

JPMorganChase



We create exceptional value by integrating our deep and broad global capabilities:

> Integrity — Set the standard

> Clients — Build relationships they value

> Excellence — In our people and what we deliver

> Leadership — In everything we do

> Diversity — Stronger because of it

> Teamwork — Deliver the global network

> Quality — Get it right the first time

> Initiative — Find a way

As of or for the Year Ended December 31, (in millions, except per share and ratio data)	2000	1999	1998
Operating Basis[(a)]			
Revenue	$ 32,793	$ 31,695	$ 26,523
Earnings	5,927	7,433	5,081
Diluted Earnings per Share[(b)]	2.96	3.65	2.43
Return on Average Common Equity	16.12%	22.25%	15.39%
Cash Operating Basis[(c)]			
Earnings	$ 6,455	$ 7,762	$ 5,374
Diluted Cash Earnings per Share[(b)]	3.23	3.82	2.58
Cash Return on Average Common Equity	17.58%	23.25%	16.31%
Shareholder Value Added	$ 1,656	$ 3,375	$ 1,062
Reported Basis			
Revenue	$ 32,934	$ 30,930	$ 25,753
Noninterest Expense (Excluding Restructuring Costs)	21,393	17,972	16,066
Merger and Restructuring Costs	1,431	23	887
Provision for Loan Losses	1,377	1,446	1,453
Net Income	5,727	7,501	4,745
Net Income per Share:[(b)]			
Basic	2.99	3.87	2.37
Diluted	2.86	3.69	2.27
Cash Dividends Declared	1.28	1.08	0.96
Total Assets	715,348	667,003	626,942
Total Stockholders' Equity	42,338	35,056	35,099
Tier 1 Capital Ratio	8.5%	8.5%	8.2%
Total Capital Ratio	12.0	12.3	11.9
Tier 1 Leverage	5.4	5.9	5.3

(a) Excludes the impact of credit card securitizations, merger and restructuring costs, and special items.

(b) Share-related data have been restated to reflect a two-for-one stock split and a three-for-two stock split effective as of the close of business on May 20, 1998 and June 9, 2000, respectively.

(c) Excludes the impact of the amortization of goodwill and certain other intangibles.

global expertise

equity

treasury, investor and institutional trust services

mergers and acquisitions

bank debt

sales and trading

investment banking

research

private equity

public debt

investment management and private banking

foreign exchange and derivatives

retail and middle market financial services

commercial banking

leadership

the leading debt house in the world: #1 positions in all major public and private securities and structured finance markets

a worldwide leader in derivatives and foreign exchange

#1 mergers and acquisitions advisor in Asia; #4 globally

#1 syndicated loan house in the world for nearly a decade

one of the world's largest institutional equity distribution platforms

largest private bank in the U.S. and #2 worldwide with more than $320 billion in client assets one of the largest private equity businesses, with $24 billion under management

top five asset managers worldwide with $638 billion in global assets under management

#1 in custody and transaction services worldwide

e-finance transformation through LabMorgan

relationships with over 99% of the *Fortune* 1000 companies

serves more than 30 million U.S. retail consumers

top-ranked research coverage of more than 3,000 companies

letter to shareholders

"We now have the capability to fulfill our clients' needs with any financial transaction, anytime, anywhere in the world. One plus one will significantly exceed two in the equation."

William B. Harrison, Jr.
President and
Chief Executive Officer
(lower right)

"This combination is — first and foremost — about accelerating growth. With a powerful combination of capabilities, capacity and people, JPMorgan Chase will have everything it takes to unleash that growth."

Douglas A. Warner III
Chairman of the Board
(lower left)

The year 2000 was pivotal in the history of J.P. Morgan Chase & Co. — the year we created a new and dynamic financial services platform with significant long-term, competitive advantages and growth opportunities.

In wholesale banking, our strategy over the past decade has been shaped by the strong belief that the winning models will combine the best of a commercial bank with the best of an investment bank. The mergers completed over the past year provide the elements for long-term success:

> **Scale in terms of capital, clients and products delivered globally** — JPMorgan Chase has in excess of $42 billion in equity capital. The firm has relationships with more than 5,000 primary corporate clients with a balanced footprint across North America, Europe, Asia and Latin America. And JPMorgan Chase now has leadership positions in the full spectrum of products to serve our clients globally.

> **Leadership position in products** — Our philosophy through the succession of mergers over the last 10 years has been that leadership positions drive growth and shareholder value. Leadership positions enable us to serve clients better, attract partners and intellectual capital, and lead to meaningful economies of scale that benefit all stakeholders. Today, JPMorgan Chase holds top-tier positions in mergers and acquisition advisory, derivatives and risk management, investment management and private banking, private equity and operating services. We are also known as the leading provider of corporate debt products in the world driven by both our bond and loan origination and syndication capabilities.

Our public equity platform — combining the large-cap American and European franchise of JPMorgan, the entrepreneurial focus of Hambrecht & Quist and the Asian presence of Robert Fleming Holdings — has the necessary components to drive us to real leadership. We already are seeing evidence that product excellence combined with valued relationships will produce business that these firms would not have had separately. Add to this the already robust trading and equity derivatives businesses, and we have all the pieces in place globally to reach our goal of becoming one of the premier brands for equity products.

> **Integrated talent** — Leadership positions and global scale must be managed in a way that focuses on and benefits the client. We differentiate ourselves as a firm by the breadth and depth of our product platform and by meeting our customers' needs through highly integrated product and client teams.

Global scale, leadership positions and integrated talent create the foundation for winning in the marketplace and fueling growth in global wholesale banking. The opportunity to create value with and for our clients is huge. Our approach, as before, is to make sure that this is our merger, not our clients' — meaning that the quality of service they receive never falters. Client receptivity to date has been exceptional, as clients want reliable, full-service global providers of financial services to be their long-term partners. They also want a partner that has the capacity and expertise to commit capital to that long-term relationship when circumstances require. JPMorgan Chase has a clear competitive advantage here that is the heart of being the best of a commercial bank and the best of an investment bank.

In addition to the strength and diversification in the merged wholesale business, JPMorgan Chase has a solid retail and middle market financial services franchise that is the leading bank in the New York metropolitan area, the largest U.S. mortgage company, and a top-ranked credit card and auto finance company. These retail businesses are embarking on a path toward greater efficiency, less bureaucracy, focused investments and higher growth. Both Six Sigma and technological innovation will play a significant role in enhancing distribution, service quality and client intimacy.

The growth potential that we see at JPMorgan Chase is reflected in the performance targets that we have outlined as long-term goals:

> Annual tevenue growth of 10%-12%
> Average cash return on equity of 20%-25%
> Cash earnings pet share growth of 15%

Certainly, we did not achieve these financial targets in 2000. Revenue growth was affected by challenging markets, and our cash return on equity fell to 18%. But in 2000, we did not have the benefit of the significant synergies that we see in the new JPMorgan Chase and, in fact, were hampered by the significant expense and capital demands of building the platform.

In reasonable markets, out ability to achieve these targets will be a matter of execution. To this end, we are absolutely committed to disciplined execution on fout fronts: merger integration management, expense control, risk management and capital management.

> **Merger integration management** — We believe this merger will create pre-tax synergies of $3 billion — $2 billion of cost savings and $1 billion of incremental net tevenue. Our experience in past metgers has helped us to develop a detailed process of ttacking accountability for business execution. The best evidence of our success to date is the fact that we were able to close on the formation of our new firm in less than four months, an important accomplishment for both client coverage and employee tetention.

> **Expense control** — Capital investment and commitments to new capabilities in investment banking in 2000 put significant pressure on our ability to manage expenses flexibly. We are tatgeting cash operating expenses for 2001 to be flat with 2000 (pro forma for Robert Fleming for full-year 2000). Over the long term, we intend to use Six Sigma techniques to re-engineer both costs and quality and improve productivity. We also will call on LabMorgan, our e-finance unit, to help us do business more efficiently and in new ways to create value for the firm and our clients. LabMorgan identifies, implements, invests in and nurtures the e-finance ideas that will continue to transform JPMorgan Chase.

> **Risk management** — Disciplined management of market, credit and operating tisks is fundamental to protecting shareholder value — an intense focus of the predecessor firms over the last 10 years. We will maintain our rigorous stress testing of market risk under both historical and hypothetical scenarios. Our credit portfolio will continue to be highly diversified, with a strong focus on distribution instead of retention and limits on concentration by customer, industry and geography.

> **Capital management** — We will continue with our Shareholdet Value Added (SVA) discipline that pushes right down to the individual transaction level the tradeoff between employing capital in our businesses and returning it to out shareholders. With carefully managed balance sheet growth and current capital ratios currently in excess of our long-term target, this SVA discipline should lead to earnings gtowth and free cash flow generation for our stockholders.

From the perspective of all of us who interact with clients and markets every day, the opportunities ahead of us are enormous. There is tangible excitement within the corridors of this new company and, while it remains a challenging environment with plenty of solid competitors, we believe that JPMorgan Chase has the best long-term platform to compete and win.

The success of the present firm is built on shoulders of those who preceded us. In the past decade, John McGillicuddy, Walter Shipley and Tom Labrecque set the standard for successful integration of large, complex firms. We mourn the untimely passing of Tom Labrecque, and we appreciate all the more his commitment to integrity and the example he set.

Our focus today is on realizing the potential of the new JPMorgan Chase. We have been through a very demanding period of integration and have achieved a degree of cultural alignment that we have found remarkable. Our style in mergers is to ask our people to manage their ongoing business and to execute the merger integration simultaneously. There is still a lot of hard work ahead of us to accomplish our goals and realize our potential, but if the performance to date is any guide, the people of JPMorgan Chase are more than up to the task.

Douglas A. Warner III
Chairman of the Board

William B. Harrison, Jr.
President and Chief Executive Officer

March 1, 2001

"We have set as long-term goals for the company annual revenue growth of 10% to 12%, cash earnings per share growth of 15% per year and an average cash return on equity of 20% to 25%."

William B. Harrison, Jr.

"Together, our product leadership positions represent the highest quality content across the broadest spectrum of capabilities of any wholesale financial services platform."

Douglas A. Warner III

JPMorgan has the full investment banking platform. We have scale and leadership positions in capital, clients, industry knowledge, product expertise and geographic reach. We are focused on meeting our clients' needs through successfully integrating all of these strengths.

fusion on a global scale releases energy and insight...

> World's largest corporate debt house.

> World's largest provider of risk management products, including foreign exchange and derivatives.

> One of the world's largest global equity research coverage lists.

> Top four global advisor in mergers and acquisitions.

> A leading brokerage house in Asia.

> Leading equity derivatives house worldwide.

> Third largest equity underwriter in Latin America.

> One of the largest global private equity funds, $24 billion under management.

> Awarded "European Leveraged Loan House of the Year."

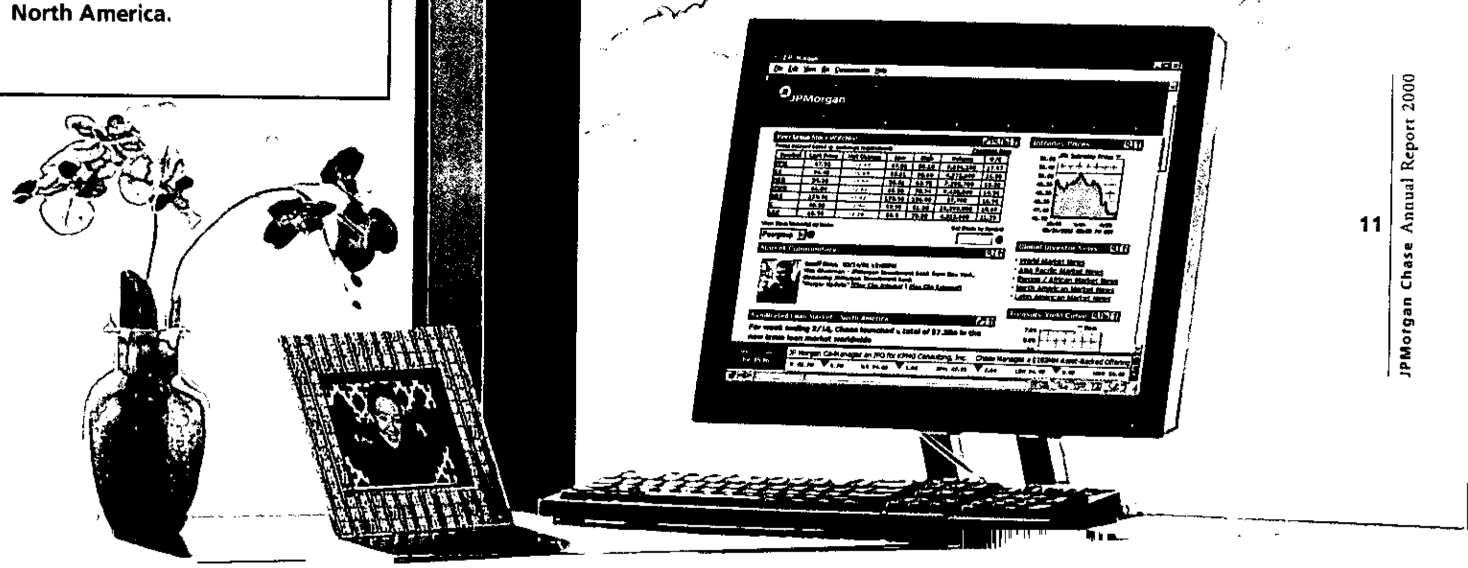
> Largest global custodian, $2.3 trillion in assets under custody.

> Operating services provided to 50% of *Fortune* 1000 companies and 80% of the top 100 global banks.

Leadership in global financial services places JPMorgan at the pulse of the global economy. The firm is closely linked to every corner of the world with locations in Asia, Australia, Western Europe, Eastern Europe, the Middle East, Africa, Latin America and North America.

Real-time access to an unparalleled range of market intelligence enables JPMorgan to develop powerful market insights and research concerning specialized industries, geographic regions, local capital markets and the global economy.

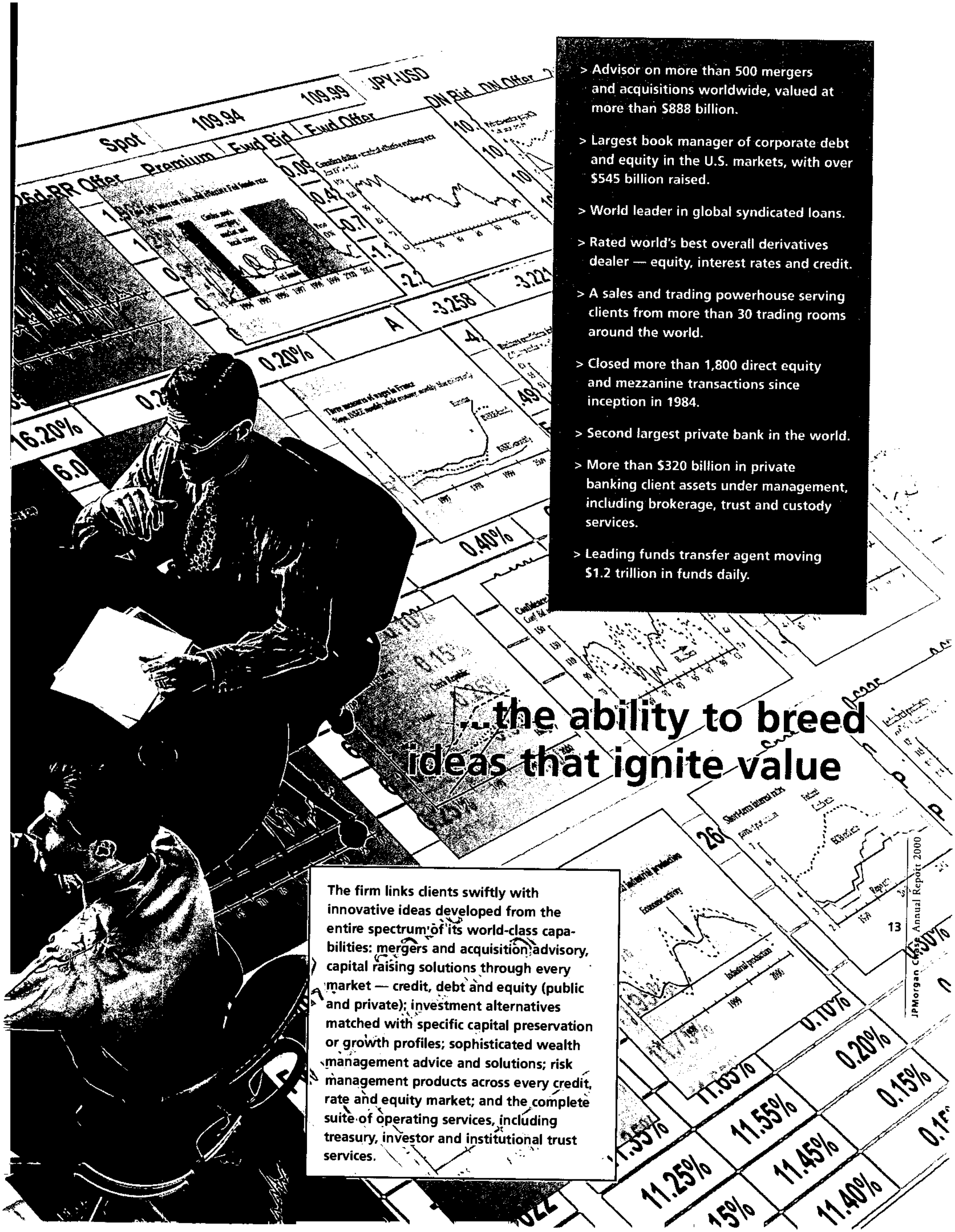
...across regions and within local markets



the power of intellectual capital is...

JPMorgan s adv sor to the wor d s most nf uent a f rms governments entrepreneurs and nd v dua s We are va ued for our ab ty to ant c pate strateg c opportun t es for clients as changes across bus ness sectors markets and geograph es cont nua y a ter how they may best ach eve the r financ a goa s

Every challenge our clients confront is rigorously explored from a 360-degree perspective as we acquire a profound understanding of each client's needs. The firm's specialized industry expertise is broad and deep. Our global coverage has more than 20 dedicated practices, ranging from oil and gas and automotive to emerging technology and life sciences.



> Advisor on more than 500 mergers and acquisitions worldwide, valued at more than $888 billion.

> Largest book manager of corporate debt and equity in the U.S. markets, with over $545 billion raised.

> World leader in global syndicated loans.

> Rated world's best overall derivatives dealer — equity, interest rates and credit.

> A sales and trading powerhouse serving clients from more than 30 trading rooms around the world.

> Closed more than 1,800 direct equity and mezzanine transactions since inception in 1984.

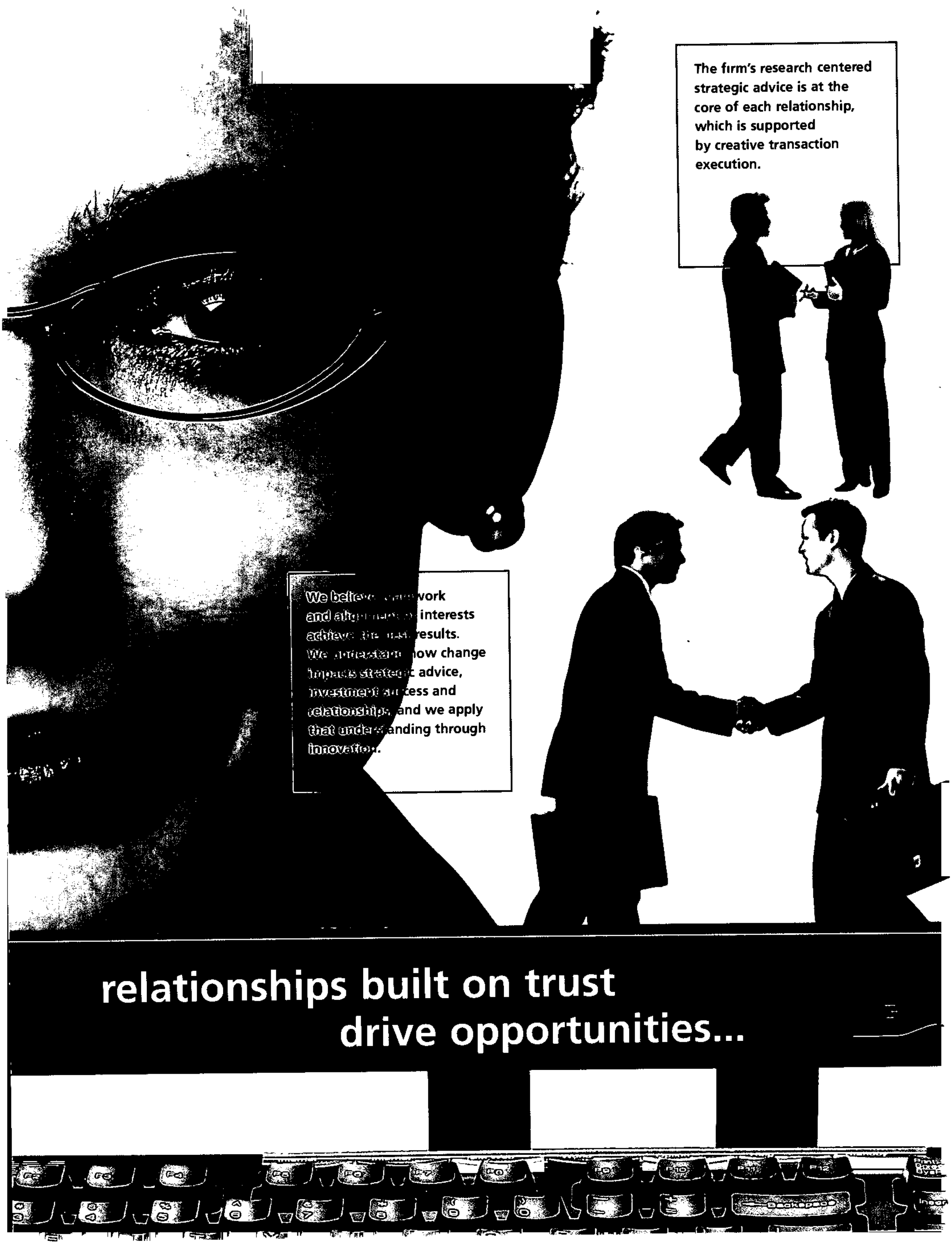
> Second largest private bank in the world.

> More than $320 billion in private banking client assets under management, including brokerage, trust and custody services.

> Leading funds transfer agent moving $1.2 trillion in funds daily.

...the ability to breed ideas that ignite value

The firm links clients swiftly with innovative ideas developed from the entire spectrum of its world-class capabilities: mergers and acquisition advisory, capital raising solutions through every market — credit, debt and equity (public and private); investment alternatives matched with specific capital preservation or growth profiles; sophisticated wealth management advice and solutions; risk management products across every credit, rate and equity market; and the complete suite of operating services, including treasury, investor and institutional trust services.


The firm's research centered strategic advice is at the core of each relationship, which is supported by creative transaction execution.
We believe [illegible]work and alignment [illegible] interests achieve the [illegible] results. We understand how change impacts strategic advice, investment success and relationships, and we apply that understanding through innovation.
relationships built on trust
drive opportunities...

We create exceptional value by integrating our deep and broad global capabilities:

> Integrity

> Clients

> Excellence

> Leadership

> Diversity

> Teamwork

> Quality

> Initiative

...common beliefs define our way of doing business

We perform at the highest levels consistently and predictably every day so our clients and colleagues will count on us when they need us most.

trustworthy, reliable and flexible solutions...

The Chase franchise offers a full spectrum of best-in-class banking, credit and investment products that equip individuals, businesses and communities with relevant solutions to reach their financial goals. From simple solutions to complex financial structures, Chase offers intelligent choices for customers to meet their immediate and long-term needs. Products and services include: savings, checking and money market accounts, the convenience of debit card products, the flexibility of credit and liquidity solutions through credit card, home finance and auto finance products, and a wide range of investment alternatives.

Customer service from the Chase perspective means that every time a person interacts with Chase, that individual is entitled to receive high-quality, personalized service that responds specifically to that particular need — personal, business or community related.

- > Serves more than 30 million customers, small businesses and middle market companies across the U.S.
- > No. 1 full-service bank for consumers and small businesses in the New York tri-state area.
- > No. 1 in market penetration and lead share for middle market companies in the New York tri-state area.
- > No. 2 originator of residential mortgage loans in the U.S., with more than $76 billion originated in 2000.
- > One of the largest originators of auto loans and leases in the U.S. with $25 billion in managed assets.
- > Fifth largest credit card issuer in the U.S.
- > Highly awarded community development business.

The firm's retail and middle market financial services businesses have relationships with more than 30 million individuals, businesses and communities across the United States. With a relentless focus on customer needs, these businesses continually enhance their relationships, service and product offerings based upon each customer's preferred way to interact with us: in person, on the telephone, at an ATM or online.

...that meet life's banking, credit and investment needs

Investment Bank

Key Financial Measures

In millions (except ratios)	2000	1999
Operating Revenue	$15,748	$13,550
Cash Operating Earnings	3,528	3,534
Cash Overhead Ratio	64%	57%

Business Focus

JPMorgan is one of the world's premier investment banks as measured by size, profitability and breadth of its leadership positions. This powerful investment bank franchise was created through the combination of investment banking and commercial banking expertise and specialization from five predecessor firms — J.P. Morgan, Chase Manhattan, Hambrecht & Quist, Robert Fleming and the Beacon Group.

At the center of this franchise are its extensive and worldwide client relationships with corporations, financial institutions, governments and institutional investors. The firm provides clients with a full range of investment banking and commercial banking products: advice on corporate strategy and structure, raising and placing capital, making markets in financial instruments and offering sophisticated risk management services.

The Investment Bank is truly global in scope, with offices in more than 50 countries and deriving approximately 50% of its revenues from outside the U.S.

Leadership Positions

> No. 1 global syndicated loans.

> World's largest foreign exchange and derivatives dealer.

> No. 1 M&A advisor in Asia.

> No. 2 U.S. high-grade securities.

> No. 2 largest global equity research firm based on number of companies covered.

> No. 4 global mergers and acquisitions.

> No. 5 global high-yield securities.

> No. 6 in U.S. equity underwriting.

> No. 7 in global equity underwriting.

> More than 60 *Institutional Investor*-ranked equity analysts on a global basis.

> Award-winning fixed income, economic and currency research.

> Risk Management House of the Year (*Euromoney*).

> Relationships with more than 90% of the *Fortune* 1000 companies.

JPMorgan Partners

Key Financial Measures

In millions (except ratios)	2000	1999
Operating Revenue	$793	$3,085
Cash Operating Earnings	269	1,777
Cash Overhead Ratio	49%	10%

Business Focus

JPMorgan Partners is the firm's principal vehicle for private equity investing. The business provides equity and mezzanine capital financing to companies around the world throughout their entire life cycle. With a portfolio of $24 billion, JPMorgan Partners invests in a broad range of industries, including telecommunications, manufacturing, media and technology, financial services and life sciences.

During its 17-year history, JPMorgan Partners has consistently produced a record of superior financial returns, over multiple business cycles and widely varying conditions in the capital markets, and is recognized as one of the most successful private equity organizations in the world.

Leadership Positions

> One of the largest private equity funds with $24 billion under management.

> More than 1,800 direct equity and mezzanine transactions closed since inception.

> Cash-on-cash internal rates of return in excess of 40% on direct equity and mezzanine investments.

> Seats on the board of directors in over 550 diversified portfolio companies enabling JPMorgan Chase to act as a strategic partner, not only as an investor.

> Maintains network of seven local offices around the world.

> Strong linkages to the global network and capabilities of JPMorgan Chase.

Over the course of a company's history, few events truly are pivotal. This company witnessed just such an event in 2000 when J.P. Morgan and Chase Manhattan merged. The new company, J.P. Morgan Chase & Co., has a strong platform built upon the respective strengths of the predecessor firms. The company is a global financial services firm, offering the full capabilities of an investment and commercial bank, complemented by premier retail and middle market services. The opportunity to combine top-tier content and capabilities with a broad client base is a unique competitive advantage. A diverse earnings stream combined with a disciplined approach to managing risk, expenses and capital will drive growth and returns.

JPMorganChase

at a glance

Investment Management & Private Banking

In millions (except ratios)	2000	1999
Operating Revenue	$3,298	$2,440
Cash Operating Earnings	586	325
Cash Overhead Ratio	74%	79%

JPMorgan Fleming Asset Management is a global investment manager that delivers financial expertise ro governments, corporations, endowments, foundations and individuals in Asia, Europe and the Americas. The business addresses the full spectrum of investment management needs from traditional cash management, equity and fixed income investments, to alternative asset classes such as private equity and real estate. JPMorgan Fleming is committed to delivering excellence in investment performance, a comprehensive array of investment products, and the highest quality of client service and global coverage.

The JPMorgan Private Bank is a global wealth management leader that delivers the highest-quality advice, service, capabilities and products to high net worth individuals and families around the world. The business delivers highly customized and tailored solutions to help clients with the many complexities they face by leveraging all of the commercial and investment banking capabilities of the firm. 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.

- > One of the top five asset managers worldwide with $638 billion in global assets under management.
- > One of the top five global managers of corporate cash and equivalents with more than $135 billion under management.
- > U.S. mutual funds business with $92 billion of assets under management.
- > Largest private bank in the U.S.
- > No. 2 private bank worldwide with over $320 billion in client assets.
- > Relationships with an estimated 35% of the individuals listed in the *Forbes* 400.
- > Private banking relationship clients in 36 countries.

Treasury & Securities Services

In millions (except ratios)	2000	1999
Operating Revenue	$3,554	$3,172
Cash Operating Earnings	693	553
Cash Overhead Ratio	70%	73%

Treasury & Securiries Services is the world's largest bank operating services firm with leadership positions in all major product lines. These services are provided to a global client base of financial insritutions, large corporations, governments, and to middle market companies in the U.S.

These clients are served through three operating units, each of which is a global leader in its business. JPMorgan Investor Services is one of the "big three" custodians globally, with more than $6 trillion in assets under custody, including $2.3 trillion in global custody assets, the fastest growing segment of the market. The business also offers a full range of ancillary investor services, such as securities lending and foreign exchange. JPMorgan Treasury Services is the largest U.S. dollar payments provider and offers products to support the cash management, payment, liquidity and trade finance needs of its global client base in U.S. dollars, the euro and other major currencies. JPMorgan Institutional Trust Services is the largest provider of issuer trustee services, including conventional and structured debt paying agency, as well as securities clearance, collateral management, American depository receipt and government outsourcing services.

- > No. 1 global custodian.
- > No. 1 U.S. dollar clearer.
- > No. 1 trustee for all U.S. taxable debt offerings.
- > No. 1 in CHIPS, Fedwire and U.S. dollar book transfer volume.
- > No. 1 in orders of merit from *Global Investor* client satisfaction survey.
- > No. 1 in custody and transaction services in *Euromoney* annual survey.
- > No. 1 U.S. provider of euro clearing services.
- > No. 1 in issuing and paying agent services for U.S. commercial paper.
- > Best trustee for Europe and Asia-Pacific; runner-up for North America (International Securitisation Report).
- > Leadership franchise with excellent return and growth characteristics that serves 50% of the *Fortune* 1000 companies and 80% of the top 100 global banks.

Retail & Middle Market Financial Services

In millions (except ratios)	2000	1999
Operating Revenue	$10,047	$9,907
Cash Operating Earnings	1,728	1,675
Cash Overhead Ratio	52%	51%

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

Nationwide, these businesses are a leading provider of mortgages, credit cards and auto loans. Through its leadership in commercial banking, the firm maintains a strong competitive advantage in serving middle market companies and small businesses in the New York tri-state area and Texas. JPMorgan Chase continues to strengthen the communities it serves by expanding access to capital and leveraging the many resources of the company.

- > No. 1 full-service bank for consumers and small businesses in the New York tri-state area.
- > No. 1 in market penetration and lead share for middle market companies in the New York tri-state area.
- > No. 2 originator of residential mortgage loans in the U.S., with more than $76 billion originared in 2000.
- > One of the largest originators of auto loans and leases in the U.S., with $25 billion in managed assets.
- > Fifth largest credit card issuer in the U.S.
- > No. 1 bank lender to small businesses in Chase's Texas markets.
- > "Outstanding" rating for Community Reinvestment Act performance from the Federal Reserve Bank of New York, the Office of the Comptroller of the Currency, and the New York and Connecticut State Banking Departments.

Business Focus

LabMorgan is the e-finance engine of JPMorgan Chase. The Lab's mission is to find, develop, invest in and commercialize e-finance opportunities that will transform and strengthen rhe firm's competitive advantage and participate in reshaping the global financial services industry.

Focused on driving e-commerce strategies across JPMorgan Chase, the Lab parrners with the firm's major lines of business to identify and create opportunities for efficiencies, improved customer service and new revenue streams. The Lab works actively with other financial institutions, technology companies and early-stage entities to develop new ways of doing business. Its services include technology, e-consulring, incubation, investment, and business development and commercialization.

The Lab leverages all of the firm's corporate resources, including conrent expertise, strong brands, rechnology platforms, processing flows, capital resources and customer franchises, to reduce build risk and accelerate the market tracrion of new ventures. Since inception in the latter half of 1999, the Lab has invested approximately $500 million in over 60 companies ranging from e-commerce networks in global capital markets to wireless and aggregation platforms used to deliver financial services.

LabMorgan operates from multiple locations globally to position itself at the forefront of e-finance innovation. The Lab's headquarters is in New York, wirh other locations in San Francisco, Sydney, Hong Kong, Singapore, Tel Aviv, Tokyo and São Paulo.

JPMorgan Chase International Locations

Argentina
Buenos Aires

Australia
Adelaide
Brisbane
Buderim
Cairns
Canberra
Gold Coast
Melbourne
Orange
Sydney

Austria
Vienna

Bahamas
Nassau

Bahrain
Manama

Belgium
Brussels

Brazil
Rio de Janeiro
São Paulo

British Virgin Islands
Tortola

Canada
Calgary
Montreal
Toronto
Vancouver

Cayman Islands
Georgetown

Channel Islands
Jersey

Chile
Santiago

China (People's Republic of)
Beijing
Hong Kong
Shanghai
Shenzhen
Tianjin

Colombia
Bogotá

Czech Republic
Prague

Egypt
Cairo

France
Paris

Germany
Berlin
Frankfurt

Greece
Piraeus

India
Mumbai
New Delhi

Indonesia
Jakarta

Ireland
Dublin

Israel
Tel Aviv

Italy
Milan
Rome

Japan
Osaka
Tokyo

Lebanon
Beirut

Luxembourg

Malaysia
Kuala Lumpur
Labuan
Selangor

Mexico
Mexico City
Monterrey

Namibia
Windhoek

Netherlands
Amsterdam

New Zealand
Auckland
Christchurch
Wellington

Nigeria
Lagos

Norway
Oslo

Pakistan
Karachi

Peru
Lima

Philippines
Manila

Poland
Warsaw

Portugal
Lisbon

Russia
Moscow

Singapore

South Africa
Cape Town
Johannesburg
Pietermaritzburg

South Korea
Seoul

Spain
Barcelona
Bilbao
Madrid
Pamplona
Seville
Valencia

Sri Lanka
Colombo

Sweden
Stockholm

Switzerland
Geneva
Zurich

Taiwan
Taipei

Thailand
Bangkok

Turkey
Istanbul

United Kingdom
Bournemouth
Edinburgh
Essex
Glasgow
Isle of Man
London

Venezuela
Caracas

Vietnam
Hanoi
Ho Chi Minh City

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American Home Products Corporation

Lloyd D. Ward
Chairman and Chief Executive Officer
iMotors

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Chairman of the Board

Marina v.N. Whitman
Professor of Business Administration
and Public Policy
University of Michigan

executive committee

Douglas A. Warner III
Chairman of the Board

William B. Harrison, Jr.
President and Chief Executive Officer

Geoffrey T. Boisi
Investment Bank

David A. Coulter
Retail &
Middle Market Financial Services

Ramon de Oliveira
Investment Management
& Private Banking

Walter A. Gubert
Investment Bank

Thomas B. Ketchum
Technology Council

Donald H. Layton
Investment Bank

James B. Lee, Jr.
Investment Bank

Marc J. Shapiro
Finance, Risk Management
& Administration

Jeffrey C. Walker
JPMorgan Partners

other corporate officers

Dina Dublon
Finance

John J. Farrell
Human Resources

Peter Gleysteen
Credit

Mary Guilfoile
Treasury

Frederick W. Hill
Marketing and Communications

Anthony J. Horan
Secretary

William H. McDavid
Legal

William J. Moran
Auditing

Joseph L. Sclafani
Controllers

Lesley Daniels Webster
Market Risk Management

financial table of contents

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

This section of the Annual Report provides management's discussion and analysis of the financial condition and results of operations for JPMorgan Chase. See Glossary of Terms on page 98 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.

Management's Discussion and Analysis:

Audited Financial Statements:

Supplementary Information:

Overview

On December 31, 2000, The Chase Manhattan Corporation and J.P. Morgan & Co. Incorporated merged to create a premier global financial services firm, J.P. Morgan Chase & Co.

Operating Performance of JPMorgan Chase

Year Ended December 31, (in millions, except per share and ratio data)	2000	1999	Over/(Under) 1999
Operating Basis[a]			
Revenue	$32,793	$31,695	3%
Earnings	5,927	7,433	(20)
Diluted Earnings per Share ("EPS")	2.96	3.65	(19)
Return on Average Common Equity ("ROCE")	16.1%	22.2%	(610)bp
Cash Operating Basis[b]			
Earnings	$ 6,455	$ 7,762	(17)%
Diluted Cash EPS	3.23	3.82	(15)
ROCE	17.6%	23.2%	(560)bp
Reported Basis			
Net Income	$ 5,727	$ 7,501	(24)%
Diluted Net Income per Share	2.86	3.69	(22)
ROCE	15.6%	22.5%	(690)bp
Tier 1 Capital Ratio	8.5	8.5	—

(a) Operating basis excludes the impact of credit card securitizations, merger and restructuring costs, and special items.
(b) Cash operating basis excludes the impact of the amortization of goodwill and certain other intangibles.
For a further discussion of Management Performance Measurements, see page 25.
bp- Denotes basis points; 100 bp equals 1%.

Total operating revenue of $32.8 billion for JPMorgan Chase was 3% higher than in 1999 despite a difficult market environment in the second half of 2000.

Operating results of JPMorgan Chase in 2000 were adversely affected by mark-to-market declines in the values of investments held by JPMorgan Partners ("JPMP").

Operating earnings in 2000 were $5.93 billion, compared with $7.43 billion in 1999, and diluted operating EPS declined to $2.96 in 2000 from $3.65 in 1999.

On a reported basis, which includes merger and restructuring costs and special items, net income in 2000 was $5.73 billion, compared with $7.50 billion in 1999, and diluted net income per share was $2.86 for 2000, compared with $3.69 for 1999.

With total assets of $715 billion and stockholders' equity of $42 billion, the Firm's financial position is strong, as reflected in a Tier 1 Capital ratio of 8.5% and double A credit ratings. Moreover, operating results are broadly diversified by business and region.

Operating Performance of JPMorgan Chase Excluding JPMP[a]

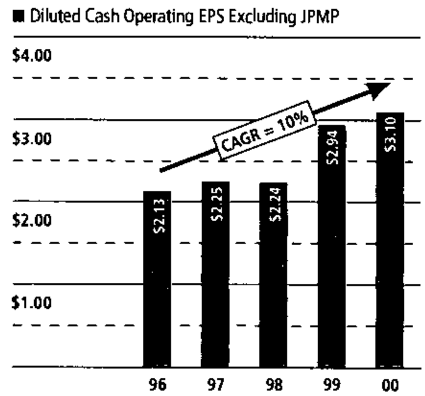
Year Ended December 31, (in millions, except per share and ratio data)	2000	1999	Over/(Under) 1999
Operating Revenue	$32,000	$28,610	12%
Cash Operating Earnings	6,180	5,985	3
Diluted Cash EPS	3.10	2.94	5
Cash ROCE	21.6%	21.8%	(20)bp

(a) JPMP represents JPMorgan Partners, the Firm's private equity business.

Management tracks the operating performance of JPMorgan Chase both including and excluding JPMorgan Partners' results. Over the past few years, volatile stock markets have yielded significant fluctuations in rhe market values of securities held by JPMorgan Pattners. As a result, JPMorgan Partners' reported gains may include significant unrealized valuation adjustments for any given period, which can, in turn, significanrly affecr, both favorably and unfavorably, JPMorgan Chase's operating results.

Operating revenues, excluding JPMorgan Partners, were $32 billion, or 12% higher than in 1999, reflecting growth in investmenr banking fees, trading revenues, and fees and commissions. These increases were helped by rhe acquisitions of Robert Fleming Holdings Limited ("Flemings") and Hambrecht & Quist ("H&Q"). However, operating results were adversely affected by expense growth, particularly in investment banking.

Cash EPS



Management also monitors its operating results on a cash basis, which excludes the impact of the amortization of goodwill and certain other intangibles. Cash operating earnings, excluding JPMorgan Partners, in 2000 were $6.18 billion, up slightly from 1999 despite a difficult capital markets environment in the second half of 2000. Diluted cash EPS increased 5% from 1999.

Strategic Initiatives
The Firm is the product of successful, multi-year initiatives at both heritage organizations to build a leadership position in global banking. Leading up to the merger, initiatives during 2000 included:

> Chase's integration of H&Q and creation of a leading new economy investment banking franchise

> Chase's acquisition of Flemings, providing investment banking and asset management capabilities in Europe and Asia

> Chase's acquisition of The Beacon Group, LLC ("Beacon"), strengthening the domestic mergers and acquisitions ("M&A") practice

> J.P. Morgan's drive to expand client-driven revenue growth and diversify earnings through key leadership positions in derivatives, equities, M&A, asset management and private banking

Together, these initiatives and the merger created a leading wholesale financial services firm, complemented by a strong and profitable U.S. consumer business.

Key Results by Segment
Cash operating earnings of $3.5 billion make the **Investment Bank** one of the most profitable investment banking franchises in the world, even after taking into account the high expense growth in 2000 to support strategic investments made during the year and a challenging market environment. The financial results reflect relationships with thousands of clients globally and leading marker positions in virtually every major capital market and advisory segment.

Investment Management & Private Banking is one of the largest global institutional and private client investment management and private banking businesses. Cash operating earnings grew from $325 million in 1999 to $586 million in 2000, assisted by the acquisitions of Flemings and H&Q. Assets undet management for these businesses stood at $638 billion at December 31, 2000, excluding the pro rata share of American Century Companies, Inc. ("American Century"), a 45%-owned mutual fund company.

Treasury & Securities Services continued to benefit from increased market volumes and margin improvement initiatives, posting $693 million in cash operating earnings, an increase of 25% over 1999.

JPMorgan Partners record realized cash gains of $2.04 billion were offset by a significant decline in the unrealized value of the publicly quoted portion of the securities portfolio, primarily NASDAQ-listed investments in the telecommunications and technology sectors. Despire the decline, the public equity portfolio maintained, at December 31, 2000, a quoted market value of 2.7 times its original cost. Public securities account for 16% of the $12 billion investment portfolio of JPMorgan Partners as of year-end.

Retail & Middle Market Financial Services cash operating earnings rose 3%, with solid returns across each of its five businesses. Improved credit quality and disciplined expense management drove results.

Capital and Risk Management
The Firm carries forward the commitment to disciplined risk and capital management that was the hallmark of both predecessor firms. Shareholder Value Added ("SVA") remains a critical performance metric for each line of business.

Chase's position as the No. 1 arranger of syndicated loans and J.P. Morgan's leadership in credit derivatives and structured finance help make the Firm a leader in credit risk management. The Firm's commercial lending and counterparty credit exposures as of December 31, 2000 were approximately 67% investment grade and were well-divetsified by industry and geography. Nonpetforming assets of $1.9 billion increased slightly, and net charge-offs of $2.47 billion for the managed loan portfolio declined by 10% from 1999 levels.

JPMorgan Chase's market risk discipline combines elements from both predecessor firms, drawing on Value-at-Risk ("VAR") and stress testing.

Performance Outlook
JPMorgan Chase is committed to capturing the value of the merger through close management of the inregration process and focus on performance goals.

The integration is progressing rapidly and well. The senior management team was appointed when the merger was announced, and, as of December 31, 2000, more than 1,700 positions had been selected. Client response to the inregrated capabilities of the Firm has been very favorable. By January 2001, all majot systems selections had been made, and major systems conversions are expected to be completed by year-end 2001.

JPMorgan Chase currently expects to realize $3 billion in pre-tax merger synergies: $2 billion in reduced annual expenses resulting from the elimination of overlapping or duplicated functions and $1 billion in incremental revenues net of related expenses expected from the combination of the predecessor firms' clienr and product capabilities. Approximately one-third of these synergies are expected to be realized in 2001 and the remainder by the end of 2002, with the full effect in the run-rate in 2003.

With its global wholesale capabilities now in place, the Firm expects expense growth to slow significantly. Cash operating expenses for JPMorgan Chase in 2001 are targeted to be the same as pro forma 2000 expenses (which assumes that the purchase of Flemings occurred at the beginning of 2000). The Firm has defined the following long-term performance goals:

> Cash tetutn on average common equity of 20% to 25%

> Annual cash earnings per share growth rate of 15%

> Annual growth in operating revenue of 10% to 12%

Management Performance Measurements

Operating Basis

Operating results exclude the impact of merger and restructuring costs, credit card securitizations, and nonrecurring gains and losses (special items). 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, thereby hindering management's analysis of trends. For example, special items include gains or losses on sales of significant nonstrategic assets. In 2000, management generally defined nonrecurring revenues or expenses in excess of $50 million as special items.

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

Cash Operating Earnings

Cash operating earnings are defined as operating earnings excluding the impact of amortization of goodwill and certain other intangibles ("amortization of intangibles"). Cash operating earnings provide management with a better indicator of each business' return on cash equity invested.

Shareholder Value Added

SVA is JPMorgan Chase's primary performance measure of its businesses. SVA measures the return generated by each business unit above a capital charge of 13%, which was Chase's proxy for the after-tax return required by its shareholders for the use of their capital. For example, if new capital can be employed over time at a return in excess of 13% or if activities or assets that do not return 13% on capital can be eliminated, SVA will increase. SVA measures the dollar benefit (or cost) of employing capital in the business units versus returning capital to shareholders. Each business unit is measured by its contribution to long-term growth in SVA. At J.P. Morgan, the charge for capital varied by business but averaged 10.5%. Management is reassessing the capital allocation and cost of capital for 2001.

Step-by-Step Computation of SVA

The following illustrates how JPMorgan Chase computes its SVA.

Year Ended December 31, (in millions)		2000
Operating Earnings		$ 5,927
Add Back: Amortization of Intangibles		528
Cash Operating Earnings		6,455
Less: Preferred Dividends		96
Adjusted Cash Operating Earnings		6,359
Average Common Equity	$ 36,176	
Charge for Capital(a)	x 13%	
Less: Cost of Capital		(4,703)
SVA		$ 1,656

(a) The cost of capital used for JPMC was 13%.

The following table provides a reconciliation between JPMorgan Chase's reported and operating results.

Year Ended December 31, (in millions, except per share data)	2000 Reported Results(a)	2000 Credit Card(b)	2000 Special Items(c)	2000 Operating Basis	1999 Reported Results(a)	1999 Credit Card(b)	1999 Special Items(c)	1999 Operating Basis
Income Statement								
Revenue	$ 32,934	$ 990	$ (1,131)	$ 32,793	$30,930	$993	$ (228)	$ 31,695
Cash Expense	20,865	—	—	20,865	17,643	—	(100)	17,543
Amortization of Intangibles	528	—	—	528	329	—	—	329
Operating Margin	11,541	990	(1,131)	11,400	12,958	993	(128)	13,823
Credit Costs	1,377	990	—	2,367	1,446	993	—	2,439
Income before Restructuring Costs	10,164	—	(1,131)	9,033	11,512	—	(128)	11,384
Merger and Restructuring Costs	1,431	—	(1,431)	—	23	—	(23)	—
Income before Income Tax Expense	8,733	—	300	9,033	11,489	—	(105)	11,384
Tax Expense	3,006	—	100	3,106	3,988	—	(37)	3,951
Net Income	$ 5,727	$ —	$ 200	$ 5,927	$ 7,501	$ —	$ (68)	$ 7,433
Add Back: Amortization of Intangibles	528	—	—	528	329	—	—	329
Cash Earnings	$ 6,255	$ —	$ 200	$ 6,455	$ 7,830	$ —	$ (68)	$ 7,762
Net Income per Share:								
Basic	$ 2.99			$ 3.09	$ 3.87			$ 3.83
Diluted	2.86			2.96	3.69			3.65
Cash Earnings per Share:								
Basic	$ 3.27			$ 3.38	$ 4.04			$ 4.00
Diluted	3.13			3.23	3.85			3.82

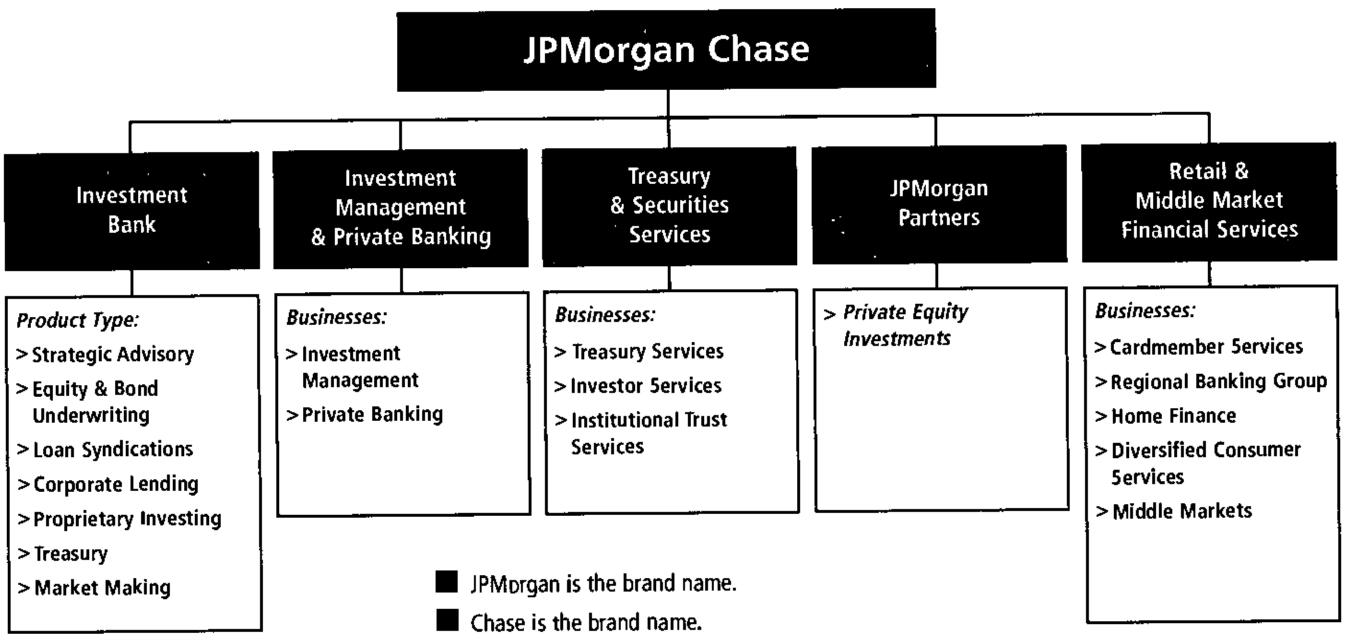
(a) Represents condensed results as reported in JPMorgan Chase's financial statements. Cash expense represents total noninterest expense less amortization of intangibles and merger and restructuring costs.

(b) This column excludes the impact of credit card securitizations. For securitized receivables, amounts that previously would have been reported as net interest income and as provision for loan losses instead are reported as components of noninterest revenue.

(c) Includes merger and restructuring costs and special items. For a description of special items, see Glossary of Terms on page 98.

Lines of Business Results

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



The table below provides summary financial information on a cash operating basis for the five major business segments. The discussion that follows the table focuses on business unit profile and performance within each of these business segments. See Note 29 for further information about JPMorgan Chase's five business segments.

Lines of Business Results

Year Ended December 31, (in millions, except ratios)	Investment Bank 2000	Investment Bank Over/(Under) 1999	Investment Management & Private Banking 2000	Investment Management & Private Banking Over/(Under) 1999	Treasury & Securities Services 2000	Treasury & Securities Services Over/(Under) 1999
Operating Revenue	$ 15,748	16%	$ 3,298	35%	$ 3,554	12%
Cash Expense	10,012	29	2,431	26	2,476	7
Cash Operating Earnings	3,528	—	586	80	693	25
Average Common Equity	17,089	(1)	3,168	121	2,729	(6)
Average Managed Assets	474,477	4	30,643	46	16,054	(3)
Shareholder Value Added	1,380	(2)	177	7	335	102
Cash ROCE	20.4%	30 bp	18.2%	(420) bp	25.2%	660 bp
Cash Overhead Ratio	64	700	74	(500)	70	(300)

(a) Column includes support units and the effects remaining at the corporate level after the implementation of management accounting policies.
NM- Not meaningful.
bp- Denotes basis points; 100 bp equals 1%.

The Firm's business lines were realigned to reflect the manner in which financial information is evaluated by management. For instance, the Investment Bank now includes the capital markets, trading and corporate finance units of the Firm. JPMorgan Chase's lines of business are segmented based on the products and services provided or the type of customer serviced.

The current presentation of lines of business results is based on capital allocation methodologies that existed at each predecessor institution. For purposes of this presentation, the cost of capital applied is 13% for consolidated JPMorgan Chase. An integrated economic capital methodology, including determination of the amount and cost of capital, is being developed and will be implemented in 2001.

Restatements will occur in future periods to reflect further alignment of management accounting policies.

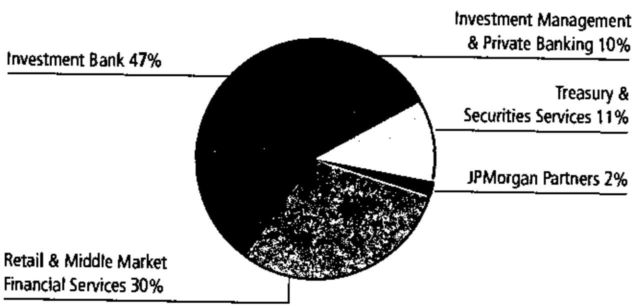
Both heritage organizations allocated equity based primarily on three risk factors. The methodologies quantified credit, market and operational risks within each business unit and assigned capital accordingly. The underlying approaches to credit, market and operational risk measurement are further described on page 43.

Capital charges also were assessed against business units for certain non-risk factors. Businesses were assessed capital equal to 100% of any goodwill or certain other intangibles generated through acquisitions in order to create accountability for the use of that capital. Additionally, Chase charged a "leverage capital tax" against managed assets and some off-balance sheet instruments, whereas J.P. Morgan assessed a charge to businesses based on balance sheet usage. For both heritage firms, these assessments recognized that certain minimum regulatory capital ratios must be maintained.

Taken together, the capital elements and resultant capital charges to business units provide the businesses with the financial framework to evaluate the trade-off between the use of capital by the business versus its return to the shareholders. The capital charges are an integral part of the SVA measurement for each line of business.

Diversification of Businesses

2000 Operating Revenues



2000 Cash Operating Earnings

Lines of Business Results (continued)

Retail & Middle Market Financial Services		Operating Results Excluding JPMP(a)		JPMorgan Partners		Operating Results Including JPMP	
2000	Over/(Under) 1999	2000	Over/(Under) 1999	2000	Over/(Under) 1999	2000	Over/(Under) 1999
$ 10,047	1%	$ 32,000	12%	$ 793	(74)%	$ 32,793	3%
5,226	4	20,476	19	389	24	20,865	19
1,728	3	6,180	3	269	(85)	6,455	(17)
8,074	4	28,295	5	7,881	33	36,176	10
146,487	12	682,100	7	13,480	38	695,580	7
661	2	2,342	3	(686)	NM	1,656	(51)
21.2%	(10)bp	21.6%	(20) bp	3.2%	(2,650)bp	17.6%	(560)bp
52	100	64	400	49	3,900	64	900

Investment Bank

- > Strategic Advisory
- > Equity & Bond Underwriting
- > Loan Syndications
- > Corporate Lending
- > Proprietary Investing
- > Treasury
- > Market Making (Derivatives, Foreign Exchange and Securities)

The Investment Bank is a global leader in providing capital markets and strategic advisory services and products. With cash operating earnings of $3.5 billion, it is one of the most profitable investment banking franchises in the world. Its mission is to be the preeminent investment bank worldwide.

2000 Highlights

- > Acquisitions of Flemings and Beacon
- > Operating revenues increased 16% from 1999
- > Investment banking fees rose 23% from 1999
- > Cash return on common equity of 20.4%

Business Profile

JPMorgan is a leading investment bank that meets the critical financial needs of corporations, financial institutions, governments and institutional investors around the world. The Firm advises on corporate strategy and structure, raises capital, makes markets in financial instruments and offers sophisticated risk management services. This powerful franchise was created through combining the investment banking expertise and specialization of five financial institutions – J.P. Morgan, Chase, H&Q, Flemings and Beacon.

At the center of the investment banking business is its corporate and institutional client relationships. Client coverage and sales and trading professionals coordinate marketing, origination and distribution activities for the Firm's full range of products and services. The Investment Bank's activities are conducted along three axes: clients, products and regions. The Firm matches client coverage in each region with global product and industry execution capabilities.

In partnership with clients, advisory professionals analyze and implement strategic alternatives, including mergers, acquisitions, privatizations and changes in clients' capital structures to help clients meet their strategic goals. The Investment Bank's advisory services in 2000 ranked fourth in completed worldwide M&A transactions.

The Investment Bank's capital markets activities are composed of underwriting, market making, risk management, sales and research across equity, debt, interest rate, foreign exchange and commodity markets. From the Firm's leading positions in major financial markets, it is able to help issuer clients execute their strategies by raising debt and equity capital in both public and private markets and by assisting clients in managing their exposures.

The Investment Bank is a leading underwriter of both debt and equity securities. In 2000, the Firm ranked as one of the top five underwriters of aggregate global debt, equity and equity-related issues, with a combined 9% market share, and was one of only two firms in the top five to increase market share. In U.S. syndicated loans, the Investment Bank continued to be the market leader, with a commanding market share of 34%.

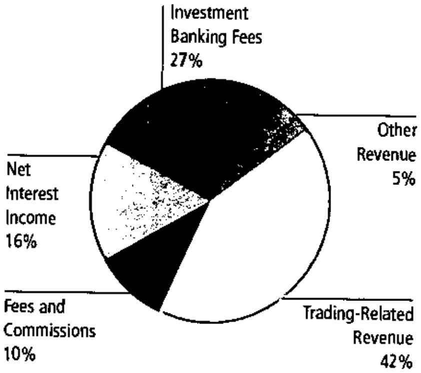
As a market maker, the Investment Bank acts as both principal and agent to facilitate clients' transactions in exchange-listed and over-the-counter securities, derivatives and foreign exchange contracts. JPMorgan Chase holds global leadership positions

League Table Rankings

- > **No. 1 in U.S. syndicated loans with 34% market share**
  (Thomson Financial Securities Data)
- > **No. 2 in U.S. investment grade bond underwriting**
  (Thomson Financial Securities Data)
- > **No. 2 in foreign exchange market share**
  (*Euromoney*, May 2000)
- > **No. 4 in worldwide M&A advisory; completed transactions**
  (Thomson Financial Securities Data)
- > **No. 5 in high-yield bond underwriting**
  (Thomson Financial Securities Data)
- > **No. 6 in U.S. Equity Offerings**
  (Thomson Financial Securities Data)
- > **Interest Rate Derivative House of the Year**
  (*IFR*, Review of the Year)
- > **Best Overall Derivative Dealer**
  (*Derivative Strategy*, January 2001)

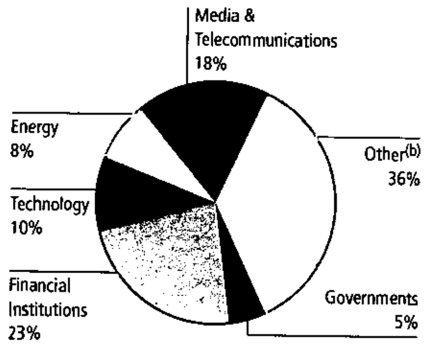
Diversification of Revenues by Axis

Operating Revenue by Category[a]



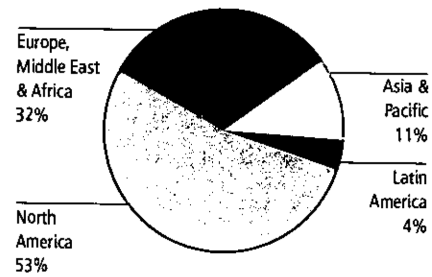
(a) The Investment Bank products are recorded in the above revenue categories.

Operating Revenue by Industry[a]



(a) Reflects client revenue by industry.
(b) Includes all other industries that are less than 5% of total revenue.

Operating Revenue by Region



across these markets. For example, the Firm maintained an estimated 25% market share of outstanding notional amounts of interest rate derivatives; ranked second in foreign exchange contracts; and had leading market share positions in credit and equity derivatives. In futures and options brokerage, the Investment Bank continues to hold strong market share positions on the world's major exchanges.

The Investment Bank is committed ro meeting the critical financial needs of issuer and investor clients.

Investment Bank

Selected Financial Data

Year Ended December 31, (in millions, except ratios)	2000	Over/(Under) 1999
Trading-Related Revenue	$ 6,672	3%
Investment Banking Fees	4,288	23
Net Interest Income	2,457	(1)
Fees and Commissions	1,547	39
All Other Revenue	784	NM
Operating Revenue	15,748	16
Compensation Expense	6,544	32
Noncompensation Expense	3,468	24
Cash Expense	10,012	29
Cash Operating Earnings	$ 3,528	— %
Average Common Equity	$ 17,089	(1)%
Average Assets	474,477	4
Shareholder Value Added	1,380	(2)
Cash ROCE	20.4%	30bp
Cash Overhead Ratio	64	700

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

Financial Highlights

The Investment Bank had operating revenues of $15.7 billion in 2000, an increase of 16% from 1999. On a pro forma basis, including the acquisitions of Flemings and H&Q for both full-years 2000 and 1999 ("pro forma for Flemings and H&Q"), revenues were up 10%.

Investment banking fees rose 23% to a record $4.29 billion, driven by gains in both advisory and underwriting revenues and the inclusion of results from Flemings and H&Q. The strong momentum from advisory activities continued throughout 2000, although market activity slowed toward the end of the year. Advisory fees increased 49% from 1999 to $1.5 billion led by strong results within the technology and media & telecommunications sectors. Underwriting revenues grew 13% in 2000 to $2.8 billion. Equity underwriting revenues soared nearly 180% in 2000, primarily resulting from the H&Q acquisition, which further advanced the equity underwriting franchise into the fast-growing healthcare and technology-related industries. Pro forma for Flemings and H&Q, equity underwriting revenues increased 30%. Fees from debt underwriting decreased 12% from the prior year to $2.0 billion, reflecting difficult market conditions for the high-yield market during the second half of 2000.

Ttading revenues (including related net interest income) rose 3% to $6.67 billion reflecting gains across most products. Equity trading revenues increased 48%, driven by gains in equity derivatives and the inclusion of Flemings and H&Q.

Fees and commissions revenue increased 39% to $1.5 billion, driven by higher equity brokerage commissions from higher marker volumes as well as greater marker share due, in part, to acquisitions.

Cash operating expenses for the Investment Bank rose for the year. The increases in expenses were primarily due to the buildup of the investment banking platform and the inclusion of Flemings and H&Q in the current period. Also contributing to higher expenses were increased incentive costs, driven by revenue growth and acquisition-related compensation commitments to rerain key executives. Pro forma for Flemings and H&Q, cash operating expense increased 18%.

Cash operating earnings of $3.53 billion for the full-year 2000 were flat, when compared with 1999.

The Invesrment Bank has targeted a cash overhead ratio of 60% by year-end 2001, assuming financial markets activity in 2001 at levels only moderately highet than in 2000. The Investment Bank intends to reduce its expenses in 2001 from pto forma 2000 expenses (assumes the purchase of Flemings at the beginning of 2000), primarily as a result of reductions in headcount and incentive compensation.

Investment Management & Private Banking

> Investment Management
> Private Banking

The Investment Management & Private Banking businesses are leaders in the industry with $638 billion in global assets under management, nearly 9,000 professionals worldwide, and a local presence in more than 20 cities in the U.S. and in 36 countries.

Business Profile

Investment Management

For more than 150 years, JPMorgan Fleming Asset Management (the worldwide name for Investment Management) has provided investment services to clients and, importantly, expanded its capabilities to include a full range of asser classes. Clients have access to a mix of products and services, from traditional cash management and equity and fixed income investments to alternative asset classes such as private equity and real estate. Investment management and research are performed on a global scale. The acquisition of Flemings has expanded market reach in Asia and Europe and added further investment capability in international equities. Client channels are balanced across public and private institutions and retail and high net worth investots, largely thtough financial intermediaries. Global scale, a btoad artay of asset class capabilities, commitment to client service and sttong focus on investment petformance position JPMorgan Fleming Asset Management among the industry leaders.

Private Banking

This is the largest private bank in the U.S. and the second largest worldwide, with more than $320 billion in client assets. The strategy focuses on customized and integrated delivery of solutions covering the spectrum of client needs, from banking and planning to sttucturing and investments. Multi-disciplinary teams of specialists are mobilized to help clients meet their objectives. The Private Bank has depth and quality of offerings, which include core proprietary and third-party solutions.

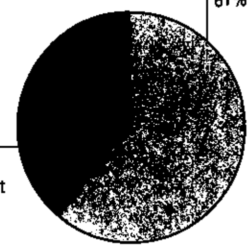
Financial Highlights

Investment Management & Private Banking had operating revenues of $3.30 billion, compared with $2.44 billion in 1999, primarily due to the acquisitions of Flemings and H&Q. Pro forma for Flemings and H&Q, Private Banking revenues rose 20%, led by strong commission revenues and structuring fees in the first half of the year. Investment Management revenues on a pro forma basis increased 14% from 1999. For the year, cash pre-tax margin improved to 26% from 21% in 1999. Pre-tax margin represents the percentage of cash operating income before taxes to total operating revenue.

Cash operating expenses of $2.43 billion for the year also reflect the impact of Flemings and H&Q. Cash operating earnings were $586 million for the year. On a pto forma basis, cash expenses grew by 10% and cash opetating earnings increased 50% from 1999.

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

Operating Revenues by Key Businesses 2000[(a)]



(a) Pro forma for Flemings and H&Q, Private Banking and Investment Management revenues were 53% and 47%, respectively.

2000 Highlights

> Acquisition of Flemings expanded market reach in Asia and Europe

> Significant improvement in pre-tax margin, up from 21% to 26%

> Increase of 32% in reported Private Banking revenues

Investment Management & Private Banking

Selected Financial Data

Year Ended December 31, (in millions, except ratios)	2000	Over/(Under) 1999
Fees and Commissions	$ 2,248	29%
Net Interest Income	597	18
Trading-Related Revenue	223	201
All Other Revenue	193	84
Investment Banking Fees	37	—
Operating Revenue	3,298	35
Compensation Expense	1,372	37
Noncompensation Expense	1,059	15
Cash Expense	2,431	26
Cash Operating Earnings	$ 586	80%
Average Common Equity	$ 3,168	121%
Average Assets	30,643	46
Shareholder Value Added	177	7
Cash ROCE	18.2%	(420)bp
Cash Overhead Ratio	74	(500)

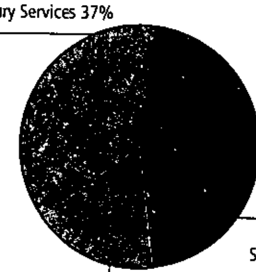
bp- Denotes basis points; 100 bp equals 1%.

Treasury & Securities Services

> Treasury Services
> Investor Services
> Institutional Trust Services

Treasury & Securities Services maintains a leadership franchise in providing value-added information and transaction processing services to a global client base of financial institutions, large and middle-market companies, and governments.

Operating Revenues by Key Businesses 2000



Business Profile

Treasury Services
This business unit provides a broad spectrum of treasury and cash management services to corporations, financial institutions and governmental entities worldwide. These services include global cash management, multicurrency payments, trade finance, liquidity and e-commerce solutions that help clients make payments and manage the efficiency of their cash. With strong positions in virtually every market served and an extensive global correspondent banking network, Treasury Services processes more than $1 trillion daily in U.S. dollar funds transfers. It also has a strong position in Euro clearing, where the Firm is number two globally and the largest U.S. clearer of the Euro.

Investor Services
Investor Services provides solutions to institutional investors, including mutual funds, investment managers, pension funds, insurance companies and banks. As a leading custodian, it holds in trust and custody $6 trillion in assets, of which $2.3 trillion are global custody assets. Investor Services meets the needs of institutional investors by providing customized business solutions that optimize efficiency, enhance revenues and mitigate the risks associated with global investing. It provides a full range of innovative products and services to clients, including global and domestic custody, securities lending, cash and short-term investment products, outsourcing and distribution solutions, and information delivery.

Institutional Trust Services
Institutional Trust Services is a global market leader in delivering traditional corporate trust and related transaction management services, such as structured finance administration, international securities clearing, collateral management, settlement services and American depository receipt services. In addition, Institutional Trust Services provides outsourcing support to a variety of U.S. and international government agencies. The business, acting as rrustee and as issuing and paying agent for debt securities, services more than $3 trillion in debt worldwide.

Financial Highlights

Treasury & Securities Services operating revenues for the full-year 2000 were $3.55 billion, 12% higher than 1999. Broad-based growth of 17% in Investor Services and Institutional Trust revenues fueled the increase. Treasury Services revenues increased by 5% in 2000, and were tempered by lower revenues from the repositioned trade business.

Expenses rose more slowly than revenues, primarily reflecting expense reductions in Treasury Services. Total cash operating expenses rose 7% from last year, resulting in significant margin improvements and cash operating earnings growth of 25% to $693 million.

Management expects similar revenue growth trends in 2001. Expense management will continue, and management has targeted to reach a cash overhead ratio, over time, in the mid-60% range.

2000 Highlights

> Cash operating earnings increased by 25%
> Operating revenue increased by 12%
> Cash overhead ratio improved to 70%

Treasury & Securities Services

Selected Financial Data

Year Ended December 31, (in millions, except ratios)	2000	Over/(Under) 1999
Fees and Commissions	$ 1,939	12%
Net Interest Income	1,391	12
All Other Revenue	224	13
Operating Revenue	3,554	12
Compensation Expense	1,062	7
Noncompensation Expense	1,414	8
Cash Expense	2,476	7
Cash Operating Earnings	$ 693	25%
Average Common Equity	$ 2,729	(6)%
Average Assets	16,054	(3)
Shareholder Value Added	335	102
Cash ROCE	25.2%	660bp
Cash Overhead Ratio	70	(300)

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

JPMorgan Partners

During its 17-year history, JPMorgan Partners has produced strong financial returns, over multiple business cycles and varying conditions in the debt and equity markets, and is recognized as one of the most successful private equity organizations in the world.

2000 Highlights

> **Private equity realized cash gains grew 21% to a record $2.04 billion**

> **Primarily as the result of unrealized losses due to the market's performance, private equity gains declined $2.15 billion**

> **Investment pace increased 38% to $3.1 billion**

Business Profile

JPMorgan Partners ("JPMP") serves as JPMorgan Chase's principal vehicle for private equity investing. It provides equity and mezzanine capital financing to companies throughout the business development life cycle. With more than 150 investment professionals, JPMP is a global organization investing directly in companies in over 30 countries through its seven offices and 13 strategic relationships.

As of year-end, JPMorgan Partners managed $24 billion of funds of JPMorgan Chase and third-party client investments that included over 1,200 direct equity and mezzanine investments, investments in other funds, and investments in alternative products such as hedge funds, managed futures, leveraged loans and high-yield bonds.

JPMorgan Partners strives to be partner of choice when providing capital financing. Its extensive global network of strategic relationships complements its existing base of investment professionals. Together, they provide JPMP with the knowledge, experience and resources that are used to consider investments in a wide variety of industries and geographic regions.

Since inception in 1984, JPMorgan Partners has invested in more than 1,800 direct equity and mezzanine transactions. Investments of this type have generated realized capital gains with cash-on-cash internal rates of return in excess of 40% (excluding expenses and taxes).

Financial Highlights

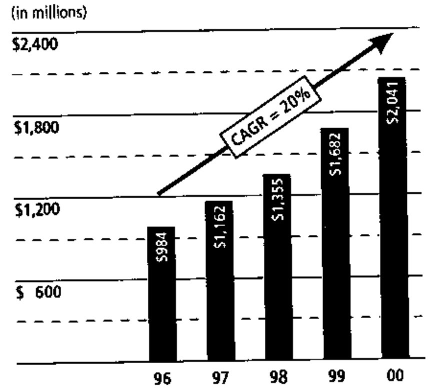
JPMorgan Partners' initial direct investments (on behalf of JPMorgan Chase) are predominately in private companies. Some of these companies go public to raise financing or to provide an exit strategy for their private investors. Private investments, which constituted 84% of the carrying value of the portfolio (at year-end), generally are carried at cost, which approximates fair value. The remaining 16% of the portfolio is invested in companies that now are public. Public companies are carried at fair value, which incorporates discounts from quoted market value.

JPMorgan Partners recognized private equity gains of $988 million in 2000. These results reflect both the continued growth in realized cash gains consistent with the increasing investment pace over the last five years and the negative impact of the downward movement of the public equity markets, particularly in the second half of the year, which created unrealized declines in the carrying value of the portfolio.

JPMorgan Partners manages its business on a cash multiple and internal rate of return basis. In 2000, realized cash gains grew 21% to a record $2.04 billion, primarily as a result of sales of direct investments in companies that JPMorgan Partners had financed in prior years. The global diversification of JPMP's private equity portfolio is reflected by the more than 300 investments across seven major industry groups and four major geographic regions that comprised the realized cash gains generated in 2000.

The downward movement in the public equity markets in 2000 was primarily responsible for the $1.05 billion decline in the unrealized carrying value of the portfolio. This decline was most significant in the NASDAQ market and most notably affected investments in public companies in the telecommunications and technology sectors. Many of these same investments

JPMorgan Partners Realized Cash Gains
(in millions)



JPMorgan Partners
Selected Financial Data

Year Ended December 31, (in millions, except ratios)	2000	Over/(Under) 1999
Private Equity:		
Realized Gains	$ 2,041	21%
Unrealized Gains (Losses)	(1,053)	NM
Net Interest Income	(306)	—
Fees and Commissions	86	126
All Other Revenue	25	(58)
Operating Revenue	793	(74)
Compensation Expense	169	(3)
Noncompensation Expense	220	58
Cash Expense	389	24
Cash Operating Earnings	$ 269	(85)%
Average Common Equity	$ 7,881	33%
Average Assets	13,480	38
Shareholder Value Added	(686)	NM
Cash ROCE	3.2%	(2,650)bp
Cash Overhead Ratio	49	3,900

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

contributed to the $1.46 billion of unrealized gains recorded in 1999. Despite the decline in market valuations, the public equities portfolio maintained a quoted public value of $2.6 billion, as of year-end, which is 2.7 times its original cost.

JPMorgan Partners continues to grow as an investment manager of third-party capital. Of the $24 billion currently under management, approximately $10 billion represents third-party capital. This third-party capital under management generated $86 million of investment management fee revenue in 2000, a 126% increase over 1999.

JPMorgan Partners' operating earnings decreased in 2000 by 85% to $269 million because of declines in unrealized valuations in the public equity portfolio.

The Firm believes JPMorgan Partners' private equity investment business will continue to create value for the Firm, making substantial contributions to its earnings over time. Given the volatile nature of the NASDAQ market in particular, JPMP's reported gains may include significant unrealized valuation adjustments, both favorable and unfavorable, for any given period. The Firm makes no assumptions about the unrealized gains or losses that may be experienced by the JPMP portfolio. However, JPMorgan Chase management believes that it is reasonable to target realized cash gains of JPMP'for 2001 to be consistent with cash realized gains in 2000. The Firm does not intend to spin off JPMP as a separate entity nor to issue a separate tracking security.

The Firm intends to commit up to $2 billion of its own capital for investment by JPMP in 2001 and commit at least $1.5 billion of its own capital to JPMorgan Partners in each of the following four years.

JPMP Investment Portfolio

December 31, 2000 (in millions)	Carrying Value	Cost
Public Securities (220 Companies)[(a)]	$ 1,859	$ 967
Private Direct Securities (1,002 Companies)	7,538	7,480
Private Fund Investments (328 Funds)[(b)]	2,362	2,379
Total Investment Portfolio	$11,759	$10,826

(a) Quoted public value was $2,587 million at December 31, 2000, which was 2.7 times original cost.
(b) In addition, at December 31, 2000, JPMP had $2,508 million of unfunded commitments to these private equity funds.

Public Securities Investments at December 31, 2000[(a)]
(dollars and shares in millions)

	Symbol	Shares	Quoted Public Value	Cost
Triton PCS Holdings, Inc.	TPCS	21.8	$ 739	$ 96
Telecorp PCS	TLCP	11.4	256	8
American Tower Corp.	AMT	5.8	218	15
Fisher Scientific	FSH	3.0	109	27
Praecis Pharmaceuticals, Inc.	PRCS	3.1	90	20
Edison Schools, Inc.	EDSN	2.7	84	21
ONI Systems Corp.	ONIS	1.8	72	2
DDI Group	DDIC	2.5	69	18
Guitar Center Inc.	GTRC	5.0	57	54
Crown Media Holdings, Inc.	CRWN	2.7	56	40
Top 10 Public Securities			$1,750	$301
Other Public Securities (210 Companies)			837	666
Total Public Securities (220 Companies)			$2,587	$967

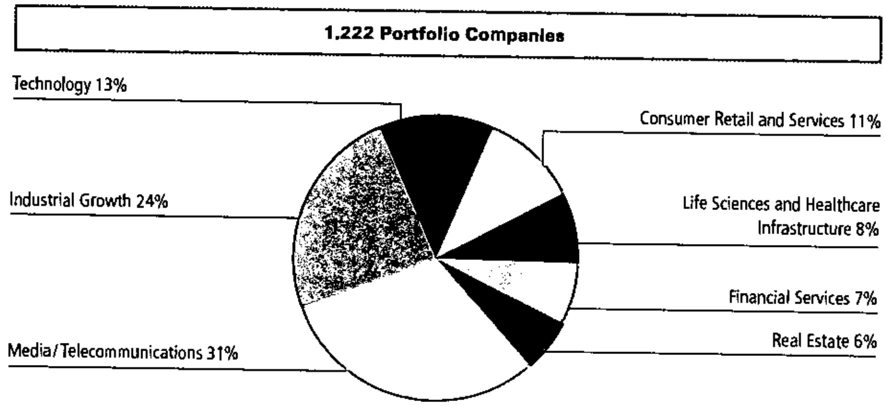
(a) Publicly traded positions only.

Top 10 Realized Gains/Losses in 2000[(a)]
(in millions)

Company	Realized Gains
Triton Cellular Partners	$ 306
Seat Us Holdings, LLC	169
Ace Insurance	88
Patagon.com	73
Cobalt Networks, Inc.	67
XL Capital	62
Praecis Pharmaceuticals, Inc.	61
ONI Systems Corp.	52
ITXC Corporation	47
Chromatis Networks, Inc.	45
Total	$ 970

(a) The combined cash-on-cash internal rate of return on the ten investments above exceeded 300%.
The largest realized loss recognized in 2000 was $29 million related to Mariner Post-Acute Network, Inc. There were no other realized losses over $25 million.

JPMP's Diversified Direct Equity Portfolio by Industry Group
% carrying value as of December 31, 2000

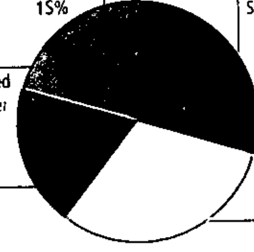


Retail & Middle Market Financial Services

> Cardmember Services
> Regional Banking Group
> Home Finance
> Diversified Consumer Services
> Middle Markets

Retail & Middle Market Financial Services serves more than 30 million customers, small businesses and middle market companies across the U.S., offering a full range of financial products and services through a wide array of distribution channels.

Cash Operating Earnings by Key Businesses 2000



Business Profile

Retail & Middle Market Financial Services aims to build strong relationships and provide financial solutions that meet customers' unique needs.

Cardmember Services
Cardmember Services is the fifth largest credit card issuer in the U.S., servicing more than 20 million accounts. The business unit has co-branded relationships with significant partners, including Continental Airlines, Shell Oil, Toys "R" Us and Wal-Mart. Its joint venture with First Data Corporation is the largest merchant processor, with annual servicing volume in excess of $170 billion. In 2000, Cardmember Services focused on deepening its relationships with cardholders and expanding its customer base. It opened a record 3 million new accounts during 2000 and ended the year with managed receivables exceeding $36 billion. Cardmember Services provides both consumer and commercial products.

Regional Banking Group
The Regional Banking Group ("RBG") serves 2.8 million consumers and 300,000 small businesses in the tri-state region of New York, New Jersey and Connecticut as well as in Texas. Total client assets of $97 billion included more than $62 billion in deposits and nearly $35 billion of investment assets. In the tri-state region, RBG has the leading market share of primary relationships with consumers and small businesses.

In the consumer market, RBG provides banking and investment services, credit and insurance sales to retail and affluent customers. RBG also is a leading provider of financial services to small businesses and professionals and has received awards from the Small Business Administration for lending leadership in the New York region.

RBG's products and services are distributed through a network that includes 541 branches, 1,900 proprietary ATMs, retail telephone centers and Internet services such as Chase Online Banking.

Home Finance
Home Finance ("HF") provides morrgages and related home finance products to almost 4 million consumers across the U.S. HF is a market leader (top 3 ranking) in mortgage loan origination and servicing, home equity-loan and -line origination and manufactured home loan origination. Total loans originated in 2000 were $76 billion, and the total mortgage servicing portfolio at December 31, 2000 was $362 billion, for an increase of 16% from 1999. HF has achieved impressive volume and market share increases over

Retail & Middle Market Financial Services

Selected Financial Data

Year Ended December 31, (in millions, except ratios)	2000	Over/(Under) 1999
Net Interest Income	$ 6,195	(2)%
Fees and Commissions	3,148	5
All Other Revenue	452	(19)
Securities Gains (Losses)	252	NM
Operating Revenue	10,047	1
Compensation Expense	2,194	5
Noncompensation Expense	3,032	4
Cash Expense	5,226	4
Cash Operating Earnings	$ 1,728	3%
Average Common Equity	$ 8,074	4%
Average Managed Assets	146,487	12
Shareholder Value Added	661	2
Cash ROCE	21.2%	(10)bp
Cash Overhead Ratio	52	100

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

2000 Highlights

> Strong earnings growth in Regional Banking
> Continued improvement in credit quality
> Completion of initial phase of business restructuring – sale of nonstrategic units

the last five years through a combination of strong internal growth coupled with targeted acquisitions and joint ventures, thereby taking advantage of ongoing industry consolidation.

Diversified Consumer Services
Diversified Consumer Services ("DCS") is the largest bank originator of auto loans and leases in the U.S. and a leading provider of student loans through its joint venture with Sallie Mae. DCS also offers discount brokerage services through Brown & Company, the seventh largest online brokerage firm in the U.S. In addition, DCS operates a state-of-the-art check processing and image archive service.

In comparison with last year, revenues from the discount brokerage business increased by 30%, and average daily trading volume rose by 36% to 47,000 trades.

In 2000, DCS developed and launched several e-commerce initiatives that take advantage of both business-to-business and business-to-consumer opportunities.

Middle Markets
Middle Markets provides financial services, including corporate finance, cash management, credit and international finance capabilities, to more than 20,000 middle market companies, with annual sales ranging from $3 million to $500 million, and to not-for-profit and public sector entities. The business unit has consistently been the market leader in the tri-state area for banking services and is a growing presence in select geographies across the U.S. It is organized around geographies, industries and products, with a national focus on selected industries, to enable the delivery of greater value to customers and to provide profitable growth for the Firm.

Financial Highlights

Retail & Middle Market Financial Services operating revenues exceeded $10 billion in 2000, an increase of 1% from 1999. Solid growth in deposit volumes helped produce strong contributions from RBG and Middle Markets. Offsetting this positive result was the impact of increased funding costs as a result of higher interesr rates on credit businesses (Cardmember Services, Home Finance and Diversified Consumer Services) and an auto lease residual loss in the first quarter of 2000. Cash operating earnings for 2000 rose 3% to $1.73 billion and reflected continued improvement in credit quality in Cardmember Services. During 2000, Retail & Middle Market Financial Services initiated a number of business reorganizations, most notably the sale of retail operations in Hong Kong and Panama.

> Cash operating earnings for Cardmember Services in 2000 increased to $489 million, driven by lower credit costs, partially offset by the effect that higher interest rates (funding costs) had on revenues.

> Financial performance for RBG in 2000 was strong, with revenue growth of 7% to more than $3 billion. Cash operating earnings were $526 million, an increase of 24% from the prior year.

> Cash operating earnings for HF in 2000 were a record $315 million, led by increased mortgage servicing fees.

> As a result of a $100 million decrease in the estimated auto lease residual value recognized in the 2000 first quarter, DCS' operating revenues and cash operating earnings declined 6% and 27%, respectively, in 2000, when compared with 1999.

> In 2000, cash operating earnings for Middle Markets increased by 11% to $254 million, driven by deposit growth and disciplined expense management.

Management has a goal of double-digit cash operating earnings growth for Retail & Middle Market Financial Services for 2001. In addition to emphasizing revenue growth, management will continue to identify process changes that improve service to customers and increase operating efficiencies. In connection with these improvement efforts, Retail & Middle Market Financial Services will incur restructuring charges of approximately $90 million for 2001, leading to approximately $75 million in annual savings, of which only a portion will be realized in 2001.

Year Ended December 31, (in millions, except ratios)	2000 Operating Revenues	Cash Operating Earnings	Cash Overhead Ratio	Over/(Under) 1999 Operating Revenues	Cash Operating Earnings	Cash Overhead Ratio
Cardmember Services	$ 3,688	$ 489	36%	(1)%	3%	200bp
Regional Banking Group	3,051	526	65	7	24	(300)
Home Finance	1,330	315	59	9	4	300
Diversified Consumer Services	581	95	57	(6)	(27)	500
Middle Markets	1,071	254	54	4	11	(200)
Other Consumer Services[a]	326	49	NM	NM	NM	NM
Total	$10,047	$1,728	52%	1%	3%	100bp

(a) Primarily includes the results of international consumer businesses that were sold in 2000. The gains on these sales were not included in operating results.
NM- Not meaningful.
bp- Denotes basis points; 100 bp equals 1%.

Support Units and Corporate

LabMorgan

LabMorgan is the e-finance engine of JPMorgan Chase. LabMorgan's mission is to find, develop, invest in and help commercialize e-finance opportunities that will strengthen the Firm's competitive advantages.

LabMorgan seeks e-finance ideas from inside and outside the Firm. LabMorgan works directly with JPMorgan Chase's five business segments and with external technology and financial services firms to accelerate the bringing to market innovative e-finance solutions.

Focused on driving e-commerce strategies across JPMorgan Chase, LabMorgan identifies opportunities for creating business efficiencies, competitive customer service and new revenue streams for each line of business.

LabMorgan operates from multiple locations to position itself at the forefront of e-finance innovation. LabMorgan's headquarters are in New York City, with other locations in San Francisco, Sydney, Hong Kong, Singapore, Tel Aviv, Tokyo and São Paulo.

LabMorgan manages over 60 e-finance ventures by providing companies with access to the strengths and scale of the Firm.

Enterprise Technology Services

Enterprise Technology Services ("E-Tech") is an internal technology service company. E-Tech manages over 300 business application systems. E-Tech provides support for line-of-business driven e-commerce infrastructure needs, including LabMorgan and the employee website, and positions JPMorgan Chase as a leader in business-driven technology deployment. Specific products and services include data processing and network services, project management and implementation services, website and groupware development as well as website hosting to the Firm's businesses worldwide.

Corporate Business Services

Corporate Business Services ("CBS") manages the Firm's support services, including real estate management, human resource operations, procurement and financial services. CBS' mission is to provide these services to businesses in a manner which is competitive with comparable third-party providers in terms of price and service quality. CBS is leveraging the Firm's global scale and is deploying technology to gain cost-efficiencies. CBS has contributed significant savings through improved business practices such as consolidation of services, improved vendor management, use of technology, reduction in demand for services and outsourcing.

Corporate

Corporate includes the effects remaining at the corporate level after the implementation of management accounting policies. The results for Morgan Online also are included in Corporate.

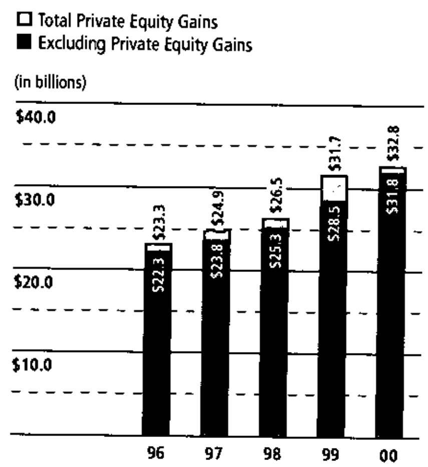
The Firm utilized the internal expense allocation process that existed at both heritage organizations. These allocation processes aligned the cost of each of its operational and staff support services, such as those listed above, with the respective revenue-generating businesses. This allows management to evaluate business performance on a fully allocated basis.

For 2000, Corporate and the other support units had a cash operating loss of $349 million, compared with a cash operating loss of $102 million in 1999. Prior periods have been restated to reflect refinements in management reporting policies or changes to the management organization.

Results of Operations

The following section provides a discussion of JPMorgan Chase's results of operations as reported in its financial statements as well as on an operating basis. The differences between the amounts presented in the following tables within this section and the amounts shown on the Consolidated Statement of Income are the treatment of revenues from credit card securitizations, the exclusion of those transactions that are classified as special items and the reclassification of trading-related net interest income ("NII") to trading revenue. See page 25 for a further discussion of operating basis.

Total Operating Revenue



Revenues

Year Ended December 31, (in millions)	2000	Over/(Under) 1999	Pro Forma(a) 2000
Operating Revenues:			
Investment Banking Fees	$ 4,362	24%	$ 4,486
Trading Revenue (Including Trading NII)	7,006	5	7,092
Fees and Commissions	8,879	17	9,702
Private Equity – Realized Gains	2,051	21	2,051
Private Equity – Unrealized Gains (Losses)	(1,036)	NM	(1,036)
Securities Gains (Losses)	229	NM	229
Other Revenue	1,148	34	1,276
Net Interest Income (Excluding Trading NII)	10,154	—	10,240
Total Operating Revenue	$32,793	3%	$34,040

(a) Pro forma revenue assumes that the purchase of Flemings occurred at the beginning of 2000.
NM- Not meaningful.

Investment Banking Fees

Investment banking fees increased 24% to $4.4 billion in 2000. The growth in advisory and underwriting fees reflected the acquisitions of H&Q, Flemings and Beacon. The following table reflects the components of investment banking fees.

Year Ended December 31, (in millions)	2000	1999
Advisory	$ 1,523	$ 1,024
Underwriting and Other Fees	2,839	2,493
Total	$ 4,362	$ 3,517

Advisory
The momentum of strong revenues from advisory activities continued throughout 2000 as revenues increased 49% from 1999 to $1.5 billion. Flemings, with its broad network in Europe and Asia, extended the geographic reach of the Firm's advisory practice. Likewise, the acquisition of Beacon deepened the advisory capabilities of the Investment Bank.

Underwriting and Other Fees
Equity underwriting revenues nearly tripled in 2000, primarily as a result of the H&Q acquisition, which extended JPMorgan Chase's equity underwriting practice into the fast-growing fields of healthcare and technology-related industries. Fees from underwriting debt securities decreased from the prior year, reflecting the difficult market conditions in the high-yield market during 2000. Loan syndication fees declined slightly, although the Firm retained its top ranking in the U.S. loan syndication market.

Trading-Related Revenue

Trading-related revenue, which includes trading-related NII, rose 5% to $7.0 billion, reflecting gains across most products.

Trading products include:
> Equities
> Debt Instruments
> Foreign Exchange
> Interest Rate, Commodities and Other

Equities
Equities are composed of equity securities and equity derivatives. The increase of 48% from last year to $1.8 billion was attributable, in part, to the acquisitions of Flemings and H&Q, which increased the volume of transactions in equity securities in the U.S., Europe and Asia. The downward direction of equity values in the stock market triggered strong client demand and significant volume increases in equity derivatives.

Debt Instruments
Debt instruments refer to the trading of bonds and loans issued by U.S. and overseas entities as well as the related derivatives linked to those instruments. Debt instrument revenues increased from last year, primarily as a result of the anticipated reduction in interest rates that occurred late in 2000, which increased the values of U.S. debt securities.

Foreign Exchange
Foreign exchange refers to spot and option contracts for the purchase or sale of foreign currencies. The increase in 2000 is attributable to the relative volatility of foreign currency prices, particularly at the beginning of the year. This created opportunities to gain from price differentials among currencies and from increased client demand.

Interest Rate, Commodities and Other
This category includes various types of interest rate and commodities contracts as well as credit derivatives. This revenue line was unfavorably affected by the rise in interest rate levels that occurred at the beginning of 2000, which reduced volatility and client demand in these instruments.

The table to the right highlights the components of trading-related revenue.

Year Ended December 31, (in millions)	2000	1999
Trading Revenue Reported:		
Equities [a]	$1,762	$ 1,194
Debt Instruments [a]	546	245
Foreign Exchange Revenue [a]	1,465	1,199
Interest Rate Contracts, Commodities and Other [a]	2,525	2,614
Trading Revenue Reported [b]	6,298	5,252
Net Interest Income Impact [a]	708	1,444
Total Trading-Related Revenue	$7,006	$ 6,696

(a) For descriptions of net interest income impact and the classes of financial instruments that make up these categories, see Note 3.
(b) Derivative and foreign exchange ("FX") contracts are marked-to-market, and valuation adjustments are included in trading revenues.

Fees and Commissions

Fees and Commissions rose $1.3 billion or 17% over last year, primarily reflecting higher Investment Management, Custody and Brokerage commissions.

Year Ended December 31, (in millions)	2000	1999
Fees and Commissions:		
Investment Management, Custody and Processing Services	$3,628	$2,868
Credit Card Revenue – Operating	1,421	1,380
Brokerage and Investment Services	1,228	768
Lending-Related Service Fees	1,031	1,061
Deposit Service Charges	906	895
Other Fees	665	586
Total Fees and Commissions – Operating	$8,879	$7,558

Investment Management, Custody and Processing Services
Investment Management fees refer to fees derived from the management of proprietary mutual and other institutional funds, as well as personal financial assets. Custody and Processing Services fees are generated primarily from the safekeeping of securities and from acting as agent in the issuance, redemption and administration of securities.

Investment Management fees increased from last year as a result of the acquisitions of Flemings and H&Q, which contributed significantly to the level of funds under management.

Custody and Processing Services fees also rose from last year. Custody fees continued to gain momentum due to new business, higher values of international securities under custody and the return of investors to foreign markets where the safekeeping of securities is more profitable. Processing Services fees increased largely due to new business, particularly related to the issuance of structured notes.

Credit Card Revenue
Credit Card Revenue is composed of interchange income (transactions processing fees), late charges, and annual, cash advance and overlimit fees.

Operating Credit Card Revenue rose slightly from last year due to strong customer purchase volumes, which increased interchange income. An improvement in the credit quality of the credit card portfolio reduced late charges.

The table below reconciles Credit Card Revenue on a reported basis with revenue on an operating basis. Reported results include servicing fees for securitized receivables, whereas operating results exclude the impact of securitizations.

Year Ended December 31, (in millions)	2000	1999
Reported Credit Card Revenue	$1,771	$1,698
Less Impact of Credit Card Securitizations	(350)	(318)
Operating Credit Card Revenue	$1,421	$1,380

Fot a further discussion of the credit card portfolio, see page 52.

Brokerage and Investment Services
Brokerage and Investment Services are advisory and transaction processing fees related to institutional and retail customers' purchase and sale of financial instruments.

Brokerage and Investment Services rose $460 million, reflecting greater levels of brokerage activities and higher mutual fund load fees at Flemings and H&Q (load fees are considered processing fees that are charged upon entering or exiting certain funds). Also contributing to the increase was the higher retail trading volume (up 36% from 1999) at Brown & Company, the discount brokerage subsidiary of JPMorgan Chase.

Lending-Related Service Fees
Lending-Related Service Fees include mortgage and auto loan servicing, commissions on letters of credit and acceptances, and loan commitment fees.

The decline of $30 million reflected lower commissions on letters of credit and acceptances as a result of a decision to reduce the sales of this product. In addition, auto loan servicing fees were lower due to a 48% decline in the volume of average securitized loans outstanding. Partially offsetting these decreases were a 9% increase in mortgage servicing fees as a result of a larger average servicing portfolio, which had increased to $334 billion in 2000 from $252 billion last year. The higher level of loans was attributable to the acquisition of the Mellon Bank servicing portfolio (acquired September 30, 1999) and lower prepayment levels in a higher interest rate environment. Mortgage servicing fees also included a $99 million writedown for the impaitment of morrgage servicing rights in the fourth quarter of 2000, which was more than offset by gains on the sale of cash securities used as economic hedges for the servicing rights (see Securities Gains on page 40).

Deposit Service Charges
Deposit Service Charges are composed of service charges on deposit accounts, fees in lieu of compensating balances, lockbox fees, electronic customer service fees, cash management fees and account reconciliation fees.

The increase of $11 million was atttributable to higher cash management fees and service charges on deposit accounts stemming from the higher volume of cash movements within client accounts. These amounts were partially offset by a decrease in fees in lieu of compensating balances as more customers maintained the required average deposit balances to pay for their usage of cerrain bank services.

Other Fees
Other Fees increased $79 million or 13% ovet last year, reflecting a 25% increase in insurance fees as a resulr of higher sales of life, health and mortgage insurance by the Chase Insurance Agency, as well as the addition of insurance fees from Flemings. Also contributing to the increase was growth in interchange income associated with greater customer usage of debit cards.

Private Equity Gains

Private Equity Gains consist of realized gains or losses on the sales of investments and unrealized mark-to-market gains and losses on securities held in the portfolio.

Year Ended December 31, (in millions)	2000	1999
Realized Gains	$2,051	$1,690
Mark-to-Market Gains (Losses)	(1,036)	1,457
Total Private Equity Gains	$1,015	$3,147

Private Equity Gains wete significantly impacted by the sharp decline in marker values in the NASDAQ during 2000. The decline primarily affected publicly held investments in JPMorgan Partners' porrfolio. This portion of the portfolio constituted approximately 16% of the total portfolio's carrying value at year-end. As of December 31, 2000, the publicly held portion of the portfolio, although having declined significantly in value over the year, was still valued at approximately 2.7 times its original cosr.

Realized Gains
Realized Gains of $2.1 billion in 2000 is a record high for the Firm, an increase of 21% from last year.

Mark-to-Market Gains (Losses)
Mark-to-market gains or losses largely reflected net markups or markdowns on public securities. For the most part, securities marked up in 1999, primarily telecommunications and technology, were marked down in 2000, contributing to the $2.5 billion year-over-year reduction in unrealized mark-to-market results.

Securities Gains

Securities Gains realized in 2000 were $229 million, compared with losses of $192 million in the prior year. The gains in 2000 reflected the sale of debt securities used as economic hedges for the value of mortgage servicing rights. This activity contributed $252 million of gains (which more than offset charges recognized in fees and commissions related to the impairment of mortgage servicing rights in 2000). Also included in 2000 were losses of $23 million for the permanent impairment of certain LabMorgan investments. Losses in 1999 were due in part to the restructuring of the Firm's portfolio as a result of the rise in interest rates, which resulted in significant losses on the sale of mortgage-backed securities.

Other Revenue

Year Ended December 31, (in millions)	2000	1999
Other Revenue:		
Residential Mortgage Origination/Sales Activities	$ 194	$ 323
All Other Revenue	954	532
Operating Other Revenue	1,148	855
Gains on Sales of Nonstrategic Assets[(a)]	1,307	166
Loss on Economic Hedge of the Flemings Purchase Price[(a)]	(176)	—
Credit Card Securitizations	10	24
Reported Other Revenue	$2,289	$1,045

(a) Represents special items and are excluded from operating results.

Operating Other Revenue included:

> Higher unrealized gains on corporate-owned life insurance investments.

> Higher mark-to-market gains on economic hedges of anticipated overseas revenues.

> Higher revenue from auto operating leases.

> Higher equity income on the American Century investment; partly offset by;

> Lower residential mortgage sales in connection with the rise in interest rates in 2000, which had the combined effect of lowering sales volume and decreasing the value of securities.

Reported Other Revenue reflected the following special items:

> Gains in 2000 of $827 million on the sale of the Hong Kong retail banking business; $399 million on the transfer of the Firm's interest in Euroclear; and $81 million on the sale of operations in Panama.

> Loss of $176 million in 2000 on the economic hedge of Flemings' purchase price.

> Gains in 1999 of $95 million on the sale of One New York Plaza; and $71 million on the sale of branches in Texas.

Net Interest Income

Operating NII adjusts reported NII for special items, the impact of credit card securitizations and trading-related NII that is considered part of total trading-related revenue. The following table reconciles reported and operating NII.

Reported NII was $9.5 billion in 2000, a decline of 8% from 1999. Reported average interest-earning assets rose 6% to $513.4 billion, while the reported net yield on interest-earning assets declined 28 basis points to 1.87%. Operating NII remained relatively stable at $10.2 billion in 2000. Operating NII in 2000 was favorably affected by higher average managed interest-earning assets, offset by spread compressions to the net yield due to the rising interest rate environment, which began in the second half of 1999, and to competitive pricing (notably in credit cards). Also affecting both reported and operating NII in 2000 was a $100 million decrease in the estimated auto lease residual value, which was accounted for as a reduction in NII. This adjustment in the estimated auto lease residual value addressed exposure to potential losses on maturing leases as a result of a decline in the market value of autos rerurned by lessees at lease termination.

Year Ended December 31, (in millions)	2000	1999	% Change
Net Interest Income			
Reported NII	$ 9,512	$ 10,285	(8)%
Add Impact of Credit Card Securitizations	1,350	1,335	
Less Trading-Related NII	(708)	(1,444)	
Less Interest on Tax Refunds[(a)]	—	(62)	
Operating NII	$10,154	$ 10,114	—%

(a) Represents a special item and is excluded from operating results.

Expenses

Year Ended December 31, (in millions, except ratios)	2000	Over/(Under) 1999	Pro Forma(a) 2000
Operating:			
Compensation Expense	$ 12,748	21%	$ 13,477
Occupancy	1,294	9	1,343
Technology and Communications	2,454	13	2,514
Other Expense	4,369	20	4,549
Cash Operating Noninterest Expense	20,865	19	21,883
Amortization of Intangibles	528	60	738
Operating Noninterest Expense	21,393	20	22,621
Merger and Restructuring Costs and Other(b)	1,431	NM	1,431
Reported Noninterest Expense	$ 22,824	27%	$ 24,052
Operating Overhead Ratio	65%	900bp	66%
Cash Operating Overhead Ratio(c)	64	900	64

(a) Pro forma expense assumes that the purchase of Flemings occurred at the beginning of 2000.
(b) Other represents a $100 million special contribution in 1999 to The Chase Manhattan Foundation included in Other Expense. This contribution is a special item and is excluded from operating results.
(c) Excludes the impact of amortization of intangibles.
NM- Not meaningful.
bp- Denotes basis points; 100 bp equals 1%.

Total reported noninterest expenses were $22.8 billion in 2000, an increase of $4.8 billion or 27% from last year. Cash operating noninterest expenses were $20.9 billion, an increase of $3.3 billion or 19% from 1999. The growth in expenses reflected, in particular, the investments in talent and infrastructure at the Investment Bank to deepen its product capabilities and at Investment Management & Private Banking to broaden its geographic reach.

Cash operating expenses in 2001 are targeted to be flat with the pro forma 2000 amount (which assumes that the purchase of Flemings occurred at the beginning of 2000). Pro forma cash opetating expenses including JPMorgan Partners were $21.9 billion in 2000 and excluding JPMorgan Partners were $21.5 billion.

Compensation Expense

Compensation expense is largely comprised of salaries, incentive (cash and stock) compensation, as well as social security, savings plan, post-retirement, medical and other employee benefits.

Compensation expense rose 21% from last year, primarily as a result of investments in talent to build up the Investment Bank and Investment Management & Private Banking platforms. These initiatives included the acquisitions of Flemings, H&Q and Beacon. As part of these acquisitions, certain compensation commitments or guaranteed bonus agreements were entered into in order to retain key senior executives. In addition, individual hiring for specific positions also included compensation commitments. These commitments, however, had the effect of reducing the flexibility of the Firm to contain compensation expenses as market forces lowered the Investment Bank's revenue, primarily towards the end of the year.

Occupancy, Technology and Communications

The increases in both Occupancy of 9% and Technology and Communications of 13% were primarily attributable to the buildup of the Investment Bank and Investment Management & Private Banking platforms.

Occupancy increased from 1999 due to expanded office space in the U.K. and New York. Rent and maintenance increased primarily as a result of the acquisitions.

Technology and Communications increased from the prior year due to the amortization of software costs associated with client information and e-commerce systems at Retail & Middle Market Financial Services, higher costs related to securities safekeeping projects and higher data processing costs for the entire Firm. Software expense also increased as a result of the Internet innovations at LabMorgan.

Other Expense

Other operating expense increased by $729 million in 2000 from 1999 due to the following:

> **Professional services** costs rose in connection with the acquisitions of Flemings and H&Q, as well as from expenditures for LabMorgan initiatives and higher costs related to securities safekeeping projects. These increases were partially offset by reduced expenditures related to completed Year 2000 efforts.

> **Outside services** expense increased as a result of the acquisition of H&Q.

> **Marketing** expense increased due to higher direct marketing initiatives for Cardmember Services and media advertising related to the branding campaigns following the acquisitions of Flemings and H&Q.

> Increase in **travel and entertainment** was driven by the air travel and hotel expenses associated with the heightened level of business activities at the Investment Bank, including the effects of Flemings and H&Q.

> **All other** expenses increased due to higher employee-related costs, including recruitment and expatriate expenses, partly in connection with the buildup of the Investment Bank, coupled with increases in various expense categories as a result of acquisitions and business volume.

Year Ended December 31, (in millions)	2000	1999
Other Expense:		
Professional Services	$1,203	$1,012
Outside Services	648	584
Marketing	595	503
Travel and Entertainment	490	350
All Other	1,433	1,191
Operating Other Expense	**$4,369**	**$3,640**

Amortization of Intangibles

Amortization of Intangibles rose 60% due to the Flemings, H&Q and Beacon acquisitions.

Merger and Restructuring Costs

Year Ended December 31, (in millions)	2000	1999
Merger Costs	$1,250	$—
Restructuring Costs	181	23
Total Costs	**$1,431**	**$23**

Merger Costs: In December 2000, a $1.25 billion charge was recorded in connection with the merger of J.P. Morgan with Chase. Management anticipates that total merger-related expenses will approximate $3.2 billion pre-tax and that the balance of the merger-related expenses will be incurred in the next two years. Approximately one-half of the total $3.2 billion of merger expenses will be related to severance and retention payments, while the remainder is expected to be primarily related to technology, systems integration and facilities costs. Management estimates 5,000 jobs will be eliminated as a result of the merger. During 2000, $333 million of the $1.25 billion merger accrual was utilized. For a further discussion, see Note 7.

JPMorgan Chase expects to realize synergies of approximately $3 billion, pre-tax, from the merger. Anticipated synergies are composed of approximately $2 billion of expense savings and approximately $2 billion of incremental revenues, partly offset by approximately $1 billion of expenses to achieve these revenues. JPMorgan Chase expects to realize approximately one-third of the synergies in 2001 and the remainder by the end of 2002.

1999 Restructuring Initiatives: In the fourth quarter of 1999, the Firm incurred a charge of $100 million associated with planned consolidation actions in certain businesses ("consolidation initiatives") and a charge of $75 million in connection with planned staff reductions and the disposition of premises and equipment resulting from the announced relocation of several businesses to Florida, Texas and Massachusetts ("relocation initiatives"). The $175 million aggregate restructuring charge included severance costs associated with the relocation of 2,300 positions and the projected elimination of 800 positions as well as the planned disposition of certain premises and equipment.

During 2000, JPMorgan Chase incurred $181 million of additional restructuring costs relating to the relocation initiatives ($108 million) and the consolidation initiatives ($73 million). These additional restructuring costs were not accruable in 1999 under existing accounting pronouncements. In connection with its continuing relocation and consolidation initiatives, management expects to incur additional costs aggregating approximately $400 million in 2001 and 2002 that are not currently accruable. These additional costs will be treated as nonoperating expenses.

1998 Restructuring Initiatives: During 1998, the Firm incurred a charge of $868 million in connection with initiatives to streamline support functions and realign certain business activities. In December 1999, $152 million of costs were reversed, primarily related to occupancy not fully utilized under the charge taken in 1998.

Credit Costs

Credit Costs on an operating basis are composed of the provisions for loan losses related to loans on the Balance Sheet and credit card receivables that have been securitized.

Year Ended December 31, (in millions)	2000	1999
Provision for Loan Losses	$1,377	$1,446
Credit Costs Associated with Credit Card Securitizations	990	993
Operating Credit Costs	$2,367	$2,439

Credit Costs decreased slightly in 2000 due to the impact of lower charge-offs in both the commercial and consumer loan portfolios.

Income Taxes

JPMorgan Chase recognized income tax expense on a reported basis of $3.01 billion in 2000, compared with $3.99 billion in 1999. The effective tax rate was 34.4% in 2000 and 34.7% in 1999.

Risk Management

JPMorgan Chase is in the business of managing risk to create shareholder value. The major risks to which the Firm is exposed are credit, market, operational and liquidity risk.

> **> Capital**
>
> **> Credit Risk**
>
> **> Market Risk**
>
> **> Operational Risk**
>
> **> Liquidity Risk**

JPMorgan Chase's risk management is guided by several principles, including:

> Defined risk management governance

> Independent risk oversight

> Continual evaluation of risk appetite, managed through risk limits

> Strategic portfolio diversification

> Disciplined risk assessment and measurement, including Value-at-Risk analysis and portfolio stress testing

> Performance measurement (SVA) that allocates risk-adjusted capital to business units

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

> Capital

> Risk Management

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

The Capital Committee focuses on firm-wide capital planning, internal capital allocation and liquidity risk. The Risk Management Committee focuses on credit risk, market risk, operational 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.

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

Risk Policy Committee of Board of Directors

> Oversees Risk Management

Executive Committee

> Strategic Guidance
> Integrated View

Capital Committee

> Recommends targeted capital ratios and monitors adherence to those ratios

> Recommends the allocation of capital within the Firm

> Monitors firm-wide and parent company liquidity and approves collateral and liquidity planning policies

> Reviews adequacy of the Firm's capital and debt levels

> Provides a forum for discussion of capital adequacy and liquidity issues

Risk Management Committee

> Provides oversight and direction of the risk profile and risk appetite

> Reviews and approves corporate policies and risk strategies intended to ensure that risk management and monitoring accurately reflect the business mandate, accepted practice, and legal and regulatory requirements

> Approves aggregate limits and authorities to control risk

> Monitors significant risk exposures, concentrations of positions, asset quality, and significant position and risk limit changes, paying particular attention to stress scenarios

> Reviews allowance adequacy and approves charge-offs

> Provides a forum for discussion of risk issues

Capital Management

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

> The optimal amount of capital commensurate with:
  - internal assessments of risk estimated by an economic capital allocation model
  - targeted regulatory ratios and credit ratings
  - business strategies
  - protection against losses, even under stress conditions
  - liquidity management
> Capital investment for activities with the most favorable returns
> The most efficient composition of the Firm's capital base

JPMorgan Chase's long-term capital target is a Tier 1 Capital ratio in the range of 8% to 8.25%. The Capital Committee reviews capital targets and policies regularly in light of changing economic conditions and business needs. The total required economic capital fot the Firm is compared with available capital to evaluate overall capital utilization. JPMorgan Chase's policy is to maintain an appropriate level of capital to provide for growth and protection against unanticipated losses.

The table that follows shows JPMorgan Chase's capital generation and regulatory use during the past three years.

The **sources of free cash flow** shows that the primary source of JPMorgan Chase's free capital is cash operating earnings (less dividend requirements). As risk-weighted assets grow in the normal course of business, the Firm is required to retain additional capital in order to maintain its capital ratios within targeted levels. Therefore, the sources of free cash flow equals the total retained earnings generated, less the additional capital needed to support new assets in order to maintain targeted capital ratios. This total amount is the Firm's "free cash" or capital in excess of target ratios.

Year Ended December 31, (in billions)	2000	1999	1998
Sources of Free Cash Flow			
Cash Operating Earnings Less Dividends	$ 4.0	$ 5.6	$ 3.3
Plus: Preferred Stock and Equivalents/Special Items	(0.1)	0.2	(0.7)
Less: Capital for Internal Asset Growth	0.1	(0.3)	0.3
Total Sources of Free Cash Flow	$ 4.0	$ 5.5	$ 2.9
Uses of Free Cash Flow			
Increases (Decreases) in Capital Ratios	$(0.1)	$ 1.1	$ 1.3
Acquisitions	7.0	1.1	1.6
Repurchases Net of Stock Issuances	(2.9)	3.3	—
Total Uses of Free Cash Flow	$ 4.0	$ 5.5	$ 2.9

The **uses of free cash flow** shows that capital has been used to support goodwill and other assets acquired through acquisition and for share repurchases. The line "Increases (Decreases) in Capital Ratios" represents the amount of capital retained causing the Firm's capital ratios to rise (or fall) from targeted levels.

During 2000, $4.0 billion of free cash flow was generated, 27% less than 1999 due to lower cash operating earnings. During 2000, less capital was needed to support internal growth or to bolster capital ratios. The cash flow generated in 2000 was principally earmarked to support the Flemings acquisition.

Dividends: In the first quarter of 2000, JPMorgan Chase raised the quarterly cash dividend on its common stock to $0.32 per share from $0.27 per share. The Firm's current dividend policy is to pay common stock dividends equal to approximately 25% to 35% of operating earnings, less preferred stock dividends. Future dividend policies will be determined by the Board of Directors after taking into consideration the Firm's earnings and financial condition and applicable governmental regulations and policies.

Buybacks: During 2000, each heritage firm repurchased, under previously announced authorizations, an aggregate of almost $3 billion (73 million shares) of their common equity. Both companies terminated their share repurchase programs in 2000 (J.P. Morgan in September and Chase in October). During 2000, approximately 60 million shares (from treasury) were issued under various employee stock option and other stock-based plans. Additionally, 69 million shares were issued (from treasury) in connection with acquisitions, and 22 million shares were issued (from treasury) for the accelerated distribution of J.P. Morgan stock as a result of the merger.

Regulatory Capital: JPMorgan Chase is subject to regulation under state and federal law, including the Bank Holding Company Act of 1956 ("the Act"). The Act was amended by the Gramm-Leach-Bliley Act, which allows financial holding companies (a defined term) to engage in activities that are "financial in nature," and to own, to a greater extent than previously permitted, securities of companies engaged in non-banking activities. The Firm was granted financial holding company status on March 13, 2000.

The Firm's primary federal banking regulator, the Federal Reserve Board, establishes minimum capital requirements and leverage ratios for the consolidated financial holding company and for state-chartered bank subsidiaries, including The Chase Manhattan Bank and Morgan Guaranty Trust Company of New York. Management anticipates that these bank subsidiaries will merge in the third quarter of 2001. The Office of the Comptroller of the Currency establishes similar capital requirements and leverage ratios for national bank subsidiaries, including Chase Manhattan Bank USA, N.A.

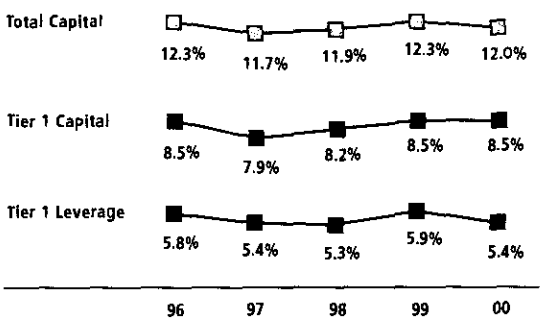
These risk-based capital ratios are determined by allocating assets and specified off-balance sheet financial instruments into categories, with higher levels of capital being required for categories perceived as representing greater risk. Capital is divided into two tiers: Tier 1 Capital and Tier 2 Capital. In addition to retained earnings, the Federal Reserve permits the Firm to raise Tier 1 and Tier 2 Capital by issuing different types of financial instruments to the public. These financial instruments then are classified as either Tier 1 or Tier 2, depending upon their terms and the types of conditions or covenants they place upon the issuer.

Tier 1 Capital includes securities with no fixed maturity date, such as common stock, nonredeemable perpetual preferred stock and the minority interest of unconsolidated affiliates (which may include securities commonly referred to as "trust preferreds"). Tier 2 Capital includes subordinated long-term debt and similar instruments and "qualified loan loss reserves," such as the allowance for loan losses. The amount of subordinated long-term debt that may be included in Tier 2 Capital may not exceed more than 50% of the issuer's Tier 1 Capital. In addition, the capital treatment accorded long-term subordinated debt is reduced as it approaches maturity. Qualified loan loss reserves may be included in Tier 2 Capital up to 1.25% of risk-weighted assets. Total Tier 2 Capital is limited to 100% of Tier 1 Capital.

The graph below shows the risk-based capital ratios of JPMorgan Chase over the last five years. The table below shows the components of the Firm's Tier 1 and Total Capital.

Risk-Based Capital Ratios

At December 31



December 31, (in millions)	2000	1999
Tier 1 Capital		
Common Stockholders' Equity	$41,062	$ 34,863
Nonredeemable Preferred Stock	1,271	1,372
Minority Interest[(a)]	4,662	4,451
Less: Goodwill and Investments in		
Certain Subsidiaries	8,783	3,628
Nonqualifying Intangible Assets	631	80
Tier 1 Capital	$37,581	$ 36,978
Tier 2 Capital		
Long-Term Debt and Other Instruments		
Qualifying as Tier 2	12,833	12,855
Qualifying Allowance for Credit Losses	3,955	4,059
Less: Investment in Certain Subsidiaries	917	472
Tier 2 Capital	15,871	16,442
Total Qualifying Capital	$53,452	$ 53,420

(a) Minority interest includes trust preferred stocks of certain business trust subsidiaries and the preferred stock of a Real Estate Investment Trust subsidiary of JPMC. For a further discussion, see Notes 13 and 14.

Credit Risk Management

> Credit risk management at JPMorgan Chase embodies practices embraced by both heritage firms

> Processes in place are intended to ensure credit risk instruments are accurately assessed, properly approved and continuously monitored

> Independent credit risk management functions exist within each major business unit

Credit risk is the risk of loss due to borrower or counterparty default. This risk is managed at both the transaction and portfolio levels. Credit risk management processes are highly disciplined and are designed to preserve the independence and integrity of the risk assessment process, as well as integrate effectively with business management.

Risk Measurement

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

Using statistical techniques, estimates are made of both expected losses (on average, over a cycle) and unexpected losses for each segment of the portfolio. Unexpected losses represent the potential volatility of actual losses relative to the expected level of loss. These estimates drive the credit cost and capital allocations to each business unit and are incorporated into each unit's SVA measurement. Consequently, the credit risk profile of each business unit is an important factor in assessing its performance.

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

The risks of the consumer and commercial portfolios are markedly different. Broadly speaking, losses on consumer exposures are more predictable, less volatile and less cyclical than losses on commercial exposures. For the latter, the loss volatility can be much greater over the course of an economic cycle. In 2000, the Firm incurred $1.98 billion in net losses on its managed consumer portfolio and $400 million in commercial losses. Both consumer and commercial losses were within their expected loss ranges.

Credit Risk – Loss Provisions and Capital Allocation

The Firm uses its estimates of expected loss and loss volatility to set risk-adjusted loss provisions and to allocate credit risk capital by portfolio segment. Within the consumer businesses, allocations are differentiated by product and product segment. In the commercial portfolio, allocations are differentiated by risk rating, maturity and industry. Off-balance sheet exposures are converted to loan equivalent amounts, based on their probability of being drawn, before applying the expected loss and capital factors.

Risk Management Processes

The credit risk management process is guided by policies and procedures established by the Chief Credit Officer. At both the business unit and corporate level, disciplined processes are in place. The processes are intended to ensure risks are accurately assessed, properly approved and continuously monitored.

In addition to establishing corporate-wide policies and procedures, the Chief Credit Officer has primary responsibility for the credit risk measurement framework, allocating the cost of credit, evaluating the risk profile and assessing concentration risks, setting limits to provide for adequate portfolio diversification, delegating approval authorities and managing problem assets.

Within each major business unit, there is an independent credit risk management function that reports jointly to the business executive and the Chief Credit Officer. These units are responsible for managing credit decisions made on a day-to-day basis. They approve significant new transactions and product offerings, have the final authority over credit risk assessments and monitor the credit risk profile of the business unit's portfolio.

Credit Risk Management for Commercial Assets

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

Concentration management remains a key tool in managing commercial credit risk. The Firm manages concentrations by obligor, risk grade, industry, product and geographic location. Concentration management also is enhanced by the Firm's strategy of loan origination for distribution as well as the purchase of credit protection.

Credit Risk Management for Consumer Assets

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

Credit-Related Portfolio

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

As of or for the Year Ended December 31, (in millions, except ratios)	Credit-Related Assets		Nonperforming Assets		Net Charge-offs		Past Due 90 Days and Over and Accruing		Average Annual Net Charge-off Rate	
	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999
Commercial Loans	$119,460	$114,918	$1,434	$1,299	$ 400	$ 576	$ 99	$ 81	0.33%	0.50%
Derivative and FX Contracts	76,373	76,736	37	34	NA	NA	—	1	NA	NA
Consumer Loans(a)	114,461	106,029	384	438	1,977	2,164	788	710	1.82	2.10
Charge to Conform to FFIEC Policy(b)					93	—				
Total Managed Credit-Related	$310,294	$297,683	$1,855	$1,771	$2,470	$2,740	$887	$792	1.08%	1.26%
Assets Acquired as Loan Satisfactions			68	102						
Total Nonperforming Assets			$1,923	$1,873						

(a) Includes securitized credit cards. For a further discussion of credit card securitizations, see page 25.
(b) In 2000, JPMC incurred a $93 million charge to conform its policies to the Federal Financial Institutions Examination Council's ("FFIEC") revised policy establishing uniform guidelines for charge-offs of consumer loans to delinquent, bankrupt, deceased and fraudulent borrowers. Of this total amount, $12 million related to credit cards on the balance sheet, $13 million related to securitized credit cards, $35 million related to residential mortgages, $30 million related to auto financings and $3 million related to other loans.
NA- Not applicable. Derivative and FX contracts are marked-to-market, and valuation adjustments are included in trading revenues.

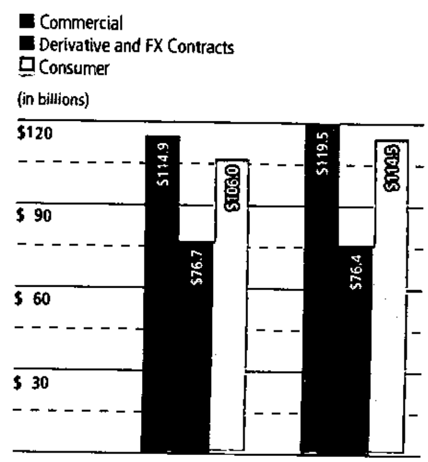
2000 Highlights

- **In an increasingly challenging environment, the overall quality of credit-related assets in the commercial and consumer portfolios remained stable**
- **Total managed net charge-offs for the year were down 10%**
- **Total nonperforming assets increased by 3%**

JPMorgan Chase's managed credit-related assets totaled $310 billion at December 31, 2000, an increase of $12.6 billion or 4% from year-end 1999, reflecting increased domestic commercial and consumer borrowing, partially offset by lower foreign consumer loans. The portfolio continues to be relatively well-balanced between commercial and consumer assets. At December 31, 2000, consumer assets represented 37% of the total managed credit-related portfolio, compared with 36% at December 31, 1999.

Managed Credit-Related Assets

At December 31



This graph shows the balance between consumer and commercial credit-related assets over the last two years.

Commercial Portfolio

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

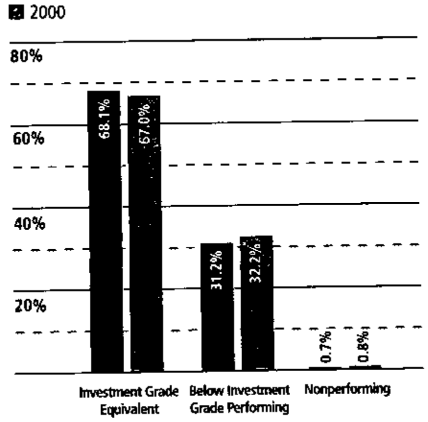
As of or for the Year Ended December 31, (in millions, except ratios)	Credit-Related Assets 2000	Credit-Related Assets 1999	Nonperforming Assets 2000	Nonperforming Assets 1999	Net Charge-offs 2000	Net Charge-offs 1999	Past Due 90 Days and Over and Accruing 2000	Past Due 90 Days and Over and Accruing 1999	Average Annual Net Charge-off Rate 2000	Average Annual Net Charge-off Rate 1999
Commercial Loans										
Domestic Commercial:										
Commercial and Industrial	$ 64,031	$ 58,563	$ 727	$ 411	$269	$216	$95	$52	0.43%	0.41%
Commercial Real Estate	4,834	6,007	65	51	(5)	(14)	3	5	NM	NM
Financial Institutions	7,342	6,623	29	12	26	70	—	—	0.32	1.10
Total Domestic Commercial Loans	76,207	71,193	821	474	290	272	98	57	0.38	0.42
Foreign Commercial:										
Commercial and Industrial	37,002	38,067	556	688	118	301	1	4	0.29	0.66
Commercial Real Estate	1,470	362	9	—	—	—	—	—	—	—
Financial Institutions	3,976	3,779	13	96	(8)	5	—	20	NM	0.15
Foreign Governments	805	1,517	35	41	—	(2)	—	—	—	NM
Total Foreign Commercial Loans	43,253	43,725	613	825	110	304	1	24	0.25	0.60
Total Commercial Loans	119,460	114,918	1,434	1,299	400	576	99	81	0.33	0.50
Derivative and FX Contracts										
Commercial and Industrial[(a)]	30,874	30,579	11	—	NA	NA	—	1	NA	NA
Financial Institutions	45,499	46,157	26	34	NA	NA	—	—	NA	NA
Total Derivative and FX Contracts	76,373	76,736	37	34	NA	NA	—	1	NA	NA
Total Commercial Credit-Related	$195,833	$191,654	$1,471	$1,333	$400	$576	$99	$82	0.33%	0.50%

(a) Includes foreign governments.
NA- Not applicable. Derivative and FX contracts are marked-to-market, and valuation adjustments are included in trading revenues.
NM- Not meaningful.

Commercial Credit-Related Assets – Risk Profile

At December 31

■ 1999
■ 2000



This graph highlights the percentage of investment grade equivalents over the past two years.
The balances include derivative and FX contracts.

JPMorgan Chase Originates for Distribution

The Firm's business strategy remains one of origination for distribution: The majority of the Firm's wholesale loan originations were distributed into the marketplace, permitting continued revenue growth while managing loan portfolio growth. In addition, the Firm's SVA discipline continues to discourage the retention of loan assets that do not generate a positive return above the cost of risk-adjusted capital. SVA remains a critical discipline in selecting loan assets to add to the Firm's balance sheet, particularly when combined with other credit and capital management disciplines (e.g., credit derivatives).

Purchase of Credit Protection

Since December 1997, JPMorgan Chase has entered into several Collateralized Loan Obligations ("CLO") (cash and synthetic) totaling approximately $20 billion in notional amount that have allowed the Firm to reduce the credit risk on loans, loan commitments and derivatives. This reduction was accomplished using credit default swaps and securities, which transfer the credit risk into the capital markets. The structures provide protection on all exposures to a referenced counterparty. In some transactions, the Firm retained the first risk of loss tranche which totaled $194 million. In other transactions, the Firm sold the first loss tranche and retained the senior loss tranche. As a result of these structures, the Firm was able to reduce economic capital by approximately $216 million as of December 31, 2000. These structures also reduced risk-adjusted assets by approximately $2.3 billion as of December 31, 2000, thereby increasing the Firm's Tier 1 and Total risk-based capital ratios by 4 basis points (0.04%) and 6 basis points (0.06%), respectively. These transactions have allowed the Firm to reposition the credit risks associated with $11.3 billion of on-balance sheet exposure to off-balance sheet entities having, in management's view, AAA credit quality. In addition to the CLOs, the Firm has entered into single name credit default swaps totaling approximately $19 billion in notional amount.

Stable Commercial Credit Quality

The segment of the commercial portfolio with a profile equivalent to investment grade ratings continues to represent a majority of the porrfolio. At December 31, 2000, 67% of the Firm's commercial credit-related assets were investment grade (as defined by the Firm's internal credit grading), while approximately 32% were below investment grade performing assets. In addition, commercial nonperforming assets increased $138 million during 2000 but remained less than 1% of the total commercial credit-related portfolio.

Net Charge-offs

In 2000, commercial net charge-offs declined by $176 million, or 31%, compared with 1999. The decline was primarily the result of lower net charge-offs in Asia, partially offset by higher charge-offs in North America and Europe. The net charge-off rate on average commercial loans was 0.33% for 2000 and 0.50% for 1999. The Firm expects that the annual commercial loan net charge-off rate, over time, will be in the range of 40 - 60 basis points (0.40% - 0.60%) and anticipates commercial net charge-offs for full-year 2001 will fall within this range.

Diversification

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

> Commercial Banking, the largest industry group, continues to reflect the Firm's market-leading position in derivatives and in providing credit to this industry. The underlying exposures represent a high-quality portfolio, predominantly investment grade.

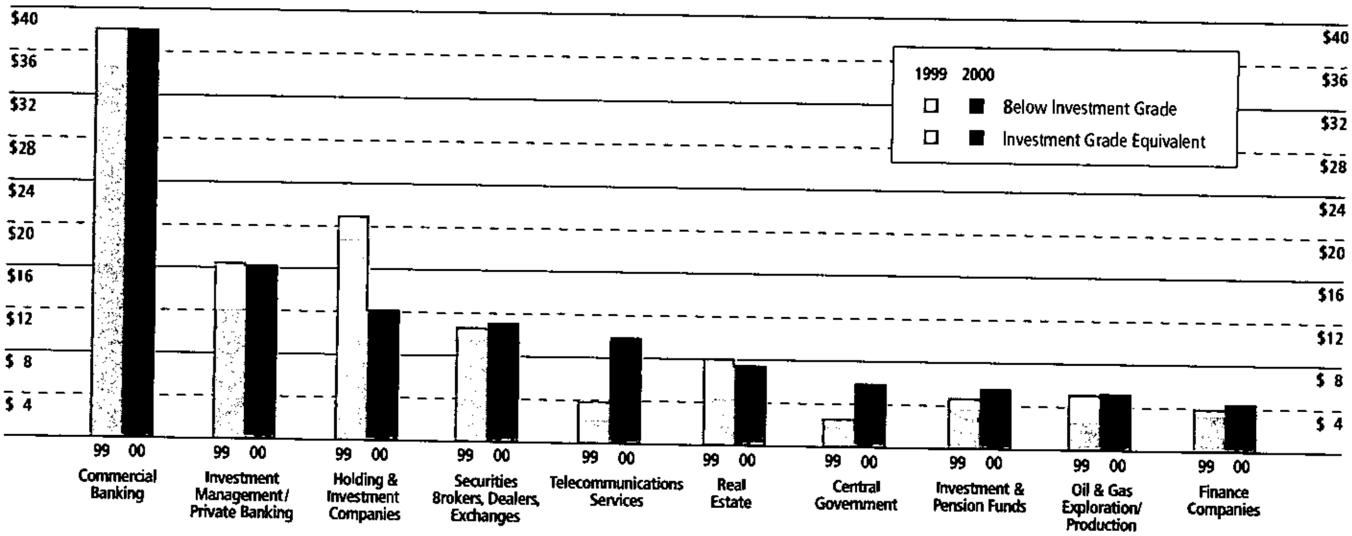
> The second largest industry group represents extensions of credit to clients of the Firm's Investment Management, Private Banking and discount brokerage businesses. It is a highly diversified, primarily investment grade portfolio due to its broad base of clients and the secured nature of a significant portion of the portfolio.

> The third largest industry group is Holding and Investment Companies. The underlying exposures in this category are not highly correlated, resulting in a diversified, high-quality portfolio.

> The remaining industry groups contribute to the further diversification of total commercial outstandings. These industry groups, including Telecommunications Services, are continuously monitored with respect to risk profile and industry composirion.

Diversification of Industry Profile – 10 Largest Industries

At December 31
(in billions)



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

Commercial Loans

Commercial and Industrial: The commercial and industrial ("C&I") portfolio consists primarily of loans made to large corporate and middle market customers. The domestic C&I portfolio increased $5.5 billion from 1999 year-end. Nonperforming domestic C&I loans increased over 1999, while net charge-offs in 2000 were $269 million, or 0.43% of the average portfolio, higher in both absolute dollar and percentage terms relative to 1999. However, charge-offs remained at a low level, indicative of the continued diversification and credit quality of the portfolio.

The foreign C&I portfolio totaled $37.0 billion at December 31, 2000, representing a $1.1 billion decline in outstandings from 1999 year-end levels. Nonperforming foreign C&I loans declined by $132 million due, in large part, to the continued decline in Asian nonperforming loans. Net charge-off levels for 2000 decreased from the prior year by $183 million, or 61%. The decline reflects lower charge-offs in Asia in 2000.

Commercial Real Estate: The commercial real estate portfolio represents loans secured primarily by real property (other than loans secured by mortgages on 1-4 family residential properties, which are included in the consumer loan portfolio). Management continues to monitor carefully this portfolio. Domestic commercial real estate loans decreased $1.2 billion from 1999, principally as a result of ongoing syndications, securitizations, sales and repayments. The increase in foreign commercial real estate loans in 2000 was primarily the result of the acquisition of Flemings.

Financial Institutions: The financial institutions portfolio includes loans to commercial banks and companies whose businesses primarily involve lending, financing, investing, underwriting or insurance.

Loans to financial institutions increased $0.9 billion in 2000 from 1999 levels, primarily in the domestic portion of the portfolio. Nonperforming financial institution loans decreased by $66 million in 2000, entirely in the foreign portfolio. The total portfolio experienced net charge-offs of $18 million in 2000, compared with $75 million in 1999.

Derivative and Foreign Exchange Contracts

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

The Firm uses the same credit risk management procedures when entering into derivative and foreign exchange transactions as those used for traditional lending products.

The Firm's primary counterparties in derivative and foreign exchange transactions are investment grade financial institutions, most of which are dealers in these products.

Many of the Firm's derivative and foreign exchange contracts are short term, which also mitigates credit risk, since these transactions settle quickly. The table below provides the remaining maturities of derivative and foreign exchange contracts outstanding at December 31, 2000 and 1999. The maturity profile remained relatively consistent with the prior year.

At December 31, 2000, nonperforming derivative contracts were $37 million, compared with $34 million at December 31, 1999, insignificant when compared with total derivative and FX contracts.

Maturity Profile

	2000				1999			
December 31,	Interest Rate Contracts	Foreign Exchange Contracts	Equity, Commodity and Other Contracts	Total	Interest Rate Contracts	Foreign Exchange Contracts	Equity, Commodity and Other Contracts	Total
Less than 1 year	12%	89%	40%	28%	13%	84%	37%	29%
1 to 5 years	45	9	57	41	43	14	45	39
Over 5 years	43	2	3	31	44	2	18	32
Total	100%	100%	100%	100%	100%	100%	100%	100%

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

Cross-Border Exposure

The Firm has an extensive country risk process to aid in managing its cross-border exposures. As part of this process, the Firm includes both its credit-related lending and trading exposures in assessing its cross-border risk. At December 31, 2000, the Firm's combined exposures in emerging markets in Latin America and Asia totaled 2.7% of total managed assets. JPMorgan Chase has reduced emerging Latin American exposure by 20% and emerging Asian exposure (excluding countries rated AA- and above) by 2% during 2000. These reductions reflected a strategy to lower the Firm's exposure as a result of the increased risk profile of these markets.

Management believes the current level of cross-border exposure continues to reflect appropriate levels of capital at risk, given its business mix. At these levels of risk, the Firm remains committed to these markets.

The table to the right presents JPMorgan Chase's cross-border exposure to selected countries based upon management's view of this exposure, which takes into account both cross-border and local exposures of traditional lending and trading products. It also considers the impact of credit derivatives at their notional or contract value when the Firm has either bought or sold credit protection with counterparties located outside the respective country.

Selected Country Exposure(a)

December 31, (in billions)	2000 Lending-Related(b)	2000 Trading-Related(c)	2000 Gross Local Country Assets	2000 Less Local Funding(d)	2000 Net Cross-Border Exposure(a)	1999 Net Cross-Border Exposure(a)
Mexico	$1.4	$1.4	$0.8	$(0.5)	$3.1	$3.7
Brazil	0.8	0.5	2.4	(1.1)	2.6	2.7
Argentina	1.3	0.6	0.4	(0.1)	2.2	3.7
South Africa	0.2	1.0	0.1	(0.1)	1.2	2.4
Japan(e)	3.8	9.6	5.4	(3.5)	15.3	10.6
Indonesia	0.8	0.1	—	—	0.9	1.1
Turkey	0.3	0.3	0.5	(0.2)	0.9	0.9
Russia	—	0.2	—	—	0.2	0.2

(a) Cross-border disclosure is based on management's view of the determination of cross-border risk. Under management's view, resale agreements are reported by the country of the counterparty of the transaction (rather than the country of the issuer of the underlying security); net short security sales to the same issuer can be used to offset long positions in the same country; and credit derivatives are treated as trading positions and used to reduce or increase exposure within a country by the notional amount of the derivative.
(b) Lending-related includes loans and accrued interest receivable, interest-bearing deposits with banks, acceptances, other monetary assets, issued letters of credit, resale agreements and undrawn commitments to extend credit (all adjusted for the impact of credit derivatives).
(c) Trading-related includes cross-border trading debt and equity instruments adjusted for the impact of credit derivatives and the mark-to-market exposure of derivative and foreign exchange contracts. The amounts associated with derivative and foreign exchange contracts are presented after taking into account the impact of legally enforceable master netting agreements.
(d) Local country funding is included only up to the amount of local country assets.
(e) The increase in exposure for Japan is primarily due to the impact of exchange rates on the foreign exchange and derivatives portfolio.

Consumer Portfolio

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

As of or for the Year Ended December 31, (in millions, except ratios)	Credit-Related Assets 2000	Credit-Related Assets 1999	Nonperforming Assets 2000	Nonperforming Assets 1999	Net Charge-offs(d) 2000	Net Charge-offs(d) 1999	Past Due 90 Days and Over and Accruing 2000	Past Due 90 Days and Over and Accruing 1999	Average Annual Net Charge-off Rate(d) 2000	Average Annual Net Charge-off Rate(d) 1999
Consumer Loans										
Domestic Consumer:										
1-4 Family Residential Mortgages	$ 50,302	$ 44,312	$269	$286	$ 36	$ 29	$ 2	$ —	0.08%	0.07%
Credit Card – Reported	18,495	15,633	26(c)	40(c)	693	828	327	280	5.00	5.82
Credit Card Securitizations(a)	17,871	17,939	—	—	977	993	387	348	5.20	5.60
Credit Card – Managed	36,366	33,572	26	40	1,670	1,821	714	628	5.12	5.70
Auto Financings	19,802	18,442	76	83	89	81	1	2	0.46	0.45
Other Consumer(b)	7,361	6,902	6	7	153	196	69	65	2.22	2.80
Total Domestic Consumer	113,831	103,228	377	416	1,948	2,127	786	695	1.84	2.13
Foreign Consumer(e)	630	2,801	7	22	29	37	2	15	1.24	1.11
Total Consumer Loans	$114,461	$106,029	$384	$438	$1,977	$2,164	$788	$710	1.82%	2.10%

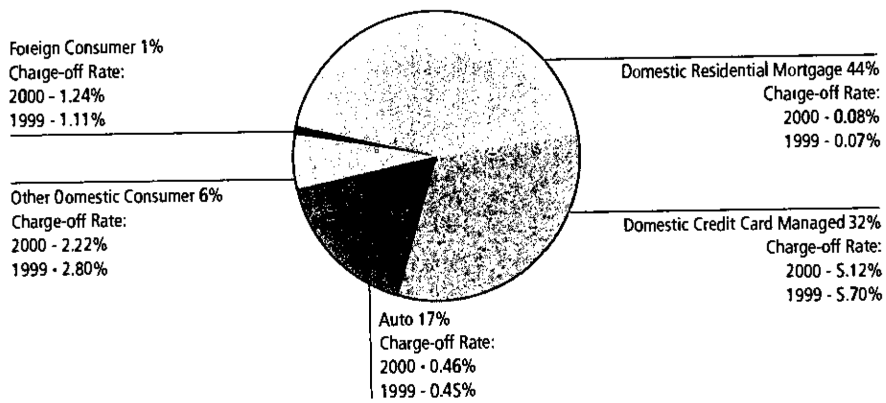
(a) Represents the portion of credit card receivables that have been securitized. For a further discussion of credit card securitizations, see page 25.
(b) Consists of installment loans (direct and indirect types of consumer finance), student loans and unsecured revolving lines of credit.
(c) Includes currently performing loans placed on a cash basis because of concerns as to collectibility.
(d) Excludes the effect of the FFIEC-related charge of $93 million.
(e) The decrease reflects the sale of the retail operations in Hong Kong and Panama.

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

The Firm's managed consumer portfolio totaled $114 billion at December 31, 2000, an increase of $8 billion or 8% during 2000. The following pie graph provides a summary of the consumer portfolio by loan type and their related charge-off rates. The Firm's largest component, residential mortgage loans, comprised 44% of the total consumer portfolio and primarily is secured by first mortgages.

The credit card portfolio, which accounted for 32% of consumer outstandings, showed a significant improvement in its charge-off rate in 2000. Auto financings, which accounted for 17% of consumer outstandings, experienced stable charge-off rates. Other domestic consumer (installment/revolving loans), which accounted for 6% of the consumer portfolio, reflected improved charge-off rates during 2000.

Consumer Managed Loan Portfolio



The graph above shows average annual charge-off rates by various consumer categories and the percentage of each loan category to the total managed consumer loan portfolio at December 31, 2000. The charge-off rate for the entire consumer portfolio was 1.82% in 2000, a decrease from 2.10% in 1999. Charge-off rates for 2000 exclude the effect of the FFIEC-related charge of $93 million.

Consumer Loans by Geographic Region

December 31, (in millions)	Residential Mortgage Loans 2000	Residential Mortgage Loans 1999	Managed Credit Card Loans 2000	Managed Credit Card Loans 1999	Auto Financings 2000	Auto Financings 1999
New York City	$ 5,537	$ 5,962	$ 2,146	$ 2,058	$ 1,762	$ 1,577
New York (Excluding New York City)	3,774	2,109	2,227	2,166	793	827
Remaining Northeast	7,332	6,259	6,563	6,183	4,445	4,070
Total Northeast	16,643	14,330	10,936	10,407	7,000	6,474
Southeast	7,043	5,690	6,884	6,238	3,372	2,991
Midwest	3,747	3,223	7,135	6,260	2,206	1,823
Texas	2,686	3,575	2,952	2,721	3,338	3,668
Southwest (Excluding Texas)	1,406	1,205	1,720	1,578	869	853
California	14,504	12,519	4,455	4,286	2,397	2,135
West (Excluding California)	4,273	3,770	2,284	2,082	620	498
Foreign[(a)]	292	1,522	6	746	22	45
Total	$50,594	$45,834	$36,372	$34,318	$19,824	$18,487

(a) The decrease reflects the sale of the retail operations in Hong Kong and Panama.

Consumer Loans

Residential Mortgage Loans: Domestic 1-4 family residential mortgage loans increased 14% during 2000. Charge-offs for 2000 increased $7 million (24%), when compared with the previous year, while the 2000 net charge-off rate remained low at 0.08%, reflecting the continued strong credit quality of the portfolio.

Credit Card Loans: The Firm analyzes its credit card portfolio on a "managed basis," which includes credit card receivables on the balance sheet, as well as credit card receivables that have been securitized. Domestic managed credit card receivables increased 8% during 2000. The decrease in the net charge-off rate was a result of lower customer bankruptcy levels as well as lower contractual losses. The managed credit card charge-off ratio for 2001 is expected to be similar to full-year 2000; although total charge-offs are expected to increase for 2001.

Auto Financings: Auto financings increased 7% from 1999, reflecting strong consumer demand during the second half of 2000 due to favorable pricing programs. The 2000 charge-off rate of 0.46% is indicative of this portfolio's selective approach to asset origination.

Other Consumer Loans: Other domestic consumer loans increased 7% from 1999. The decrease in net charge-offs in 2000 reflects improved credit performance and the sale of an underperforming segment of this portfolio.

Allowance for Credit Losses

Loans

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

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

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

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

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

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

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

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

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

The specific loss component increased 13% from year-end 1999 due to an increase in loans deemed by the Firm to be criticized. The expected loss component decreased 7% from year-end 1999, principally due to improvement in consumer credit loan quality during 2000. The residual component at December 31, 2000 was 19%, compared with 18% at 1999 year-end.

As of December 31, 2000, management deems its allowance to be adequate (i.e., sufficient to absorb losses that currently may exist but are not yet identifiable).

Lending-Related Commitments

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

Allowance Components

	Loans		Lending-Related Commitments	
December 31, (in millions)	2000	1999	2000	1999
Specific Loss	$ 602	$ 535	$ 76	$ 99
Expected Loss:				
Consumer	1,444	1,657	—	—
Commercial	919	887	174	169
Total Expected Loss	2,363	2,544	174	169
Residual Component	700	659	33	27
Total	$ 3,665	$ 3,738	$ 283	$ 295

Market Risk Management

> Market Risk Management continues to encompass the robust and disciplined practices in effect at both heritage firms
>
> Value-at-Risk methodology and stress testing will continue as co-equal tools in managing revenue volatility

Market Risk is the risk of loss relating to the change in value of a financial instrument or a portfolio due to changes in the value of market variables, such as interest rates, foreign exchange rates, credit spreads, and equity and commodity prices.

JPMotgan Chase employs a comprehensive approach to market risk management for its trading, investment and asset/liability management ("A/L") portfolios.

Trading portfolios are exposed to market risk because the values of trading positions are sensitive to changes in market prices and rates. Investment and A/L portfolios are affected by market risk because the revenues derived from these activities, such as securities gains and losses and net interest income, are sensitive to changes in interest rates.

Interest rate risk arises from a variety of factors, including differences in timing between the maturities or repricing of assets, liabilities and derivatives. For example, the repricing characteristics of loans and other interest-earning assets do not necessarily match those of deposits, borrowings or other liabilities.

Basis risk is another type of risk to which JPMorgan Chase is exposed in its trading, investment and A/L activities. Basis risk is the diffetence in the pricing characteristics of two instruments and occurs when the market rates or pricing indices for different financial instruments change at different times or by diffetent amounts. For example, when prime-priced commercial loans are funded with LIBOR-indexed liabilities, there is exposure to the difference between changes in prime and LIBOR rates.

Market risk is managed on a daily basis at JPMorgan Chase and is supervised by the Market Risk Management Group, which functions independently from the business units and consists of professionals located in major markets around the world.

Market risk is primarily controlled through a series of limits, which are used to align corporate risk appetite with risk-taking activities. Value-at-Risk ("VAR") limits and stress-loss advisory limits are approved by the Board of Directors. VAR limirs apply at the aggregate corporate and business unit levels. Statistical and nonstatistical limirs and stress-loss advisories apply at the trading desk level, along with designations of authorized instruments and maximum tenors. The use of nonstatistical measures and stop-loss advisories, together with VAR limits, reduces the likelihood that potential trading losses will reach daily VAR limits under normal market conditions.

Risk limits are set according to a number of criteria, including relevant market analysis, market liquidity, prior track record, business strategy, and management experience and depth. Risk limits are reviewed regularly to maintain consistency with trading strategies and material developments in market conditions and are updated at least twice a year.

Risk Measurement

Because no single risk statistic can reflect all aspects of market risk, the Firm utilizes several statistical and nonstatistical risk measures. Combining the two approaches is key to enhancing the stability of revenues from market risk activities because, taken together, these risk measures provide a more comprehensive view of market risk exposure than any single measure.

Risk Measures:
> Value-at-Risk ("VAR")
> Stress Testing
  - Economic Value
  - Net Interest Income ("NII")
> Basis Point Value ("BPV")
> Vulnerability Identification ("VID")

The methodologies used at Chase and J.P. Morgan, Value-at-Risk and stress testing, were generally consistent. Certain aspects of their implementation differed, such as the length of time used, the weighting of historical data and the statistical confidence levels employed (VAR at Chase was calculated at the 99% confidence level, while the comparable measure used at J.P. Morgan was calculated at the 95% confidence level). During 2001, the statistical measures used by JPMorgan Chase will combine the best practices of both heritage firms. VAR and stress testing will remain the predominant risk measurement tools of JPMorgan Chase.

Value-at-Risk

Value-at-Risk is a measure of the dollar amount of potential loss from adverse market moves in an everyday market environment. The VAR methodology used at JPMorgan Chase is based on historical simulation, which assumes that actual observed historical changes in market indices, such as interest rates, foreign exchange rates, and equity and commodity prices, reflect possible future changes. Historical simulation methodology permits consistent and comparable measurement of risk across instruments and portfolios.

VAR calculations are performed for all material trading and investment portfolios and for all material market risk-related A/L activities. All statistical models have a degree of uncertainty associated with the assumptions employed. The use of historical simulation for VAR calculations is not as dependent on assumptions about the distribution of portfolio losses as are other VAR methodologies that are parameter-based. Since the VAR methodology is dependent on the quality of available market data, diagnostic information is used to continually evaluate the reasonableness of the VAR model. This information includes the calculation of statisrical confidence intervals around the daily VAR estimate and daily "back testing" of VAR against actual financial results.

Daily Earnings at Risk ("DEaR"), a variation of the VAR methodology, was the statistical measure used at J.P. Morgan to estimate the Firm's exposure in normal markets ro market risk and to credit risk in the trading derivarives portfolio.

The following table presents VAR informarion for JPMorgan Chase at December 31, 2000. Due to the complexity of the modeling and the procedural differences at the herirage firms, combined VAR is not available for periods prior to the merger date. Accordingly, disclosure of Chase VAR and J.P. Morgan DEaR information for periods prior to December 31, 2000 is presented separately below. In addition, due to significant differences in the definition of market risk-related revenues used in preparation of histograms at Chase and J.P. Morgan, it is not feasible to include a histogram for fiscal year 2000.

Combined JPMorgan Chase VAR

At December 31, 2000
(in millions)

Trading Portfolio	$ 51
Market Risk-Related A/L Activities	102
Less: Portfolio Diversification	(35)
Aggregate VAR	$118

Although no single risk statistic can reflect all aspects of market risk, the tables that follow provide a meaningful overview of the market risk exposure at each heritage firm for the dates presented.

Chase Aggregate VAR

	Year Ended December 31, 2000			At December 31,	At December 31,
(in millions)	Average VAR	Minimum VAR	Maximum VAR	2000 VAR	1999 VAR
Trading Portfolio	$ 25	$ 20	$ 31	$ 24	$ 23
Market Risk-Related A/L Activities (a)	72	60	107	101	67
Less: Portfolio Diversification	(19)	NM	NM	(23)	(16)
Aggregate VAR	$ 78	$ 68	$ 105	$ 102	$ 74

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

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, 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.

In 2000, Chase posted positive daily market risk-related revenue for 254 our of 259 days, with 88 days exceeding positive $20 million. In 1999, Chase posted positive daily market risk-related revenue for 250 out of 260 days, with 62 days exceeding positive $20 million. Chase incurred no daily trading losses in excess of $20 million in either 2000 or 1999.

Chase Marked-to-Market Trading Portfolio

	Year Ended December 31, 2000			At December 31,	At December 31,
(in millions)	Average VAR	Minimum VAR	Maximum VAR	2000 VAR	1999 VAR
Interest Rate	$ 20	$ 15	$ 27	$ 19	$ 20
Foreign Exchange	4	2	8	4	3
Equities	5	2	9	6	7
Commodities	5	3	7	4	3
Hedge Fund Investments	5	3	5	4	3
Less: Portfolio Diversification	(14)	NM	NM	(13)	(13)
Total Trading VAR	$ 25	$ 20	$ 31	$ 24	$ 23

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, 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 average market risk DEaR for trading activities at J.P. Morgan declined 10% to $26 million in 2000, primarily reflecting lower exposures and lower levels of volatility, compared with 1999. Since DEaR, which is an estimate of potential loss, uses a 95% confidence interval estimate, losses greater than the calculated DEaR projections would be expected 5% of the time over the relevant period. During 2000, J.P. Morgan's DEaR estimates were well within its statistical expectations, as losses in excess of DEaR projections occurred less than 5% of the time.

J.P. Morgan Aggregate DEaR for All Portfolios

	Average		Minimum		Maximum		At December 31,	
(in millions)	2000	1999	2000	1999	2000	1999	2000	1999
Trading	$ 26	$ 29	$ 15	$ 18	$ 40	$ 48	$ 21	$ 26
Investment[(a)]	4	26	2	8	9	75	3	9
Aggregate DEaR[(b)]	28	42	18	20	43	92	21	22

(a) Investment includes primarily mortgage-backed securities ("MBS"). The decrease in 2000 compared with 1999 is attributable to the change in the size of the MBS portfolio.
(b) Aggregate DEaR includes the impact of portfolio diversification.

J.P. Morgan DEaR for Marked-to-Market Trading Portfolios

(in millions)	2000 Average	1999 Average	December 31, 2000	December 31, 1999
Interest Rate	$18	$ 23	$14	$ 22
Foreign Exchange	2	7	1	4
Equities	8	5	9	4
Commodities	—	2	—	1
Less: Portfolio Diversification	(2)	(8)	(3)	(5)
Total	$ 26	$29	$ 21	$ 26

Stress Testing

Whereas VAR captures exposure to unlikely events in normal markets, stress testing discloses market risk under plausible events in abnormal markets. Portfolio stress testing is integral to the market risk management process and is co-equal with and complementary to VAR as a risk measurement and control tool. Stress results, together with VAR, are used in determining the allocation of economic capital. Stress scenarios are continually reviewed and updated to respond to changes in positions and economic events. Stress loss advisories for JPMorgan Chase and for each of the major trading, investment and A/L businesses will be set to govern the Firm's largest exposures to abnormal market conditions.

Initially, corporate stress tests will be performed monthly on randomly selected dates, with a goal of performing stress testing weekly as soon as possible. Desk-level stress testing of the specific risks associated with particular businesses will continue to be performed weekly.

Stress test methodology assumes no actions are taken during a stress event to change the risk profile of its portfolios. This captures the decreased liquidity that frequently accompanies abnormal markets and results in a conservative stress loss estimate. The results of the combined marked-to-market trading activities stress test as of January 4, 2001 (the closest date to calendar year-end for which results are available) indicate a pre-tax stress test loss of $447 million.

Economic value stress testing is a measure that was applied to investment portfolios and A/L activities at Chase. The economic value stress test projects the anticipated change in value of assets and liabilities under certain stress test scenarios. This contrasts with the NII stress test analysis discussion that follows, which shows the potential change in earnings over the next year.

NII stress tests highlight exposures from factors such as administered rates (e.g., prime lending rate), pricing strategies on consumer and business deposits, changes in balance sheet mix and the effect of various options embedded in the balance sheet. NII stress tests take into account forecasted balance sheet changes (such as asset sales and securitizations, as well as prepayment and reinvestment behavior).

JPMorgan Chase will continue to utilize the economic value and NII stress testing methodologies using various historical and hypothetical scenarios.

Other Risk Measures

Other risk measures include net open positions, basis point values, option sensitivities, position concentrations and position turnover. These risk measures provide additional information on an exposure's "size" and "direction." At Chase, exposure to interest rate risk in the investment portfolio and A/L activities was calculated using a **BPV ("Basis Point Value")** measure. BPV for a portfolio shows whether a one one-hundredth percentage point (or one "basis point") increase in a market rate will give rise to an increase or decrease in the economic value of the portfolio and of what magnitude.

J.P. Morgan used the **Vulnerability Identification system ("VID")** to identify material risks and potential earnings vulnerabilities that might not be captured by statistical methodologies. Traders and others responsible for managing risk positions were accountable for identifying potential "worst-case" losses and estimating the probability of loss. The VID technology automatically escalated this information to the appropriate manager, who had discretion to further escalate the item within the firm as warranted.

Nonstatistical measures for JPMorgan Chase will utilize a BPV methodology and will incorporate the VID system.

The table that follows shows that Chase had an average directional BPV value of \$(4.8) million for 2000, indicating that the market value of Chase's A/L positions would have declined approximately \$4.8 million for every one basis point increase in interest rates along the interest rate yield curve. This compares with an average directional BPV of \$(4.9) million for 1999. In addition, the average BPV of Chase's investment portfolio and A/L activities would have declined by \$12.5 million for every one basis point widening of interest rate spreads. This compares with an average BPV of \$(10.7) million for 1999.

The BPV measures in the table include exposure to U.S. dollar interest rates as well as exposure to non-U.S. dollar interest rates. Average exposure to non-U.S. dollar interest rates was approximately 20% of Chase's total directional interest rate exposure for the year ended December 31, 2000. Exposure to non-U.S. dollar basis risk was immaterial. The directional risk of JPMorgan Chase would not differ materially from the Chase exposures set forth in the table below as J.P. Morgan did not have significant directional risk in its investment or A/L portfolios.

Market Risk-Related A/L Activities

(in millions, pre-tax amounts)	Year Ended December 31, 2000 Average	Minimum	Maximum	At December 31, 2000	At December 31, 1999
Directional Risk	\$ (4.8)	\$ (1.6)	\$ (7.7)	\$ (7.2)	\$ (4.7)
Basis Risk	\$ (12.5)	\$ (8.0)	\$ (17.9)	\$ (17.9)	\$ (13.2)

Foreign currency exposures were managed through the use of foreign exchange options and forwards. At December 31, 2000, JPMorgan Chase's earnings sensitivity to changes in foreign currency rates was not significant.

Operational Risk Management

> **The Risk Management Committee sets the Firm's overall strategic operational risk agenda**
>
> **Business managers are responsible for maintaining a comprehensive system of internal controls in order to manage operational risk effectively**

Operational Risk is the risk of loss resulting from inadequate or failed internal processes or systems, human factors or external events. Internal processes include activities relating to accounting, reporting, operations, tax, legal, compliance and personnel management.

Operational risk is an inherent risk element in each of the Firm's businesses and key support activities. Such risk manifests itself in various breakdowns, errors and business interruptions and can potentially result in financial losses and other damage to the Firm. To monitor and control such risk, each heritage firm maintained a system of comprehensive policies and a control framework designed to provide a sound and well-controlled operational environment throughout the organization. These systems have been designed to keep operational risk at appropriate levels in view of each firm's financial strength, the characteristics of its businesses and the markets in which it operated, and the competitive and regulatory environment to which it was subject. An effort currently is under way within the Firm to integrate in a timely and risk-sensitive manner the control framework of each heritage organization.

Operational risk management is considered a principal risk discipline within the Firm, along with market risk and credit risk. The Risk Management Committee establishes the strategic risk policy and framework for all risk disciplines within the Firm. It is composed of the senior business managers and other executives and is chaired by the Vice Chairman for Finance, Risk Management and Administration. In addition, the Audit and Risk Policy Committees of the Board of Directors are kept abreast of the Firm's overall control environment and the status of important control initiatives.

Primary responsibility for managing operational risk rests with business managers. These individuals, with the support of their staffs, are responsible for establishing and maintaining internal control procedures that are appropriate for their particular operating environments. Finance, Audit and other key support functions also play key roles in reviewing and maintaining the integrity of the control environment.

In early 2001, the Firm also established a new Corporate Operational Risk Management Team, reporting to the Firm's Productivity and Quality Executive under the overall responsibility of the Vice Chairman for Finance, Risk Management and Administration. The goal of the group is to create an operational risk framework that emphasizes active management of operational risk throughout the Firm.

Specific initiatives of the Corporate Operational Risk Management Team in 2001 include:

> Design and integrate a revised, firm-wide approach to self-assessment, capitalizing on the strong practices of the Firm's heritage organizations.

> Streamline and upgrade this process through the use of a J.P. Morgan web-based application.

> Continue to refine the methodologies used to calibrate operational risk and assign capital on the basis of this measurement. A risk-based framework for capital measurement and allocation based on specific business metrics and loss experience will provide direct incentives for proactive management of these risks.

> Review and standardize, as appropriate, the roles and responsibilities of operational risk managers and key support functions throughout the Firm.

Synchronizing these initiatives along with the Firm's audit process, financial controls and operational risk management units helps create an environment dedicated to proactive management of operational risks.

Liquidity Risk Management

> **JPMorgan Chase maintains liquidity levels to support operations, even under stress conditions**

Liquidity is managed by JPMorgan Chase to meet known and unanticipated cash funding needs. Liquidity risk arises in the general funding of the Firm's activities and in the management of its assets.

Liquidity Management

While capital is held to absorb unexpected losses, liquidity is managed to meet the Firm's known and unanticipated cash funding needs. **Liquidity risk includes both the risk of being unable to fund JPMorgan Chase's portfolio of assets at appropriate maturities and rates and the risk of being unable to liquidate a position in a timely manner at a reasonable price.**

The Firm manages liquidity on a daily basis, both at the parent company and subsidiary levels. In managing liquidity, management takes into account the various legal limitations on the extent to which its subsidiary banks may pay dividends to their parent companies or finance their affiliates.

The parent company routinely accesses liquidity in the public markets through the issuance of medium-term notes and commercial paper. Contingency plans exist that could be implemented on a timely basis upon the occurrence of a dramatic change in market conditions. In addition, it is the Firm's policy to maintain sufficient liquidity at the parent company to cover future cash needs over a 90-day forward period.

JPMorgan Chase holds marketable securities and other short-term investments that can be readily converted to cash. Loan syndication and securitization programs are utilized to facilitate the disposition of assets and to provide liquidity. The Firm's liquidity management process incorporates a regular review of assets deemed less liquid to assess the capacity for disposition under either syndication, sale or securitization scenarios and to compare the expected collateral value that would be assigned to these assets assuming they were pledged to secure short-term borrowing.

Liquidity management also provides for the appropriate mix of deposits (both "core" and "non-core") and capital to raise funds. A major source of liquidity for JPMorgan Chase's bank subsidiaries derives from their ability to generate core deposits. Core deposits include all deposits, except noninterest-bearing time deposits and certificates of deposit of $100,000 or more. In addition to core deposits, the Firm generates substantial non-core deposits from its Treasury & Securities Services business and from low-cost wholesale deposits.

Accounting and Reporting Developments

Derivatives

In 1998, the FASB issued SFAS 133, which establishes accounting and reporting standards for all derivative instruments. SFAS 133 requires that an entity measure all derivatives at fair value and recognize those derivatives as either assets or liabilities on the balance sheet. The change in a derivative's fair value is generally to be recognized in current period earnings or equity. JPMorgan Chase already recognizes the derivatives used in its trading activities on its balance sheet at fair value, with changes in the fair values of these derivatives included in earnings. This represents the substantial majority of the derivatives utilized by the Firm.

The adoption of SFAS 133 at January 1, 2001, with respect to nontrading derivatives, did not have a material impact on the Firm's earnings, liquidity or capital resources.

Transfer of Assets and Collateral

In September 2000, the FASB issued SFAS 140, which revises the standards set forth in SFAS 125 for the accounting of securitizations and other transfers of financial assets and collateral. SFAS 140 modifies the criteria for determining whether the transferor has relinquished control of assets and, therefore, whether the transfer may be accounted for as a sale. The provisions of SFAS 140 are effective for transfers and servicing of financial assets and extinguishments of liabilities after March 31, 2001. While the Firm currently is assessing the impact of SFAS 140, its adoption is not expected to significantly affect JPMorgan Chase's earnings, liquidity or capital resources.

Allowance for Loan Losses

In 1999, the Accounting Standard 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. The expectations are that the Task Force will develop a statement of position that will provide additional accounting and reporting guidance and clarification on the factors to consider in determining the allowance for loan losses. The Task Force is continuing its deliberation, and its impacr is yet to be determined.

Comparison between 1999 and 1998

Operating Results Including JPMP

JPMorgan Chase's operating earnings, including JPMorgan Partners, were $7.43 billion in 1999, an increase of 46% from 1998. Diluted operating earnings per share increased 50%, when compared with the prior year.

Reported net income was $7.50 billion in 1999, compared with $4.75 billion in 1998. Diluted net income per share was $3.69 in 1999, compared with $2.27 in 1998.

Operating revenues in 1999 rose 20% to $31.7 billion, reflecting increases in investment banking fees, trading-related revenue, private equity gains, and fees and commissions.

Net interest income, on an operating basis, was $10.11 billion in 1999, relatively consistent with the previous year.

Operating expenses were $17.9 billion in 1999, an increase of 11% from the prior year. The growth in expenses was primarily due to higher incentive costs associated with the growth in revenues.

Credir costs during 1999 were $2.44 billion, a decrease of $162 million from the 1998 level, primarily due to an overall improvement in the global credit environment and reduced risk in credit exposures. The provision for loan losses remained stable from the 1998 level.

Income tax expense in 1999 was $3.99 billion, compared with $2.60 billion in 1998. The effective tax rate was 34.7% for 1999, compared with 35.4% for 1998.

Operating Results Excluding JPMP

JPMorgan Chase's cash operating earnings, excluding JPMorgan Partners, were $6.0 billion in 1999, an increase of 28% from 1998. Diluted cash operating earnings per share increased 31%, when compared with 1998.

Lines of Business Results

Investment Bank cash operating earnings in 1999 rose $785 million, or 29%, due to strong trading-related revenue and investment banking fees, partially offset by higher incentives (as a result of strong growth in revenues) and lower securities gains.

Investmenr Management & Private Banking cash operating earnings in 1999 rose $89 million, or 38%, due to expanded product capabilities and distribution channels.

Treasury & Securities Services cash operating earnings in 1999 increased by $28 million or 5%, when compared with 1998, and revenue was up 9% for the year. Revenue growth was strong due to higher operating volumes from portfolio acquisitions. Earnings were tempered by increased expenses due to investment spending and costs related to Year 2000 initiatives coupled with costs incurred to address recordkeeping functions related to bond administration.

JPMorgan Partners cash operating earnings increased by $1.09 billion over the prior year, reflecting strength in the equity markets for technology and Internet initial public offerings.

Retail & Middle Market Financial Services cash operating earnings increased by $209 million or 14% over 1998. The increase was attributable to the growth in servicing residential mortgages and auto loans, higher deposit levels and fees, and significant improvement in credit quality, partially offset by significant investments in Internet and technology activities.

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

J.P. Morgan Chase & Co.

To Our Stockholders:

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

Management maintains a comprehensive system of internal control to assure the proper authorization of transactions, the safeguarding of assets and the reliability of the financial records. The system of internal control provides for appropriate division of responsibility and is documented by written policies and procedures that are communicated to employees. J.P. Morgan Chase & Co. maintains a strong internal auditing program that independently assesses the effectiveness of the system of internal control and recommends possible improvements. Management believes that as of December 31, 2000, J.P. Morgan Chase & Co. maintains 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, managemenr believes that all representations made to PricewaterhouseCoopers LLP during its audit were valid and appropriate. The accounting firm's report appears below.

Douglas A. Warner III
Chairman of the Board

William B. Harrison, Jr.
President and Chief Executive Officer

Marc J. Shapiro
Vice Chairman
Finance, Risk Management and Administration

Dina Dublon
Executive Vice President
and Chief Financial Officer

January 16, 2001

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 marerial respects, the financial position of J.P. Morgan Chase & Co. and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Corporation'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 starements 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.

PricewaterhouseCoopers LLP

January 16, 2001

consolidated statement of income

J.P. Morgan Chase & Co.

Year Ended December 31, (in millions, except per share data)	2000	1999	1998
Revenue			
Investment Banking Fees	$ 4,362	$ 3,517	$ 2,903
Trading Revenue	6,298	5,252	3,600
Fees and Commissions	9,229	7,876	6,739
Private Equity – Realized Gains	2,051	1,690	1,355
Private Equity – Unrealized Gains (Losses)	(1,036)	1,457	(43)
Securities Gains (Losses)	229	(192)	469
Other Revenue	2,289	1,045	883
Total Noninterest Revenue	23,422	20,645	15,906
Interest Income	36,643	31,207	34,930
Interest Expense	27,131	20,922	25,083
Net Interest Income	9,512	10,285	9,847
Revenue before Provision for Loan Losses	32,934	30,930	25,753
Provision for Loan Losses	1,377	1,446	1,453
Total Net Revenue	31,557	29,484	24,300
Expense			
Compensation Expense	12,748	10,534	8,871
Occupancy Expense	1,294	1,190	1,123
Technology and Communications	2,454	2,179	2,172
Merger and Restructuring Costs	1,431	23	887
Amortization of Intangibles	528	329	293
Other Expense	4,369	3,740	3,607
Total Noninterest Expense	22,824	17,995	16,953
Income before Income Tax Expense	8,733	11,489	7,347
Income Tax Expense	3,006	3,988	2,602
Net Income	$ 5,727	$ 7,501	$ 4,745
Net Income Applicable to Common Stock	$ 5,631	$ 7,395	$ 4,612
Net Income per Common Share			
Basic	$ 2.99	$ 3.87	$ 2.37
Diluted	2.86	3.69	2.27

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)	2000	1999
Assets		
Cash and Due from Banks	$ 23,972	$ 18,692
Deposits with Banks	8,333	30,421
Federal Funds Sold and Securities Purchased under Resale Agreements	69,474	58,981
Securities 8orrowed	32,371	3S,528
Trading Assets:		
Debt and Equity Instruments (Including Assets Pledged of $53,S92 in 2000)	139,249	104,125
Derivative Receivables	76,373	76,736
Securities:		
Available-for-Sale (Including Assets Pledged of $28,713 in 2000)	73,106	74,911
Held-to-Maturity (Fair Value: $S93 in 2000 and $876 in 1999)	589	888
Loans (Net of Allowance for Loan Losses of $3,66S in 2000 and $3,738 in 1999)	212,385	199,270
Private Equity Investments	11,428	10,389
Accrued Interest and Accounts Receivable	20,618	20,554
Premises and Equipment	7,087	6,436
Goodwill and Other Intangibles	15,833	9,632
Other Assets	24,530	20,440
Total Assets	$ 715,348	$ 667,003
Liabilities		
Deposits:		
Domestic:		
Noninterest-8earing	$ 55,933	$ S0,366
Interest-8earing	89,370	84,341
Foreign:		
Noninterest-Bearing	6,780	6,SS9
Interest-Bearing	127,282	145,798
Total Deposits	279,365	287,064
Federal Funds Purchased and Securities Sold under Repurchase Agreements	131,738	109,841
Commercial Paper	24,851	20,363
Other Borrowed Funds	19,840	15,403
Trading Liabilities:		
Debt and Equity Instruments	52,157	46,268
Derivative Payables	76,517	72,722
Accounts Payable, Accrued Expenses and Other Liabilities (Including the Allowance for Credit Losses of $283 in 2000 and $29S in 1999)	40,754	34,196
Long-Term Debt	43,299	41,8S2
Guaranteed Preferred Beneficial Interests in the Firm's Junior Subordinated Deferrable Interest Debentures	3,939	3,688
Total Liabilities	672,460	631,397
Commitments and Contingencies (See Note 24)		
Preferred Stock of Subsidiary	550	5S0
Stockholders' Equity		
Preferred Stock	1,520	1,622
Common Stock (Authorized 4,S00,000,000 Shares, Issued 1,940,109,081 Shares in 2000 and 2,066,S06,215 Shares in 1999)	1,940	1,625
Capital Surplus	11,598	12,724
Retained Earnings	28,096	28,45S
Accumulated Other Comprehensive Income (Loss)	(241)	(1,428)
Treasury Stock, at Cost (11,618,8S6 Shares in 2000 and 215,999,151 Shares in 1999)	(575)	(7,942)
Total Stockholders' Equity	42,338	3S,0S6
Total Liabilities, Preferred Stock of Subsidiary and Stockholders' Equity	$ 715,348	$ 667,003

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)	2000	1999	1998
Preferred Stock			
Balance at Beginning of Year	$ 1,622	$ 1,722	$ 2,434
Issuance of Stock	—	—	200
Redemption of Stock	(100)	(100)	(912)
Retirement of Treasury Stock	(2)	—	—
Balance at End of Year	1,520	1,622	1,722
Common Stock			
Balance at Beginning of Year	1,625	1,625	1,184
Issuance of Common Stock for Stock Splits	441	—	441
Retirement of Treasury Stock	(126)	—	—
Balance at End of Year	1,940	1,625	1,625
Capital Surplus			
Balance at Beginning of Year	12,724	12,307	12,664
Issuance of Common Stock and Options for (Purchase Accounting) Acquisitions	136	215	—
Retirement of Treasury Stock	(237)	—	—
Issuance of Common Stock for Stock Splits	(441)	—	(441)
Shares Issued and Commitments to Issue Common Stock for Employee Stock-Based Awards and Related Tax Effects	(584)	202	84
Balance at End of Year	11,598	12,724	12,307
Retained Earnings			
Balance at Beginning of Year	28,455	23,158	20,484
Net Income	5,727	7,501	4,745
Retirement of Treasury Stock	(3,636)	—	—
Cash Dividends Declared:			
Preferred Stock	(96)	(106)	(133)
Common Stock ($1.28, $1.08 and $0.96 per share)	(2,354)	(2,098)	(1,938)
Balance at End of Year	28,096	28,455	23,158
Accumulated Other Comprehensive Income (Loss)			
Balance at Beginning of Year	(1,428)	493	522
Other Comprehensive Income (Loss)	1,187	(1,921)	(29)
Balance at End of Year	(241)	(1,428)	493
Treasury Stock, at Cost			
Balance at Beginning of Year	(7,942)	(4,206)	(4,142)
Retirement of Treasury Stock	4,001	—	—
Purchase of Treasury Stock	(2,950)	(6,493)	(1,846)
Reissuance of Treasury Stock	2,901	2,545	1,782
Reissuance of Treasury Stock for (Purchase Accounting) Acquisitions	3,415	212	—
Balance at End of Year	(575)	(7,942)	(4,206)
Total Stockholders' Equity	$ 42,338	$ 35,056	$ 35,099
Comprehensive Income			
Net Income	$ 5,727	$ 7,501	$ 4,745
Other Comprehensive Income (Loss)	1,187	(1,921)	(29)
Comprehensive Income	$ 6,914	$ 5,580	$ 4,716

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)	2000	1999	1998
Operating Activities			
Net Income	$ 5,727	$ 7,501	$ 4,745
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Provision for Loan Losses	1,377	1,446	1,453
Merger and Restructuring Costs	1,431	23	887
Depreciation and Amortization	2,545	1,945	1,915
Net Change in:			
Trading-Related Assets	(34,761)	(8,721)	13,128
Securities Borrowed	3,157	(3,926)	7,585
Accrued Interest and Accounts Receivable	(64)	(2,627)	(1,681)
Other Assets	(4,110)	(6,797)	(4,692)
Trading-Related Liabilities	9,684	9,823	(14,763)
Accounts Payable and Accrued Expenses	1,305	1,573	(1,203)
Other Liabilities	2,673	(946)	(1,141)
Other, Net	(2,640)	756	(1,016)
Net Cash (Used in) Provided by Operating Activities	(13,676)	50	5,217
Investing Activities			
Net Change in:			
Deposits with Banks	22,088	(20,843)	(4,560)
Federal Funds Sold and Securities Purchased under Resale Agreements	(10,493)	(9,493)	15,932
Loans Due to Sales and Securitizations	33,062	40,913	45,400
Other Loans, Net	(47,672)	(43,843)	(46,134)
Other, Net	(2,210)	(5,039)	(2,317)
Held-to-Maturity Securities: Proceeds	415	799	1,382
Purchases	(114)	(21)	(91)
Available-for-Sale Securities: Proceeds from Maturities	9,393	16,821	36,282
Proceeds from Sales	104,322	118,538	176,744
Purchases	(109,051)	(115,423)	(238,963)
Cash Used in Acquisitions	(2,195)	(3,142)	(1,946)
Proceeds from Divestitures of Nonstrategic Businesses and Assets	1,469	235	228
Net Cash Used in Investing Activities	(986)	(20,498)	(18,043)
Financing Activities			
Net Change in:			
Domestic Deposits	10,596	(7,686)	13,500
Foreign Deposits	(18,295)	27,203	1,535
Federal Funds Purchased and Securities Sold under Repurchase Agreements	21,897	4,708	(5,089)
Commercial Paper and Other Borrowed Funds	8,925	687	1,021
Other, Net	(436)	3,059	(1,948)
Proceeds from the Issuance of Long-Term Debt and Capital Securities	14,861	10,386	18,088
Repayments of Long-Term Debt	(14,442)	(11,565)	(10,543)
Proceeds from the Issuance of Stock and Stock-Related Awards	2,278	2,755	1,749
Redemption of Preferred Stock	(100)	(100)	(912)
Treasury Stock Purchased	(2,950)	(6,493)	(1,846)
Cash Dividends Paid	(2,282)	(2,133)	(1,985)
Net Cash Provided by Financing Activities	20,052	20,821	13,570
Effect of Exchange Rate Changes on Cash and Due from Banks	(110)	48	65
Net Increase in Cash and Due from Banks	5,280	421	809
Cash and Due from Banks at the Beginning of the Year	18,692	18,271	17,462
Cash and Due from Banks at the End of the Year	$ 23,972	$ 18,692	$ 18,271
Cash Interest Paid	$ 27,217	$ 19,880	$ 24,464
Taxes Paid	$ 3,396	$ 1,891	$ 2,205

The Notes to Consolidated Financial Statements are an integral part of these Statements.

1 – Summary of Significant Accounting Policies

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

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

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

Basis of Presentation

Consolidation

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

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

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

Use of Estimates in the Preparation of Consolidated Financial Statements

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

Foreign Currency Translation

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

Gains and losses from translating the financial statements of a foreign operation where the functional currency is not the U.S. dollar are included in Accumulated Other Comprehensive Income (Loss) within Stockholders' Equity. For foreign operations where the functional currency is the U.S. dollar, which include operations in highly inflationary environments, transaction gains and losses are reported in the Consolidated Statement of Income.

Trading Assets and Liabilities, Including Derivatives

Trading Assets include securities held for trading purposes that JPMorgan Chase owns ("long" positions). Trading Liabilities include securities that JPMorgan Chase has sold to other parties but does not own. These securities are "short" positions and JPMorgan Chase is obligated to purchase these securities at a future date. Also included in Trading Liabilities are structured notes, where JPMorgan Chase makes a market in those instruments. Trading positions are carried at fair value on the Consolidated Balance Sheet and recorded on a trade date basis. Changes in the fair value of trading positions are recorded in Trading Revenue. Trading Assets and Liabilities include derivatives used for trading purposes. These derivatives are carried at fair value with changes in the fair value recorded in Trading Revenue. The reported receivables (unrealized gains) and payables (unrealized losses) related to derivatives used for trading purposes include the effect of master netting agreements as permitted under FASB Interpretation No. 39.

Derivatives Used for Nontrading Purposes

JPMorgan Chase uses derivatives as an end user to hedge exposures, modify the interest rate characteristics of related balance sheet instruments or meet longer-term investment objectives. These derivatives are not included in Trading Assets and Liabilities.

Derivatives used as hedges must be effective at reducing the risk associated with the exposure being hedged. Each derivative must be designated as a hedge at the beginning of the contract and must be highly correlated with the underlying hedged item for the life of the contract.

Swaps used to modify the interest rate characteristics of nontrading-related balance sheet instruments must be linked to the related asset or liability, with the term of the swap generally equal to those of the related asset or liability, at the beginning and throughout the life of the contract. Unrealized gains and losses are deferred on these derivative contracts.

Derivatives used to hedge or modify the interest rate characteristics of AFS securities are carried at fair value; unrealized gains and losses on these derivatives are recorded in Accumulated Other Comprehensive Income (Loss) within Stockholders' Equity.

The interest component associated with derivatives used as hedges or to modify the interest rate characteristics of assets and liabilities is recognized over the contract's life in Net Interest Income.

Cash margin requirements associated with futures contracts and option premiums for contracts used as hedges are recorded in Other Assets or Other Liabilities.

When a contract is settled or terminated, the cumulative change in the fair value is recorded as an adjustment to the carrying value of the underlying asset or liability and amortized into income over the asset's or liability's expected remaining life. If the underlying hedged instrument is sold, JPMorgan Chase immediately recognizes the cumulative change in the derivative's value in the component of earnings relating to the underlying instrument.

Securities

Securities are classified as either available-for-sale ("AFS") or held-to-maturity ("HTM"). 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 and any related hedges are carried at fair value on the Consolidated Balance Sheet. Any unrealized gains and losses, including the effect of related hedges, are reported net as increases or decreases to Accumulated Other Comprehensive Income (Loss). Securities that JPMorgan Chase has the positive intent and ability to hold to maturity are classified as HTM and are carried at amortized cost on the Consolidated Balance Sheet. The specific identification method is used to determine realized gains and losses, which are included in Securities Gains on the Consolidated Statement of Income.

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

Resale and Repurchase Agreements

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. Certain of these transactions are accounted for as "buys" and "sells", in accordance with SFAS 125. Where appropriate, resale and repurchase agreements with the same counterparty are reported on a net basis. JPMorgan Chase takes possession of securities purchased under resale agreements. On a daily basis, JPMorgan Chase monitors the market value of the underlying collateral, which consists primarily of U.S. government and agency securities, and requests additional collateral from its counterparties when necessary.

Securities Borrowed and Lent

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

Loans

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

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

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

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

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.

Loan Securitizations

JPMorgan Chase securitizes, sells and services various consumer and commercial loans. Interests in the securitized and sold loans may be retained in the form of senior or subordinated interest-only strips, subordinated tranches, escrow accounts and servicing rights. JPMorgan Chase's undivided interest in its credit card master trust is recorded in Loans. Other retained interests are primarily recorded in Other Assets. Gains or losses on securitization and sale depends in part on the previous carrying amount of the loans involved in the transfer and is allocated between the loans sold and the retained interests based on their relative fair values at the date of sale. Since quoted market prices are generally not available, JPMorgan Chase usually estimates fair value of these retained interests by determining the present value of future expected cash flows using modeling techniques that incorporate management's best estimates of key assumptions, which may include credit losses, prepayment speeds and discount rates commensurate with the risks involved. Gains on 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.

Allowance for Credit Losses

JPMorgan Chase's Allowance for Loan Losses is intended to cover probable credit losses for which either the asset is nor specifically identified or the size of the loss has not been fully determined. Within the allowance, there are specific and expected loss components, and a residual component.

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

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

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

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

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

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

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

JPMorgan Chase's Risk Management Committee reviews, at least quarterly, the Allowance for Loan Losses relative to the risk profile of the 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, 2000, JPMorgan Chase deemed its allowance to be adequate (i.e., sufficient to absorb losses that may currently exist but are not yet identifiable).

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

JPMorgan Chase maintains an allowance for credit losses as follows:

	Reported in:	
Allowance for Credit Losses on:	Balance Sheet	Income Statement
Loans	Allowance for Loan Losses	Provision for Loan Losses
Lending-Related Commitments	Other Liabilities	Other Revenue

Private Equity Investments

Public securities held by JPMorgan Partners ("JPMP") are marked-to-market at the quoted public value less liquidity discounts, with the resulting unrealized gains/losses included in the income statement. JPMP's valuation policy for public securities incorporates the use of these liquidity discounts and price averaging methodologies in certain circumstances to take into account the fact that JPMP cannot immediately realize such public quoted values due to the numerous regulatory, corporate and contractual sales restrictions. Private investments are initially carried at cost, which is viewed as an approximation of fair value. The carrying value of private investments is adjusted to reflect valuation changes resulting from unaffiliated party transactions and for evidence of an other-than-temporary decline in value.

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.

Goodwill and Other Intangibles

Goodwill and other acquired intangibles, such as core deposits and credit card relationships, are amortized over the estimated periods to be benefited, generally ranging from 7 to 25 years. An impairment review is performed periodically on these assets.

Capitalized mortgage servicing assets consist of purchased and originated servicing rights. These rights are amortized in proportion to, and over the period of, the estimated future net servicing income stream of the underlying mortgage loans. Morrgage servicing rights are assessed for impairment based on the fair value of the right and any related derivative contracts. Impairment is evaluated by stratifying the mortgage servicing rights by interest rate bands.

Fee Revenue

Investment Banking Fees include securities underwriting revenues and advisoty and all other fees. Underwriting revenues are represented net of syndicate expenses. Advisory and all other fees are recognized as revenue when the related services are performed. In addition, JPMorgan Chase recognizes credit arrangement and syndication fees as revenue after satisfying certain retention, timing and yield criteria.

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

Income Taxes

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

Statement of Cash Flows

For JPMorgan Chase's Consolidated Statement of Cash Flows, cash and cash equivalents is defined as those amounts included in Cash and Due from Banks. JPMorgan Chase classifies cash flows from derivative transactions used as hedges in the same manner as the items being hedged.

2 – Business Changes and Developments

Merger with J.P. Morgan

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

The following table sets forth the reported results of operations for the separate companies for the periods prior to the merger.

(in millions)	Nine Months Ended September 30, 2000	1999	1998
Chase:			
Net Interest Income	$ 5,869	$ 8,744	$ 8,566
Noninterest Revenue	10,872	13,473	10,090
Net Income	3,335	5,446	3,782
J.P. Morgan:			
Net Interest Income	$ 1,182	$ 1,541	$ 1,281
Noninterest Revenue	6,444	7,140	5,784
Net Income	1,684	2,055	963

The amounts presented above do nor reflect reclassifications of certain revenue and expense items which were made to conform to the reporting policies of JPMorgan Chase.

Sale of Hong Kong Retail Banking Business

During the fourth quarter of 2000, Chase completed the sale of its Hong Kong-based tetail 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 Societe 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 tesulted in a gain of $399 million ($267 million after-tax), which reflected the impact of the minimum proceeds to be received from the Euroclear Bank over the next two years. In addition, under the agreement, the Firm may receive additional proceeds of up to $100 million per year for each of the next two years based on the financial performance of the Euroclear Bank during those periods.

Sale of ChaseMellon Shareholder Services

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

Acquisition of Flemings

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

Acquisition of Beacon

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

Acquisition of Hambrecht & Quist

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

Sale of Investment Management Business in Australia

In July 1998, J.P. Morgan completed the sale of its investment management business in Australia, resulting in a net gain of $56 million ($34 million after-tax).

Sale of Global Trust and Agency Business

In June 1998, J.P. Morgan completed the sale of its global trust and agency services business, resulting in a net gain of $131 million ($79 million after-tax).

Acquisition of American Century

In January 1998, J.P. Morgan completed the purchase of a 45% economic interest in American Century Companies, Inc., a no-load U.S. mutual fund company, for $965 million. The investment is accounted for under the equity method.

3 – Trading Activities

See Note 1 for the trading activities accounting policies.

Trading Revenue

The following table sets forth the components of total trading-related tevenue.

Year Ended December 31, (in millions)	2000	1999	1998
Product Diversification:			
Equities[(a)]	$1,762	$1,194	$ 427
Debt Instruments[(b)]	546	245	388
Foreign Exchange Revenue[(c)]	1,465	1,199	1,180
Interest Rate Contracts, Commodities and Other[(d)]	2,525	2,614	1,605
Trading Revenue[(e)]	$6,298	$5,252	$3,600
Net Interest Income Impact[(f)]	708	1,444	1,008
Total Trading-Related Revenue	$7,006	$6,696	$4,608

(a) Includes equity securities and equity derivatives.
(b) Includes U.S. and foreign government and government agency securities, corporate debt instruments, emerging markets debt instruments and debt-related derivatives.
(c) Includes foreign exchange spot and option contracts.
(d) Includes interest rate swaps, cross-currency interest rate swaps, foreign exchange forward contracts, interest rate futures and options, forward rate agreements and related hedges as well as commodities, commodity derivatives and credit derivatives.
(e) Derivative and foreign exchange contracts are marked-to-market and valuation adjustments are included in Trading Revenue.
(f) Includes interest recognized on interest-earning and interest-bearing trading-related positions, as well as management allocations, reflecting the funding cost or benefit associated with trading positions. This amount is included in net interest income on the Consolidated Statement of Income.

Trading Assets and Liabilities

The following table presents trading assets and trading liabilities for the dates indicated.

December 31, (in millions)	2000	1999
Trading Assets		
Debt and Equity Instruments:		
U.S. Government, Federal Agencies and Municipal Securities	$ 43,251	$ 29,401
Certificates of Deposit, Bankers' Acceptances and Commercial Paper	7,258	9,892
Debt Securities Issued by Foreign Governments	41,631	28,840
Corporate Securities	36,626	30,254
Other	10,483	5,738
Total Trading Assets – Debt and Equity Instruments	$ 139,249	$104,125
Derivative Receivables:		
Interest Rate Contracts	$ 41,124	$ 36,832
Foreign Exchange Contracts	15,484	15,811
Debt, Equity, Commodity and Other Contracts	19,765	24,093
Total Trading Assets – Derivative Receivables	$ 76,373	$ 76,736
Trading Liabilities		
Debt and Equity Instruments:		
Securities Sold, Not Yet Purchased	$ 51,762	$ 45,343
Structured Notes	395	925
Total Trading Liabilities – Debt and Equity Instruments	$ 52,157	$ 46,268
Derivative Payables:		
Interest Rate Contracts	$ 27,968	$ 26,555
Foreign Exchange Contracts	17,759	14,091
Debt, Equity, Commodity and Other Contracts	30,790	32,076
Total Trading Liabilities – Derivative Payables	$ 76,517	$ 72,722

Average trading assets and liabilities were as follows for the periods indicated.

Year Ended December 31, (in millions)	2000	1999
Trading Assets – Debt and Equity Instruments	$107,369	$95,695
Derivative Receivables	$ 70,727	$73,247
Trading Liabilities – Debt and Equity Instruments:		
Securities Sold, Not Yet Purchased	$ 53,394	$38,516
Structured Notes	552	1,071
Total Trading Liabilities – Debt and Equity Instruments	$ 53,946	$39,587
Total Trading Liabilities – Derivative Payables	$ 66,573	$69,292

4 – Fees and Commissions

Details of fees and commissions were as follows:

Year Ended December 31, (in millions)	2000	1999	1998
Investment Management, Custody and Processing Services	$3,628	$2,868	$2,473
Credit Card Revenue	1,771	1,698	1,474
Brokerage and Investment Services	1,228	768	624
Lending-Related Service Fees	1,031	1,061	948
Deposit Service Charges	906	895	718
Other Fees	665	586	502
Total Fees and Commissions	$9,229	$7,876	$6,739

5 – Other Revenue and Other Expense

Details of other revenue and expense were as follows:

Year Ended December 31, (in millions)	2000	1999	1998
Other Revenue			
Gains on Sales of Nonstrategic Assets	$ 1,307	$ 166	$ 187
Residential Mortgage Origination/Sales Activities	194	323	356
Loss on Economic Hedge of the Flemings Purchase Price	(176)	—	—
All Other	964	556	340
Total Other Revenue	$ 2,289	$1,045	$ 883
Other Expense			
Professional Services	$ 1,203	$1,012	$1,045
Outside Services Expense	648	584	523
Marketing Expense	595	503	431
Travel and Entertainment	490	350	401
Special Contribution to the Foundation[(a)]	—	100	—
All Other	1,433	1,191	1,207
Total Other Expense	$ 4,369	$3,740	$3,607

(a) Represents a $100 million special contribution to The Chase Manhattan Foundation.

6 – Interest Income and Interest Expense

Details of interest income and expense were as follows:

Year Ended December 31, (in millions)	2000	1999	1998
Interest Income			
Loans	$17,243	$14,783	$15,498
Securities	4,422	4,804	5,072
Trading Assets	7,160	5,432	6,775
Federal Funds Sold and Securities Purchased under Resale Agreements	4,218	3,016	4,201
Securities Borrowed	2,294	1,877	2,129
Deposits with Banks	773	1,006	936
Other Sources	533	289	319
Total Interest Income	$36,643	$31,207	$34,930
Interest Expense			
Deposits	$10,835	$ 8,845	$ 9,663
Short-Term and Other Liabilities	13,105	9,323	12,612
Long-Term Debt	3,191	2,754	2,808
Total Interest Expense	$27,131	$20,922	$25,083
Net Interest Income	$ 9,512	$10,285	$ 9,847
Provision for Loan Losses	1,377	1,446	1,453
Net Interest Income After Provision for Loan Losses	$ 8,135	$ 8,839	$ 8,394

7 – Merger and Restructuring Costs

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

(in millions)	
Merger Costs	$1,250
Restructuring Costs Not Accruable under 1999 Initiatives	181
Total Merger and Restructuring Costs	$1,431

2000 Restructuring Initiatives: Management estimates that the Firm will incur one-time, pre-tax costs of $3.2 billion in connection with the merger of J.P. Morgan and Chase. These costs consist of a $1.25 billion merger charge (severance of $675 million, facilities costs of $394 million and technology and other costs of $181 million) that was recorded on the December 31, 2000 merger date and $1.95 billion of other costs (primarily systems integration costs, facilities costs and retention payments) to be incurred in 2001 and 2002 that are not accruable under existing accounting pronouncements. In 2000, $333 million of the $1.25 billion merger reserve was utilized; accordingly, the merger liability was $917 million at December 31, 2000.

1999 Restructuring Initiatives: In connection with several strategic restructuring initiatives in the fourth quarter of 1999, JPMorgan Chase incurred a charge of $100 million for planned consolidation actions in certain businesses and a charge of $75 million for planned staff reductions and for the disposition of premises and equipment resulting from the relocation of several businesses to Florida, Texas and Massachusetts. The $175 million restructuring charge included severance costs associated with the relocation of 2,300 positions and the projected elimination of 800 positions as well as the planned disposition of certain premises and equipment. At December 31, 2000, the restructuring liability was $89 million related largely to relocation actions.

In addition, the Firm incurred $181 million of additional restructuring costs during 2000. These restructuring costs relate to relocation initiatives ($108 million) and other business initiatives ($73 million), such as the consolidation of operations. These restructuring costs were not accruable under existing accounting pronouncements and, therefore, were not included in the restructuring charge taken in 1999.

1998 Restructuring Initiatives: During 1998, the Firm incurred charges of $868 million in connection with initiatives to streamline support functions and realign certain business activities. In December 1999, $152 million of costs were reversed, primarily related to occupancy costs not fully utilized under the charge. There was no liability related to these costs outstanding at December 31, 2000.

8 – Securities

See Note 1 for a discussion of the accounting policies relating to securities. The following table presents realized gains and losses from available-for-sale securities.

Year Ended December 31, (in millions)	2000	1999	1998
Realized Gains	$ 727	$ 555	$1,062
Realized Losses	(498)	(747)	(593)
Net Realized Gains (Losses)	$ 229	$ (192)	$ 469

The amortized cost and estimated fair value of securities, including the impact of related derivatives, were as follows for the dates indicated:

December 31, (in millions)	2000 Amortized Cost	2000 Gross Unrealized Gains	2000 Gross Unrealized Losses	2000 Fair Value	1999 Amortized Cost	1999 Gross Unrealized Gains	1999 Gross Unrealized Losses	1999 Fair Value
Available-for-Sale Securities								
U.S. Government and Federal Agency/ Corporation Obligations:								
Mortgage-Backed Securities	$38,107	$ 26	$ 965	$37,168	$37,028	$ 50	$1,859	$35,219
Collateralized Mortgage Obligations	5,130	93	8	5,215	5,355	—	19	5,336
U.S. Treasuries	16,250	309	265	16,294	20,600	33	954	19,679
Obligations of State and Political Subdivisions	896	95	24	967	2,300	205	168	2,337
Debt Securities Issued by Foreign Governments	10,749	76	25	10,800	10,209	5	110	10,104
Corporate Debt Securities	1,080	5	13	1,072	460	3	13	450
Equity Securities	1,111	240	28	1,323	783	184	1	966
Other, Primarily Asset-Backed Securities[a]	243	38	14	267	800	32	12	820
Total Available-for-Sale Securities	$73,566	$882	$1,342	$73,106	$77,535	$512	$3,136	$74,911
Held-to-Maturity Securities								
Total Held-to-Maturity Securities[b]	$ 589	$ 4	$ —	$ 593	$ 888	$ 1	$ 13	$ 876

(a) Includes CMOs of private issuers, which generally have underlying collateral consisting of obligations of U.S. government and federal agencies and corporations. As of December 31, 2000, there were no securities of a single issuer, excluding the U.S. Treasury and U.S. government agencies, whose fair value exceeded 10% of JPMorgan Chase's stockholders' equity.
(b) Primarily mortgage-backed securities.

The following table presents the amortized cost, estimated fair value and average yield at December 31, 2000 of JPMorgan Chase's AFS and HTM securities by contractual maturity range:

Maturity Schedule of Securities December 31, 2000 (in millions)	Available-for-Sale Securities Amortized Cost	Available-for-Sale Securities Fair Value	Available-for-Sale Securities Average Yield[a]	Held-to-Maturity Securities Amortized Cost	Held-to-Maturity Securities Fair Value	Held-to-Maturity Securities Average Yield[a]
Due in One Year or Less	$ 5,567	$ 5,511	2.77%	$ 32	$ 32	7.23%
Due after One Year through Five Years	12,216	12,215	5.52	—	—	—
Due after Five Years through Ten Years	9,188	9,147	5.74	11	12	7.02
Due after Ten Years[b]	46,595	46,233	6.34	546	549	6.87
Total Securities	$73,566	$ 73,106	5.85%	$ 589	$593	6.89%

(a) The average yield is based on amortized cost balances at year-end. Yields are derived by dividing interest income (including the effect of related derivatives on AFS securities and the amortization of premiums and accretion of discounts) by total amortized cost. Taxable-equivalent yields are used where applicable.
(b) Securities with no stated maturity are included with securities with a contractual maturity of ten years or more. Substantially all of JPMorgan Chase's MBSs and CMOs are due in ten 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.

9 – Loans

See Note 1 for a discussion of the accounting policies relating to loans. The composition of the loan portfolio at each of the dates indicated was as follows:

December 31, (in millions)	2000 Domestic	2000 Foreign	2000 Total	1999 Domestic	1999 Foreign	1999 Total
Commercial						
Commercial and Industrial	$ 64,031	$37,002	$101,033	$ 58,563	$38,067	$ 96,630
Commercial Real Estate:						
Commercial Mortgage	4,109	834	4,943	5,207	269	5,476
Construction	725	636	1,361	800	93	893
Financial Institutions	7,342	3,976	11,318	6,623	3,779	10,402
Foreign Governments	—	805	805	—	1,517	1,517
Total Commercial	76,207	43,253	119,460	71,193	43,725	114,918
Consumer						
1-4 Family Residential Mortgages	50,302	292	50,594	44,312	1,522	45,834
Credit Card	18,495	6	18,501	15,633	746	16,379
Auto Financings	19,802	22	19,824	18,442	45	18,487
Other Consumer	7,361	310	7,671	6,902	488	7,390
Total Consumer	95,960	630	96,590	85,289	2,801	88,090
Total Loans[a]	$172,167	$43,883	$216,050	$156,482	$46,526	$203,008

(a) Loans are presented net of unearned income of $1,571 million and $1,530 million at December 31, 2000 and 1999, respectively.

Impaired Loans

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

December 31, (in millions)	2000	1999
Impaired Loans with an Allowance	$ 986	$ 993
Impaired Loans without an Allowance[a]	444	305
Total Impaired Loans	$1,430	$1,298
Allowance for Impaired Loans under SFAS 114[b]	$ 344	$ 304
Average Balance of Impaired Loans during the Year	$1,450	$1,326
Interest Income Recognized on Impaired Loans during the Year	$ 13	$ 15

(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.

10 – Allowance for Loan Losses

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

Year Ended December 31, (in millions)	2000	1999	1998
Allowance at January 1	$ 3,738	$ 4,022	$ 4,170
Provision for Loan Losses	1,377	1,446	1,453
Charge-Offs	(1,634)	(2,034)	(1,946)
Recoveries	234	287	392
Net Charge-Offs	(1,400)	(1,747)	(1,554)
Charge to Conform to FFIEC Revised Policy	(80)	—	—
Transfer to Other Liabilities	—	—	(50)
Allowance Related to Purchased Portfolios	29	18	5
Foreign Exchange Translation Adjustment	1	(1)	(2)
Allowance at December 31	$ 3,665	$ 3,738	$ 4,022

11 – Loan Securitizations

During 2000, JPMorgan Chase securitized approximately $6.9 billion of its consumer loans consisting of residential mortgage, credit card and automobile loans and securitized approximately $4.7 billion of its commercial loans. Pre-tax gains on consumer and commercial loan securitizations during 2000 totaled $52 million and $53 million, respectively. In addition, JPMorgan Chase also sold residential mortgage loans totaling $21.5 billion primarily as Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation (collectively, the "Agencies") mortgage-backed securities, which sales resulted in gains of $106 million.

JPMorgan Chase retains the servicing responsibilities for all of its consumer loans and for certain of its commercial loan securitizations. JPMorgan Chase also retains the right to service the residential mortgage loans sold as a result of the above mentioned mortgage-backed security transactions with the Agencies. For the loans it services, JPMorgan Chase receives annual servicing fees ranging from 0.15% to 2% of the securitized consumer loan balance plus certain ancillary fees and from 0.05% to 0.08% of the securitized commercial loan balance plus ancillary fees. For a discussion of mortgage servicing rights, see Note 12.

In addition to the retention of servicing rights, JPMorgan Chase also generally retains senior and/or subordinated interests in its consumer and certain of its commercial loan securitizations.

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

($ in millions)	Consumer	Commercial
Cash Flow Information:		
Proceeds from New Securitizations	$ 6,860	$ 4,746
Servicing Fees Collected	33	1
Other Cash Flows Received	69	8
Proceeds from Collections Reinvested in Previous Revolving Securitizations	29,844	1,031
Key Assumptions (Rates per Annum):		
Annual Prepayment Rate[(a)]	10.5% – 13.7%, 1.50% WAC/WAM 22.5% HEP, 29.3% CPR	NA[(b)]
Weighted Average Life	8 Months – 12.6 Years	2.1 – 9.7 Years
Expected Credit Losses	0.15% – 5.90%	NA[(c)]
Discount Rate	7.2% – 15.0%	6.9% – 20.4%

(a) WAC/WAM: Weighted Average Coupon/Weighted Average Maturity; HEP: Home Equity Prepayment Curve; CPR: Constant Prepayment Rate.
(b) Not applicable since these retained interests are not subject to prepayment risk.
(c) Not applicable due to collateral coverage on loans in commercial securitizations.

At December 31, 2000, JPMorgan Chase had $6.5 billion of consumer retained interests (excluding Mortgage Servicing Rights) and $138 million of commercial retained interests. Of the $6.5 billion in consumer retained interests, $5.7 billion represented JPMorgan Chase's undivided interest in its credit card master trusts. This undivided interest represents credit card receivables owned by JPMorgan Chase within the master trusts that have not been sold. JPMorgan Chase's interesr in these receivables rank paripassu with the investors' interesrs in the master trusts. JPMorgan Chase's retained interest is recorded and accounted for as credit card loans, and its carrying value approximates fait value. JPMorgan Chase also maintains escrow accounts up to predetermined limits for some of its consumer securitizations in the unlikely event that deficiencies in cash flows owed to investors occur. The amounts available in such escrow accounts are recorded in Other Assets and totaled $385 million as of December 31, 2000. The remaining $452 million of consumer retained interesrs and the $138 million of commercial retained inrerests were primarily subordinated or residual interests.

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

($ in millions)	Consumer[(a)]	Commercial
Carrying amount / fair value of retained interests	$ 452	$ 138
Weighted Average Life	6 Months – 12.6 Years	2.0 – 8.1 Years
Prepayment Rate	10.5% – 13.9%, 1.49% WAC/WAM 22.5% – 25% HEP 9% – 41% CPR	NA[(b)]
Impact of 10% Adverse Change	$ (26)	—
Impact of 20% Adverse Change	(45)	—
Loss Assumption	0.15% – 6.20%	NA[(c)]
Impact of 10% Adverse Change	$ (7)	—
Impact of 20% Adverse Change	(13)	—
Discount Rate	7.9% – 15.1%	6.9% – 22.3%
Impact of 10% Adverse Change	$ (14)	$ (6)
Impact of 20% Adverse Change	(26)	(12)

(a) A substantial portion of the $452 million in retained interests and sensitivities relate to residential mortgage securitizations.
(b) Not applicable since these retained interests are not subject to prepayment risk.
(c) Not applicable due to collateral coverage on loans in commercial securitizations.

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

Expected static pool credit losses as of December 31, 2000 for all loans securitized are as follows:

	Consumer	Commercial
Actual and Projected Credit Losses as of December 31, 2000	0.10% – 2.33%(a)	NA(b)

(a) Static pool losses not applicable to credit card securitizations due to their revolving structure.
(b) No static pool credit losses on commercial securitizations due to collateral coverage on loans in commercial securitizations.

The table below presents information about delinquencies, net credit losses, and components of reported and securitized financial assets at December 31, 2000 ($ in millions):

Type of Loan	Total Loans	Loans 90 Days or More Past Due	Net Charge-offs
Consumer Loans	$130,591	$1,204	$2,094
Commercial Loans	124,972	1,551	400
Total Loans Reported and Securitized(a)	255,563	2,755	2,494(b)
Less: Loans Securitized	(39,513)	(437)	(1,014)
Reported	$216,050	$2,318	$1,480

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

12 – Mortgage Servicing Rights

Year Ended December 31, (in millions)	2000	1999	1998
Balance at Beginning of Year	$5,187	$3,039	$1,573
Additions	2,194	3,611	2,248
Sales	(290)	(1,071)	(47)
Hedging Activities	78	150	(323)
Amortization	(708)	(542)	(412)
Valuation Allowance	(99)	—	—
Balance at End of Year	$6,362	$5,187	$3,039
Estimated Fair Value at Year-End	$6,400	$5,800	$3,200

	2000
Weighted Average Prepayment Speed Assumption	11.46% CPR
Impact on Fair Value with 10% Adverse Change	$(264)
Impact on Fair Value with 20% Adverse Change	$(504)
Weighted Average Discount Rate	11.14%
Impact on Fair Value with 10% Adverse Change	$(210)
Impact on Fair Value with 20% Adverse Change	$(409)

CPR: Constant Prepayment Rate.

The sensitivity analysis in the above table is hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot 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.

Various interest rate derivatives are designated as hedges of mortgage servicing rights ("MSRs"). In addition, certain AFS securities are used as economic hedges of the MSRs with gains on sales of the securities offsetting impairment losses on the MSRs. Realized gains and losses from the settlement or termination of these derivative contracts are deferred as adjustments to the carrying value of the MSRs and amortized over the remaining life of the MSRs. At December 31, 2000 and 1999, net deferred hedge gains of $152 million and $193 million, respectively, were included as an adjustment to the carrying value of the MSRs.

13 – Long-Term Debt

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

By Remaining Contractual Maturity at December 31, (in millions)		Under 1 Year	1-5 Years	After 5 Years	2000 Total	1999 Total
Parent Company						
Senior Debt:	Fixed Rate	$ 1,428	$ 4,456	$ 799	$ 6,683	$ 6,343
	Variable Rate	6,156	7,334	1,678	15,168	14,174
	Interest Rates[a]	2.00% – 6.91%	1.22% – 7.50%	1.00% – 8.56%	1.00% – 8.56%	1.00% – 22.00%
Subordinated Debt:	Fixed Rate	350	3,188	8,337	11,875	11,355
	Variable Rate	—	1,196	553	1,749	2,185
	Interest Rates[a]	9.38% – 9.75%	4.78% – 8.63%	1.60% – 8.25%	1.60% – 9.75%	1.60% – 10.13%
	Subtotal	$ 7,934	$16,174	$11,367	$35,475	$34,057
Subsidiaries						
Senior Debt:	Fixed Rate	$ 1,120	$ 1,660	$ 690	$ 3,470	$ 3,433
	Variable Rate	583	944	907	2,434	2,931
	Interest Rates[a]	5.15% – 10.26%	4.00% – 10.83%	2.03% – 13.95%	2.03% – 13.95%	1.00% – 10.60%
Subordinated Debt:	Fixed Rate	—	847	648	1,495	1,181
	Variable Rate	—	250	175	425	250
	Interest Rates[a]	—	6.63% – 7.38%	6.13% – 9.25%	6.13% – 9.25%	3.24% – 9.25%
	Subtotal	$ 1,703	$ 3,701	$ 2,420	$ 7,824	$ 7,795
Total Long-Term Debt		$ 9,637	$19,875	$13,787	$43,299[b][c][d]	$41,852

(a) The interest rates shown are the range of rates in effect at year-end, including non-U.S. dollar fixed and variable rate issuances.
(b) At December 31, 2000, long-term debt aggregating $7.9 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 2000 are $9,637 million in 2001, $10,484 million in 2002, $2,790 million in 2003, $3,594 million in 2004 and $3,007 million in 2005.
(d) Includes $1.0 billion of outstanding zero-coupon notes at December 31, 2000. The principal amount of these notes at various maturities is $5.3 billion.

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

The weighted-average interest rate for total long-term debt was 6.52% and 7.31% as of December 31, 2000 and 1999, respectively. In order to modify exposure to interest rate and currency exchange rate movements, JPMorgan Chase utilizes derivative instruments, primarily interest rate and currency swaps, in conjunction with some of its debt issues. The use of these instruments modifies JPMorgan Chase's interest expense on the associated debt. The weighted-average interest rate for total long-term debt, including the effects of related derivative instruments, was 6.70% and 6.35% as of December 31, 2000 and 1999, respectively.

JPMorgan Chase has guaranteed several long-term debt issues of its subsidiaries. Guaranteed debt totaled $195 million and $360 million at December 31, 2000 and 1999, respectively.

Guaranteed Preferred Beneficial Interests in the Firm's Junior Subordinated Deferrable Interest Debentures

At December 31, 2000, ten wholly owned Delaware statutory business trusts established by JPMorgan Chase had issued an aggregate $3,939 million in capital securities, net of discount. The capital securities qualify as Tier 1 Capital of JPMorgan Chase. 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. JPMorgan Chase 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. Accordingly, the Firm is not required to disclose separate financial statements for each statutory business trust. 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, 2000:

($ in millions) Name of Trust	Amount of Capital Securities, Net of Discount Issued by Trust[(a)]	Principal Amount of Debenture, Held by Trust[(b)]	Stated Maturity of Capital Securities and Debentures	Interest Rate of Capital Securities and Debentures	Interest Payment/Distribution Dates
Chase Capital I	$ 600	$ 619	12/1/2026	7.67%	Semiannual - Commencing 6/1/97
Chase Capital II	495	516	2/1/2027	LIBOR + 0.50%	Quarterly - Commencing 5/1/97
Chase Capital III	296	309	3/1/2027	LIBOR + 0.55%	Quarterly - Commencing 6/1/97
Chase Capital IV	350	361	12/6/2027	7.34%	Quarterly - Commencing 3/31/98
Chase Capital V	200	206	3/31/2028	7.03%	Quarterly - Commencing 3/31/98
Chase Capital VI	248	258	8/1/2028	LIBOR + 0.625%	Quarterly - Commencing 11/1/98
Chase Capital VII	350	361	5/15/2029	7.00%	Quarterly - Commencing 7/31/99
Chase Capital VIII	250	258	7/15/2030	8.25%	Quarterly - Commencing 10/31/00
JPM Capital Trust I	750	773	1/15/2027	7.54%	Semiannual - Commencing 7/15/97
JPM Capital Trust II	400	412	2/1/2027	7.95%	Semiannual - Commencing 8/1/97
Total	$ 3,939	$ 4,073			

(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.

14 – Preferred Stock of Subsidiary

Chase Preferred Capital Corporation ("Chase Preferred Capital"), a wholly owned subsidiary of The Chase Manhattan Bank ("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, 2000, there were 22 million shares of 8.10% Cumulative Preferred Stock, Series A ("Series A Preferred Shares") issued and outstanding (liquidation preference, $25 per share). Dividends on the Series A Preferred Shares are cumulative and are payable quarterly. The dividends are recorded as minority interest expense by JPMorgan Chase.

The Series A Preferred Shares are generally not redeemable prior to September 18, 2001. On or after that date, the Series A Preferred Shares may be redeemed for cash at the option of Chase Preferred Capital, in whole or in part, at a redemption price of $25 per share, plus any accrued and unpaid dividends. The Series A Preferred Shares are treated as Tier 1 Capital of JPMorgan Chase. The Series A Preferred Shares are not subject to any sinking fund or mandatory redemption and are not convertible into any other securities of Chase Preferred Capital, JPMorgan Chase or any of its subsidiaries. The total amount of Series A Preferred Shares outstanding at both December 31, 2000 and 1999 was $550 million.

In 2000, Chase Preferred Capital issued an aggregate 7,600 shares of Series B Preferred Stock, stated value $1,000,000 per share, to Chase Bank. The Series B Preferred Shares rank junior to the Series A Preferred Shares with respect to the payment of dividends and rank on a parity with the Series A Preferred Shares upon liquidation, dissolution or winding up of Chase Preferred Capital.

15 – Preferred Stock

JPMorgan Chase is authorized to issue 200 million shares of preferred stock, in one or more series, with a par value of $1 per share. Outstanding shares of preferred stock at December 31, 2000 and 1999 were 26.2 million and 30.2 million, respectively. During 2000, JPMorgan Chase redeemed its 10.96% Cumulative Preferred Stock and 1.5 million shares of its Adjustable Rate, Series A Cumulative Preferred Stock.

Dividends on shares of each outstanding series of preferred stock are payable quarterly. All the preferred stocks 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) 2000	1999	Earliest Redemption Date	Rate in Effect at December 31, 2000
Adjustable Rate, Series A Cumulative	$ 100.00	2.42	$ 242	$ 244	See Note[(b)]	5.00%
Variable, Series B,C,D,E and F Cumulative[(c)]	1,000.00	0.25	250	250	See Note[(d)]	4.80 – 4.84
Adjustable Rate, Series L Cumulative	100.00	2.00	200	200	6/30/1999	5.04[(e)]
Adjustable Rate, Series N Cumulative	25.00	9.10	228	228	6/30/1999	5.10[(e)]
10.84% Cumulative	25.00	8.00	200	200	6/30/2001	10.84
Fixed/Adjustable Rate, Noncumulative	50.00	4.00	200	200	6/30/2003	4.96[(e)]
6.63% Series H Cumulative	500.00	0.40	200	200	3/31/2006	6.63
10.96% Cumulative	25.00	4.00	—	100	—	—
Total Preferred Stock			$1,520	$1,622		

(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) For Series B, C, D, E and F, dividend rates for each series are determined periodically by either auctioning or remarketing. The dividend rates may not exceed certain maximums that are 110% to 200% of various market interest rates, depending on the prevailing credit rating of the instrument at the dividend determination dates and the then-current dividend periods. The dividend periods may vary from one day to 30 years, depending on the dividend determination method used. During 2000 and 1999, JPMorgan Chase reset the dividend rates approximately every 49 days. The dividend rates stated above represent the range of the dividend rates in effect at year-end. These series of preferred stock qualify as Tier 2 Capital.
(d) The shares are redeemable on the last dividend payment date of any dividend period and at any time when the dividend rate for such shares is the maximum rate (as defined in (c) above), as a whole or in part, at the option of JPMorgan Chase.
(e) Floating rates are based on certain U.S. Treasury rates. The minimum and maximum rates 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.

16 – 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 was as follows:

December 31, (in millions)	2000	1999	1998
Issued	1,940.1[(a)]	2,066.5	2,065.8
Held in Treasury	(11.6)[(a)]	(216.0)	(146.3)
Outstanding	1,928.5	1,850.5	1,919.5

(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.

Chase shareholders approved a three-for-two stock split at their annual meeting on May 16, 2000. The record date for the split was May 17, 2000, and the additional shares of JPMorgan Chase common stock issued as a result of the split were distributed on June 9, 2000. On May 19, 1998, the stockholders approved a two-for-one stock split of Chase common stock. The additional shares issued as a result of the split were distributed on June 12, 1998 to stockholders of record at the close of business on May 20, 1998.

During 2000, approximately 20.3 million shares of outstanding common stock were repurchased by Chase under a stock repurchase plan which began on January 19, 2000 and was formally terminated on October 17, 2000. Under its stock repurchase plan, J.P. Morgan repurchased approximately 52.5 million shares of outstanding common stock from July 1, 2000 until the plan was formally terminated on September 13, 2000. During 2000, approximately 81.8 million shares were issued, from treasury, under various employee stock option and other stock-based plans. Approximately 69.0 million shares were issued from treasury for purchase accounting acquisitions during 2000.

As of December 31, 2000, approximately 343 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 2000, 1999 and 1998 were as follows:

Year Ended December 31, (in millions)	2000	1999	1998
Employee Benefit and Compensation Plans[(a)]	79.4	71.7	53.0
Dividend Reinvestment and Stock Purchase Plans	2.4	1.3	2.1
Purchase Accounting Acquisitions and Other	69.0	0.1	0.8
Total Shares Newly Issued or Distributed from Treasury[(b)]	150.8	73.1	55.9

(a) See Note 21 for a discussion of JPMorgan Chase's employee stock option plans.
(b) Shares distributed from treasury were 150.8 million in 2000, 72.4 million in 1999 and 54.9 million in 1998.

17 – 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)	2000	1999	1998
Basic Earnings per Share			
Net Income	$ 5,727	$ 7,501	$ 4,745
Less: Preferred Stock Dividends and Other	96	106	133
Net Income Applicable to Common Stock	$ 5,631	$ 7,395	$ 4,612
Weighted-Average Basic Shares Outstanding	1,884.1	1,912.9	1,944.1
Net Income per Share	$ 2.99	$ 3.87	$ 2.37
Diluted Earnings per Share			
Net Income Applicable to Common Stock	$ 5,631	$ 7,395	$ 4,612
Weighted-Average Basic Shares Outstanding	1,884.1	1,912.9	1,944.1
Add: Broad-Based Options	10.1	13.8	9.7
Options to Key Employees	74.8	78.1	79.7
Weighted-Average Diluted Shares Outstanding	1,969.0	2,004.8	2,033.5
Net Income per Share	$ 2.86	$ 3.69	$ 2.27

18 – 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 and foreign currency translation adjustments (in each case, including the impact of related derivatives).

The following table presents other comprehensive income balances:

Year Ended December 31, (in millions)	Unrealized Gains (Losses)[a]	Translation Adjustments[b]	Accumulated Other Comprehensive Income
Balance December 31, 1997	$ 527	$ (5)	$ 522
Net Change	(5)	(24)	(29)
Balance December 31, 1998	522	(29)	493
Net Change	(1,949)	28	(1,921)
Balance December 31, 1999	(1,427)	(1)	(1,428)
Net Change	1,183	4	1,187
Balance December 31, 2000	**$ (244)**	**$ 3**	**$ (241)**

(a) Primarily represents the after-tax difference between the fair value and amortized cost of the available-for-sale securities portfolio.
(b) Includes after-tax gains and losses on foreign currency translation from operations for which the functional currency is other than the U.S. dollar.

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

Year Ended December 31, (in millions)	2000	1999	1998
Net Unrealized Holdings Gains (Losses) Arising during the Period, Net of Taxes[a]	$ 1,212	$ (2,071)	$ 202
Reclassification Adjustment for (Gains) Losses Included in Net Income, Net of Taxes[b]	(29)	122	(207)
Net Change	$ 1,183	$ (1,949)	$ (5)

(a) Net of tax expense of $808 million for 2000, net of tax benefit of $1,412 million for 1999, and net of tax expense of $103 million for 1998.
(b) Net of tax expense of $20 million for 2000, net of tax benefit of $64 million for 1999, and net of tax expense of $107 million in 1998.

19 – Income Taxes

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

December 31, (in millions)	2000	1999
Deferred Tax Assets		
Allowance for Loan Losses	$1,058	$1,196
Allowance Other Than Loan Losses	1,048	736
Employee Benefits	2,599	2,404
Foreign Operations	418	126
Fair Value Adjustments	—	19
Foreign Tax Credit Carryforward	225[a]	285
Gross Deferred Tax Assets	$5,348	$4,766
Deferred Tax Liabilities		
Leasing Transactions	$2,570	$2,388
Depreciation and Amortization	815	551
Fair Value Adjustments	367	—
Other	68	284
Gross Deferred Tax Liabilities	$3,820	$3,223
Valuation Allowance	$ 165	$ 165
Net Deferred Tax Asset	$1,363	$1,378

(a) Includes $55 million expiring in 2003, $110 million expiring in 2004 and $60 million expiring in 2005.

A valuation allowance has been recorded in accordance with SFAS 109, primarily relating to tax benefits associated with foreign operations and with state and local deferred tax assets.

The components of income tax expense included in the Consolidated Statement of Income were as follows:

Year Ended December 31, (in millions)	2000	1999	1998
Current Income Tax Expense			
U.S.	$1,976	$1,220	$ 743
Foreign	1,224	1,420	1,506
State and Local	356	284	348
Total Current Expense	3,556	2,924	2,597
Deferred Income Tax Expense (Benefit)			
U.S.	(695)	998	80
Foreign	187	18	(70)
State and Local	(42)	48	(5)
Total Deferred Expense (Benefit)	(550)	1,064	5
Total Income Tax Expense	$3,006	$3,988	$2,602

The preceding table does not reflect the tax effects of unrealized gains and losses on available-for-sale securities 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 $281 million in 2000 and increased by $1,860 million and $315 million in 1999 and 1998, respectively, as a result of these tax effects.

Federal income taxes have not been provided on the undistributed earnings of certain foreign subsidiaries, to the extent such earnings have been reinvested abroad for an indefinite period of time. For 2000, such earnings approximated $351 million on a pre-tax basis. At December 31, 2000, the cumulative amount of undistributed earnings in these subsidiaries approximated $1,404 million. It is not practicable at this time to determine the income tax liability that would result upon repatriation of these earnings.

The rax expense (benefit) applicable to securities gains and losses for the years 2000, 1999 and 1998 was $78 million, $(84) million and $162 million, respectively.

A reconciliarion of the applicable statutory U.S. income tax rate to rhe effecrive tax rare for the past three years is shown in the following table:

Year Ended December 31,	2000	1999	1998
Statutory U.S. Federal Tax Rate	35.0%	35.0%	35.0%
Increase (Decrease) in Tax Rate Resulting from:			
State and Local Income Taxes, Net of Federal Income Tax Benefit	2.3	1.9	3.0
Tax-Exempt Income	(2.1)	(1.1)	(1.7)
Foreign Subsidiary Earnings	(1.1)	(0.7)	(0.9)
Other, Net	0.3	(0.4)	—
Effective Tax Rate	34.4%	34.7%	35.4%

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

Year Ended December 31, (in millions)	2000	1999	1998
Domestic	$5,844	$ 7,821	$4,679
Foreign[a]	2,889	3,668	2,668
Income before Income Tax Expense	$8,733	$11,489	$7,347

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

20 – Postretirement Employee Benefit Plans

JPMorgan Chase currently is in the process of reviewing the benefit plans of both predecessor institutions, including the postretirement employee benefit plans. New plans for JPMorgan Chase are expected to be approved in 2001.

Pension Plans

The accompanying table presents the funded status and actuarial assumprions for JPMorgan Chase's defined benefit pension plans. JPMorgan Chase currently has two noncontributory pension plans that provide defined benefits to substantially all domestic employees of Chase and J.P. Morgan. Chase's domestic plan employs a cash balance defined benefit formula that provides for benefits based on salary and service. J.P. Morgan's domestic plan employs a cash balance defined benefit formula that provides for benefits based on base salaries. For J.P. Morgan employees hired before December 31, 1998 who leave JPMorgan Chase during the three years ending December 31, 2003, the provisions of the J.P. Morgan Plan have been grandfathered as a minimum benefit.

Domestic Pension Plan

As of or for the Year Ended December 31, (in millions)	2000	1999
Benefit Obligation	$(3,898)	$(3,616)
Plan Assets at Fair Value	4,314	4,538
Plan Assets in Excess of Benefit Obligation	416	922
Unrecognized Amounts	(212)	(651)
Prepaid Pension Cost Reported in Other Assets	$ 204	$ 271
Employer Contributions to Trust	$ 9	$ —
Benefits Paid Out of Trust	324	286
Weighted-Average Annualized Actuarial Assumptions for Chase as of December 31:		
Discount Rate	7.50%	8.00%
Assumed Rate of Long-Term Return on Plan Assets	9.50%	9.00%
Rate of Increase in Future Compensation	5.66%	5.66%
Weighted-Average Annualized Actuarial Assumptions for J.P. Morgan as of September 30:		
Discount Rate	7.75%	7.50%
Assumed Rate of Long-Term Return on Plan Assets	9.00%	9.00%
Rate of Increase in Future Compensation	3.60%	3.60%

The periodic domestic pension plan expense (reported in Compensation Expense) totaled $76 million in 2000, $75 million in 1999 and $65 million in 1998.

Both predecessor institutions also had a number of other defined benefit pension plans (i.e., domestic plans not subject to Title IV of the Employee Retirement Income Security Act) and sevetal foreign pension plans. Compensation Expense related to these plans totaled $45 million in 2000, $48 million in 1999 and $47 million in 1998. At December 31, 2000 and 1999, JPMorgan Chase's liability included in Accrued Expenses related to plans that JPMorgan Chase elected not to prefund fully toraled $234 million and $252 million, respectively.

Compensation Expense related to defined contribution plans toraled $213 million in 2000, $195 million in 1999 and $163 million in 1998.

Postretirement Medical and Life Insurance

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

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

Postretirement Medical and Life Insurance Liability

As of or for the Year Ended December 31, (in millions)	2000	1999
Benefit Obligation	$(918)	$(878)
Plan Assets at Fair Value	358	333
Benefit Obligation in Excess of Plan Assets	(560)	(545)
Unrecognized Amounts	(278)	(317)
Accrued Postretirement Medical and Life Insurance Cost	$(838)	$(862)
Benefits Paid[a]	$ 66	$ 61

(a) Net of $12 million and $8 million of retiree contributions in 2000 and 1999, respectively.

Postretirement medical and life insurance expense (reported in Compensation Expense) totaled $32 million in 2000, $44 million in 1999 and $60 million in 1998.

The discount rates and rates of increase for future compensation used to determine the actuarial values for postretirement medical and life insurance benefits are generally consistent with those used for the domestic pension plan. At December 31, 2000, Chase's assumed weighted-average medical benefits cost trend rate used to measure the expected cost of benefits covered was 8.0% for 2000, declining gradually over six 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, 2000 benefit obligation and 2000 periodic expense by up to 5.3%.

At September 30, 2000, J.P. Morgan's assumed weighted-average medical benefits cost trend rate used to measure the expected cost of benefits covered was 10.0% for 2000, declining gradually over nine years to a floor of 5.5%. The effect of a 1% change in the assumed medical cost trend rate would result in a corresponding change in the September 30, 2000 benefit obligation and 2000 periodic expense by up to 9.0%.

21 – Employee Stock-Based Incentives

Key Employee Stock-Based Awards

JPMorgan Chase has a long-term stock-based incentive plan (the "LTIP") that provides for grants of common stock-based awards, including stock options, restricted stock and restricted stock units ("RSU") to certain key employees. A portion of each employee's incentive compensation that exceeds specified levels is awarded in restricted stock or RSUs (the "deferred equity plan") that are issued under the LTIP.

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

The accompanying table presents a summary of JPMorgan Chase's key employee option activity during the last three years:

Key Employee Stock Options

Year Ended December 31, (Amounts in Thousands, except per Share Amounts)	2000 Number of Options	2000 Weighted-Average Exercise Price	1999 Number of Options	1999 Weighted-Average Exercise Price	1998 Number of Options	1998 Weighted-Average Exercise Price
Options Outstanding, January 1	183,456	$27.99	169,119	$23.28	158,905	$ 19.49
Granted	22,488	48.24	45,361[a]	38.87	36,866	35.82
Exercised	(25,106)	20.25	(28,134)	17.72	(24,889)	15.45
Canceled	(5,606)	34.29	(2,890)	33.67	(1,763)	27.21
Options Outstanding, December 31	175,232[b]	$31.52	183,456	$27.99	169,119	$ 23.28
Options Exercisable, December 31	130,479	$27.46	100,702	$21.06	97,186	$ 17.72

(a) Includes 5,124,000 options at a weighted-average exercise price of $15.61 related to acquisition of H&Q.
(b) Of the total options outstanding at December 31, 2000, 718,000 options (718,000 were exercisable) had exercise prices ranging from $0 to $4.99, or $3.59 on average, and a weighted-average remaining contractual life of less than one year; 45,124,000 options (44,041,000 were exercisable) had exercise prices ranging from $5.00 to $20.00, or $15.60 on average, and a remaining contractual life of 3.1 years; 90,523,000 options (78,764,000 were exercisable) had exercise prices ranging from $20.01 to $40.00, or $32.13 on average, and a remaining contractual life of 6.9 years; 38,867,000 options (6,956,000 were exercisable) had exercise prices ranging from $40.01 to $65.58, or $49.07 on average, and a remaining contractual life of 8.4 years.

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

During 2000, 16.0 million of restricted stock/unit awards (all payable solely in stock) were granted by Chase. Of the toral 16.0 million LTIP awards granted, vesting of 1.3 million of such awards also is conditioned upon JPMorgan Chase's stock price reaching and sustaining target prices (the "targets") during the service period, subject to minimum vesting periods; the awards are forfeited in their entirety if the targets are not achieved ("forfeitable awards"). The target stock price of $73.33 for half of the 2000 forfeitable awards exceeded the stock price on the grant date by approximately 50%, and the target stock price of $83.33 for the other half exceeded the stock price on the grant date by approximately 70%.

Under the LTIP, in 1999 and 1998, 14.1 million and 11.7 million awards (all payable solely in stock), respectively, were granted by Chase. Of the restricted stock/unit awards granted in 1999, 1.3 million of such awards are forfeitable. None of the 1999 forfeitable awards have vested as the target price has not been achieved. Half of the 1998 forfeitable awards vested in 1998 as a result of the target price having been achieved. For the remaining half of the 1998 forfeitable awards, the target price was achieved in 1999, but the awards are still subject to a minimum vesting period.

Under Chase's deferred equity plan, restricted stock/units are outstanding for which vesting is conditioned solely on continued employment. During 2000, 1999 and 1998, respectively, 160,000, 149,000 and 780,000 of such awards were granted.

J.P. Morgan had a stock incentive plan ("SIP") and a stock bonus plan ("SBP") that provided for the grant of stock-related awards to key employees, including stock options, restricted stock awards, stock bonus awards, stock unit awards and deferred stock payable in stock. In general, as a result of changes in control provisions in the SIP and SBP, most of the employee stock awards granted by J.P. Morgan in 2000 and in the prior-years became fully vested and paid.

Under the SIP and SBP plans, J.P. Morgan granted restricted stock unit awards. For the 2000 award year, these awards generally were fully vested upon grant and are subject to an additional three-year holding period. J.P. Morgan also provided stock unit awards, which are similar to restricted stock awards. However, the value of a stock unit award, not including the value of dividend equivalents accrued on the award, may never exceed (though it may be less than) the dollar value of the original award. As of December 31, 2000, 1999 and 1998, J.P. Morgan had granted 32.0 million, 51.7 million and 45.7 million, respectively, toral share units related to these awards.

Broad-Based Employee Stock Options

In January 2000, Chase granted Value Sharing Plan awards, under which 28.1 million options to purchase common stock were granted to substantially all full-time (375 options each) and part-time (188 options each) employees. The exercise price was equal to the stock price on the grant date. The options become exercisable after five years, or earlier if JPMorgan Chase's stock price reaches and sustains a target price for a minimum period. This award is the first of what is intended to be three equal annual grants to eligible active employees on the respective grant dates. The exercise and target prices for these awards will be determined at the time of the grant; other terms will be similar to the 2000 awards.

Under the Value Sharing Plan originally adopted by Chase in December 1996, annual awards were granted in December of 1996, 1997 and 1998. The 1996, 1997 and 1998 awards became exercisable in 1997, 1998 and 1999, respectively, as a result of the target prices having been achieved. All outstanding options expire 10 years after their respective grant dates.

The following table presents the activity in the broad-based employee stock option plans during the past three years:

Broad-Based Employee Stock Options

Year Ended December 31, (Amounts in Thousands, except per Share Amounts)	2000		1999		1998	
	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	50,937	$ 31.66	78,810	$ 33.10	64,212	$ 29.05
Granted	28,054	49.79	—	—	32,338	39.96
Exercised	(8,019)	31.44	(24,858)	35.24	(12,252)	29.28
Canceled	(3,735)	51.15	(3,015)	39.85	(5,488)	29.79
Options Outstanding, December 31	67,237[a]	$ 38.17	50,937	$ 31.66	78,810	$ 33.10
Options Exercisable, December 31	42,768	$ 31.51	50,937	$ 31.66	46,586	$ 28.35

(a) Of the total options outstanding at December 31, 2000, all options were exercisable except for the 2000 grant under the Value Sharing Plan. The average exercise prices for the options were: $11.38 ($10.26 to $15.10) for the 2,791,000 options granted under a prior Chase plan; $13.50 for the 5,879,000 options granted under another prior Chase plan; and $28.79 for the 8,527,000 options granted in 1997, $37.23 for the 11,228,000 options granted in 1998 and $39.96 for the 14,343,000 options granted in 1999 under the Value Sharing Plan. The average remaining contractual life was 7.3 years for all options outstanding and 6.4 years for exercisable options outstanding.

Comparison of the Fair- and Intrinsic-Value-Based Measurement Methods

JPMorgan Chase accounts for its employee stock-based compensation plans under the intrinsic-value-based method in accordance with SFAS 123. There is no expense recognized for stock options, as they have no intrinsic value on the grant date. Forfeitable restricted stock and RSUs are expensed based upon the target prices. The expense for restricted stock and RSUs other than forfeitable awards is measured by the grant-date stock price. Pre-tax stock compensation expense recognized in reported earnings totaled $1.1 billion in 2000, $1.0 billion in 1999 and $0.6 billion in 1998.

If JPMorgan Chase had adopted the fair-value-based method pursuant to SFAS 123, options would be valued using a Black-Scholes model. The pro forma net income and basic and diluted earnings per share impact, if the fair-value-based method had been adopted, would have been 6.4% lower than reported 2000 amounts, 6.0% lower than reported 1999 amounts and 6.2% lower than reported 1998 amounts. The fair value of 2000 grants increased over 1999 and the fait value of 1999 grants increased over 1998 as a result of updated valuation assumptions, based on factors such as an increase in the stock price.

The following table presents JPMorgan Chase's weighted-average grant-date fair value and assumptions used to value the options using a Black-Scholes model for equity awards granted:

Year Ended December 31,	2000	1999	1998
Weighted-Average Grant-Date Fair Value[(a)]			
Options Granted to:			
Key Employees	$18.79	$12.99	$ 8.78
All Other Employees	17.66	—	12.33
All Restricted Stock and RSUs Payable in Stock	42.88	39.25	31.33
Weighted-Average Annualized Option Valuation Assumptions			
Risk-Free Interest Rate	6.65%	5.14%	4.97%
Expected Dividend Yield[(b)]	2.25	2.41	2.72
Expected Common Stock Price Volatility	38	30	28
Assumed Weighted-Average Expected Life of Options (in Years)			
Key Employee Stock Options	6.8	6.7	6.7
Broad-Based Employee Stock Options	5.5	—	6.0

(a) Under the fair-value-based method, the grant-date fair value for an option equals the sum of the annual probability of exercise or vested termination, multiplied by the dividend-adjusted Black-Scholes-derived value of an option terminating in that year.
(b) The expected dividend yield is based primarily on historical data at the grant dates.

22 – Restrictions on Cash and Intercompany Funds Transfers

The Federal Reserve Board requires depository institutions to maintain cash reserves with a Federal Reserve Bank. The average amount of reserve balances deposited by JPMorgan Chase's bank subsidiaries with various Federal Reserve Banks was approximately $0.6 billion in 2000 and $0.8 billion in 1999.

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 The Chase Manhattan Bank, Morgan Guaranty Trust Company of New York, and the other banking and nonbanking subsidiaries of JPMorgan Chase. In addition to dividend restrictions set forth in statutes and regulations, the Federal Reserve Board, the Office of the Comptroller of the Currency ("OCC") and the Federal Deposit Insurance Corporation ("FDIC") have authority under the Financial Institutions Supervisory Act to prohibit or to limit the payment of dividends by the banking organizations they supervise, including JPMorgan Chase and its subsidiaries that are banks or bank holding companies, if, in the banking regulator's opinion, payment of a dividend would constitute an unsafe or unsound practice in light of the financial condition of the banking organization.

At December 31, 2000, JPMorgan Chase's bank subsidiaries could pay, in the aggregate, $2.1 billion in dividends to their respective bank holding companies without prior approval of their relevant banking regulators.

In compliance with rules and regulations established by domestic and foreign regulators, cash of $1.6 billion and $1.7 billion and securities with a market value of $6.2 billion and $3.7 billion were segregated in special bank accounts for the benefit of securities and futures brokerage customers as of December 31, 2000 and 1999, respectively.

23 – Capital

There are two categories of risk-based capital: core capital (referred to as Tier 1 Capital) and supplementary capital (referred to as Tier 2 Capital). Tier 1 Capital includes common stockholders' equity, qualifying preferred stock and minority interest less goodwill and other adjustments. Tier 2 Capital consists of preferred stock not qualifying as Tier 1, long-term debt and other instruments qualifying as Tier 2, the aggregate allowance for credit losses up to a certain percentage of risk-weighted assets less investments in certain subsidiaries. Under the risk-based capital guidelines of the Federal Reserve Board, JPMorgan Chase is required to maintain minimum ratios of Tier 1 and Total (Tier 1 plus Tier 2) Capital to risk-weighted assets. Failure to meet these minimum requirements could result in actions taken by the Federal Reserve Board. Bank subsidiaries also are subject to these capital requirements by their respective primary regulators. Management believes that as of December 31, 2000, 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, 2000 (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)	$ 37,581	$ 53,452	$ 444,328	$ 692,279	8.46%	12.03%	5.43%
The Chase Manhattan Bank	21,037	29,358	270,194	352,422	7.79%	10.87%	5.97%
Morgan Guaranty Trust Company	10,891	13,586	113,203	168,874	9.62%	12.00%	6.45%
Chase Manhattan Bank USA, N.A.	3,007	4,206	37,388	34,880	8.04%	11.25%	8.62%
Well Capitalized Ratios(g)					6.00%	10.00%	5.00%(h)
Minimum Capital Ratios(g)					4.00%	8.00%	3.00%

(a) Assets and capital amounts for JPMorgan Chase's banking subsidiaries reflect intercompany transactions, whereas the respective amounts for JPMorgan Chase reflect the elimination of intercompany transactions.
(b) In accordance with Federal Reserve Board risk-based capital guidelines, minority interest for JPMorgan Chase includes preferred stock instruments issued by subsidiaries of JPMorgan Chase. For a further discussion, see Notes 13 and 14.
(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 do 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 $150,276 million, $90,937 million, $54,037 million and $2,380 million, respectively, at December 31, 2000.
(e) Tier 1 Capital or Total Capital, as applicable, divided by risk-weighted assets. Risk-weighted assets include assets and off-balance sheet positions, weighted by the type of instruments and the risk weight of the counterparty, collateral or guarantor.
(f) Tier 1 Capital divided by adjusted average assets (net of allowance for loan losses, goodwill and certain intangible assets).
(g) As defined by the regulations issued by the Federal Reserve Board, the FDIC and the OCC.
(h) Represents requirements for bank subsidiaries pursuant to regulations issued under the Federal Deposit Insurance Corporation Improvement Act. There is no Tier 1 Leverage component in the definition of a well capitalized bank holding company.

24 – Commitments and Contingencies

At December 31, 2000, 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, 2000 were as follows:

Year Ended December 31, (in millions)	
2001	$ 571
2002	500
2003	441
2004	400
2005	332
After	2,873
Total Minimum Payments Required	5,117
Less: Sublease Rentals under Noncancelable Subleases	(267)
Net Minimum Payment Required	$ 4,850

Total rental expense was as follows:

Year Ended December 31, (in millions)	2000	1999	1998
Gross Rentals	$ 716	$ 654	$ 660
Sublease Rentals	(79)	(133)	(170)
Net Rent Expense	$ 637	$ 521	$ 490

At December 31, 2000, assets amounting to $181 billion were pledged to secure public deposits and for other purposes. The significant components of the assets pledged at December 31, 2000 were as follows: $44 billion were securities, $20 billion were loans and the remaining $117 billion were primarily trading assets.

In accordance with SFAS 140, debt and equity instruments and AFS securities pledged as collateral that can be sold or repledged by the secured party are reported on the Consolidated Balance Sheet. At December 31, 2000, the fair value of collateral accepted by JPMorgan Chase that can be sold or repledged totaled $147 billion. Such collateral is generally obtained under resale and securities borrowing agreements. Of this collateral, $136 billion has been sold or repledged, generally as collateral under repurchase agreements or to cover short sales.

JPMorgan Chase and its subsidiaries are defendants in a number of legal proceedings. After reviewing with counsel all such actions and proceedings pending against or involving JPMorgan Chase and its subsidiaries, management does not expect the aggregate liability or loss, if any, resulting therefrom to have a material adverse effect on the consolidated financial condition of JPMorgan Chase although it may be material to JPMorgan Chase's results of operations for any particular period depending on the size of the loss or liability relative to JPMorgan Chase's income for that period.

JPMorgan Chase may guarantee the obligations of its subsidiaries. These guarantees rank on a parity with all other unsecured and unsubordinated indebtedness of JPMorgan Chase. See Note 13 for a discussion of JPMorgan Chase's guarantees of long-term debt-related instruments of its subsidiaries.

25 – Derivative and Foreign Exchange Contracts

JPMorgan Chase utilizes derivative and foreign exchange financial instruments for both trading and asset/liability ("A/L") activities. A discussion of the credit risk and market risk associated with these instruments is included in the MD&A on pages 50 and 54, respectively. See Note 1 for a discussion of the accounting policies related to derivatives.

Derivative and Foreign Exchange Instruments Used for Trading Purposes: The credit risk and effects of any market risk (gains or losses) associated with JPMorgan Chase's trading activities are recorded on the Consolidated Statement of Income and Consolidated Balance Sheet through the fair valuation of the positions, as the trading instruments are marked-to-market daily.

Derivative and Foreign Exchange Instruments Used for Asset/Liability Activities: A discussion of JPMorgan Chase's use of these instruments for A/L activities is included in Note 1.

The following table reflects the net deferred gains and losses on closed derivative contracts and net unrecognized gains and losses on open derivative contracts utilized in JPMorgan Chase's A/L activities:

December 31, (in millions)	2000	1999	Change
A/L Derivative Contracts:			
Net Deferred Gains (Losses)	$(310)	$ 190	$ (500)
Net Unrecognized Gains (Losses)	453	(1,039)	1,492
Net A/L Derivative Gains (Losses)	$ 143	$ (849)	$ 992

Net deferred gains and losses on closed contracts relate to futures, forwards and swaps used in connection with available-for-sale securities, loans, deposits and debt. The net unrecognized gains and losses relating to A/L activities relate to interest rate swaps, options, and forward and futures contracts, primarily used in connection with loans, deposits and debt.

When JPMorgan Chase has more than one transaction outstanding with a counterparty and there exists a legally enforceable master netting agreement with the counterparty, the net mark-to-market exposures represent the netting of the positive and negative exposures with the same counterparty. Net mark-to-market is, in the Firm's view, the best measure of credit risk when there is a legally enforceable master netting agreement between JPMorgan Chase and the counterparty.

While notional principal is the most commonly used volume measure in the derivative and foreign exchange markets, it is not a useful measure of credit or market risk. The notional principal typically does not change hands but is simply a quantity upon which interest and other payments are calculated. The notional principal amounts of JPMorgan Chase's derivative and foreign exchange products greatly exceed the possible credit and market loss that could arise from such transactions.

The following table summarizes the aggregate notional amounts of derivative and foreign exchange contracts as well as the credit exposure related to these instruments (after taking into account the effects of legally enforceable master netting agreements).

December 31, (in billions)	Notional Amounts 2000	Notional Amounts 1999	Credit Exposure 2000	Credit Exposure 1999
Interest Rate Contracts				
Interest Rate and Currency Swaps				
Trading	$14,086.6	$11,683.8	$30.1	$28.0
Asset/Liability[a]	84.5	149.2	0.2	0.4
Futures, Forwards and Forward Rate Agreements				
Trading	3,321.9	3,456.1	0.9	0.5
Asset/Liability[a]	13.3	118.8	—	—
Purchased Options				
Trading	1,787.7	1,455.7	7.5	7.5
Asset/Liability[a]	48.5	106.2	—	—
Credit Derivatives				
Trading	268.7	183.6	2.6	0.8
Asset/Liability[a]	29.8	16.8	—	—
Total Interest Rate Contracts	$19,641.0	$17,170.2	$41.3	$37.2
Foreign Exchange Contracts				
Spot, Forward and Futures Contracts				
Trading	$ 1,855.0	$ 1,659.1	$13.1	$11.8
Asset/Liability[a]	25.4	28.4	—	—
Purchased Options				
Trading	186.8	255.4	2.4	4.0
Total Foreign Exchange Contracts	$ 2,067.2	$ 1,942.9	$15.5	$15.8
Debt, Equity, Commodity and Other Contracts				
Trading	$ 135.8	$ 134.3	$ 9.1	$ 9.4
Purchased Options				
Trading	273.2	209.7	10.7	14.7
Total Debt, Equity, Commodity and Other Contracts	$ 409.0	$ 344.0	$19.8	$24.1
Written Options				
Trading[b]	$ 2,406.7	$ 2,305.7	$ —	$ —
Asset/Liability[a]	18.1	50.1	—	—
Total Written Options	$ 2,424.8	$ 2,355.8	$ —	$ —
Total Notional and Credit Exposures	$24,542.0	$21,812.9	$76.6	$77.1

(a) Derivatives used as hedges of A/L positions may be transacted with third parties through JPMorgan Chase's internal derivative dealers that function as intermediaries for credit and administrative purposes. In such cases, the terms of the third-party transaction (notional, duration, currency, etc.) are matched with the terms of the internal trade to ensure that the hedged risk has been offset with a third party. If such terms are not matched or a third-party trade is not transacted, the intercompany trade is eliminated in consolidation.
(b) As of December 31, 2000 and 1999, the notional amount of written options used for trading purposes included $1,938.2 billion and $1,818.1 billion, respectively, of interest rate options; $197.4 billion and $284.0 billion, respectively, of foreign exchange options; and $271.1 billion and $203.6 billion, respectively, of commodity and equity options.

Classes of Derivative and Foreign Exchange Instruments: The following instruments are used by JPMorgan Chase for purposes of both trading and A/L activities.

Derivative and foreign exchange instruments may be broadly categorized as exchange-traded or traded over-the-counter ("OTC"). Exchange-traded instruments are executed through a recognized exchange as standardized contracts and are primarily futures and options. OTC contracts are executed between two counterparties that negotiate specific agreement terms, including the underlying instrument or index, notional amount, exercise price and maturity. In this context, the underlying instrument or index may include interest rates, foreign exchange rates, commodities, debt or equity instruments.

Interest rate swaps are contracts in which a series of interest rate flows in a single currency is exchanged over a prescribed period. Inrerest rate swaps are the most common type of derivative contract that JPMorgan Chase uses in its A/L activities. An example of a situation in which JPMorgan Chase would utilize an interest rate swap would be to convert its fixed-rate debt to a variable rate. By entering into the swap, the principal amount of the debt would remain unchanged, but the interest streams would change. **Cross-currency interest rate swaps** are contracts that generally involve the exchange of both interest and principal amounts in two different currencies.

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 furure date, a specified instrument at a specified price or yield.

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 options, including caps and floors, are contracts to modify interest rate risk in exchange for the payment of a premium when the contract is initiated. As a writer of interest rate options, JPMorgan Chase receives a premium in exchange for bearing the risk of unfavorable changes in interest rates. Conversely, as a purchaser of an option, JPMorgan Chase pays a premium for the right, but not the obligation, to buy or sell a financial instrument or currency at predetermined terms in the future. **Foreign currency options** are similar to interest rate options except they are based on foreign exchange rates.

JPMorgan Chase's use of written options as part of its A/L activities is permitted only in those circumstances where the options are specifically linked to a particular asset or liability instrument. All unmatched written options are included in the trading portfolio at fair value.

Foreign exchange contracts are contracts that provide for the future receipt or delivery of foreign currency at previously agreed-upon terms.

Debt, equity, commodity and other contracts include swaps and options and are similar to interest rate contracts except the underlying instrument is debt-, equity- or commodity-related.

Credit derivatives are contractual agreements that provide insurance against a credit event of one or more referenced credits. The nature of the credit event is established by the buyer and seller at the inception of the transaction, and such events include bankruptcy, insolvency and failure to meet payment obligations when due. The buyer of the credit derivative pays a periodic fee in return for a contingent payment by the seller (insurer) following a credit event.

All derivatives are subject to market risk, representing potential loss due to adverse movements in the underlying instrument. Market risk is reduced by entering into offsetting positions using other financial instruments. Credit risk arises primarily from OTC contracts, since exchange-traded contracts are generally settled daily.

Credit risk is reduced significantly by entering into legally enforceable master netting agreements. To further reduce exposure, management may obtain collateral. The amount and nature of the collateral obtained are based on management's credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant and equipment, and real estate.

26 – Off-Balance Sheet Lending-Related Financial Instruments

In addition to derivative and foreign exchange instruments, JPMorgan Chase also utilizes lending-related financial instruments in order to meet the financing needs of its customers. JPMorgan Chase issues commitments to extend credit, standby letters of credit and guarantees and also provides securities-lending services. For lending-related financial instruments, the contractual amount of the financial instrument represents the maximum potential credit risk if the counterparty does not perform according to the terms of the contract. A large majority of these commitments expire without being drawn upon. As a result, total contractual amounts are not representative of the Firm's actual future credit exposure or liquidity requirements for these commitments.

Additionally, to provide for risk of losses inherent in the credit extension process, management computes specific and expected loss components as well as a residual component for lending-related commitments. At December 31, 2000 and 1999, the Allowance for Credit Losses on Lending-Related Commitments, which is reported in Other Liabilities, was $283 million and $295 million, respectively.

The following table summarizes the contract amounts relating to JPMorgan Chase's lending-related financial instruments at December 31, 2000 and 1999:

Off-Balance Sheet Lending-Related Financial Instruments

December 31, (in millions)	2000	1999
Credit Card Lines	$ 93,273	$ 88,702
Other Unfunded Commitments to Extend Credit	223,746	234,641
Standby Letters of Credit and Guarantees (Net of Risk Participations of $9,540 and $8,553)	43,091	42,529
Other Letters of Credit	3,209	4,191
Customers' Securities Lent	95,040	88,653

Unfunded commitments to extend credit are agreements to lend to a customer who has complied with predetermined contractual conditions. Commitments generally have fixed expiration dates.

Standby letters of credit and guarantees are conditional commitments issued by JPMorgan Chase generally to guarantee the performance of a customer to a third party in borrowing arrangements, such as commercial paper issuances, bond financing, consrruction and similar transactions. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loan facilities to customers and may be reduced by participations to third parties. JPMorgan Chase holds collateral to support those standby letters of credit and guarantees when deemed necessary.

Customers' securities lent are customers' securities held by JPMorgan Chase, as custodian, which are lent to third parties. JPMorgan Chase obtains collateral, with a market value exceeding 100% of the contract amount, for customers' securities lent, which is used to indemnify customers against possible losses resulting from third-party defaults.

27 – Credit Risk Concentrations

Concentrations of credit risk arise when a number of customers are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions.

JPMorgan Chase regularly monitors various segments of its credit risk portfolio to assess potential concentration risks and to obtain collateral when deemed necessary.

JPMorgan Chase's exposures within these major segments are diversified, and these diversification factors reduce concentration risk. More information about geographic and other concentrations can be found at the following tables in the MD&A:

	Table on:
Diversification of Industry Profile	Page 49
Derivative and Foreign Exchange Contracts	Page 50
Cross-Border Exposure	Page 50
Residential Mortgage Loans by Geographic Region	Page 52
Managed Credit Card Loans by Geographic Region	Page 52
Auto Financings by Geographic Region	Page 52

The table below indicates major product and industry segments, including both on-balance sheet (principally loans) and off-balance sheet (principally commitments to extend credit) exposures:

December 31, (in billions)	2000 Distributions Credit Exposure	On-Balance Sheet	Off-Balance Sheet	1999 Distributions Credit Exposure	On-Balance Sheet	Off-Balance Sheet
Credit Cards	$ 111.8	$ 18.5	$ 93.3	$ 105.1	$ 16.4	$ 88.7
Residential Mortgages	54.2	50.6	3.6	49.1	45.8	3.3
Depository Institutions	68.1	47.3	20.8	94.6	69.5	25.1
Auto Financings	20.0	19.8	0.2	18.7	18.5	0.2
Commercial Real Estate	9.7	6.3	3.4	9.4	6.4	3.0
Total	$ 263.8	$ 142.5	$ 121.3	$ 276.9	$ 156.6	$ 120.3

28 – Fair Value of Financial Instruments

Fair value is defined as the value at which positions could be closed out or sold in a transaction with a willing and knowledgeable counterparty over a period of time consistent with JPMorgan Chase's trading or investment strategy.

The accounting for an asset or liability may differ based on the type of instrument and/or its use in a trading or investing strategy. Generally, the measurement framework recorded in financial statements is one of the following:

> Recorded at fair value on the balance sheet with changes in fair value recorded each period in the Consolidated Statement of Income;

> Recorded at fair value on the balance sheet with changes in fair value recorded each period in a separate component of stockholders' equity and as part of comprehensive income; or

> 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.

Fair value is based on quoted market prices, where available. If listed prices or quotes are not available, fair value is based on internally developed models that primarily use market-based or independent information as inputs. These methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Valuation adjustments are made, at times, based on defined methodologies that are applied consistently over time to ensure that positions are carried at the best estimate of fair value. Valuation adjustments include amounts to reflect counterparty credit quality, liquidity and concentration concerns, and ongoing servicing costs. JPMorgan Chase's valuation process is continually subject to a rigorous review, which includes valuation model reviews and price testing with independent sources.

Certain financial instruments and all nonfinancial instruments are excluded from the scope of SFAS 107. Accordingly, the fair value disclosures required by SFAS 107 provide only a partial estimate of the fair value of JPMorgan Chase. For example, JPMorgan Chase has developed long-term relationships with its customers through its deposit base and its credit card accounts, commonly referred to as core deposit intangibles and credit card relationships. In the opinion of management, these items in the aggregate add significant value to JPMorgan Chase, but their fair value is not disclosed in this Note.

The following captions describe the methodologies and assumptions used, by financial instrument, to determine fair value.

Financial Assets

Assets for Which Fair Value Approximates Carrying Value

Fair values of certain financial assets carried at cost, including cash and due from banks, deposits with banks, Federal funds sold and securities purchased under resale agreements, securities borrowed, short-term receivables and accrued interest receivable are considered to approximate their respective carrying values due to their short-term nature and generally negligible credit losses.

Trading

JPMorgan Chase's debt, equity and derivative instruments are carried at their estimated fair value. Quoted market prices, when available, are used to determine the fair value of trading instruments. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of instruments with similar characteristics or discounted cash flows.

Securities

Fair value of actively-traded securities is determined by the secondary market, while the fair value for nonactively traded securities is 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 is principally based on market prices for credit risk; and

> Other pricing adjustments to take into consideration liquidity, ongoing servicing costs, transaction hedging costs and other factors.

Loans

Fair value for loans is determined using methodologies suitable for each type of loan:

> Fair value for the commercial loan portfolio is based on the assessment of the two main risk components of the portfolio: credit and interest. The estimated cash flows are adjusted to reflect the inherent credit risk and then are discounted using a rate appropriate for each maturity that incorporates the effects of interest rate changes.

> Fair values for consumer installment loans (including auto financings) and residential mortgages for which market rates for comparable loans are readily available are based on discounted cash flows, adjusted for prepayments. The discount rates used for consumer installment loans are current rates offered by commercial banks. For residential mortgages, secondary market yields for comparable mortgage-backed securities, adjusted for risk, are used.

> Fair value for credit card receivables is based on discounted expected cash flows. The discount rates used for credit card receivables incorporate the effects of interest rate changes only since the estimated cash flows are adjusted for credit risk.

Other Assets

This caption consists primarily of private equity investments and mortgage servicing rights. See Note 1 for a discussion of the fair value policies relating to private equity investments.

Fair value for mortgage servicing rights is based on market prices for similar assets or discounted cash flows using market-based prepayment estimates for similar coupons, in each case taking into consideration incremental direct and indirect costs.

Financial Liabilities

Liabilities for Which Fair Value Approximates Carrying Value

SFAS 107 requires that the fair value disclosed for deposit liabilities with no stated maturity (i.e., demand, savings and certain money market deposits) be equal to the carrying value. SFAS 107 does not allow for the recognition of the inherent funding value of these instruments.

Fair value of Federal funds purchased and securities sold under repurchase agreements, commercial paper, other borrowed funds, accounts payable and accrued liabilities is considered to approximate their respective carrying values due to their short-term nature.

Interest-Bearing Deposits

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

Long-Term Debt-Related Instruments

Fair value for long-term debt, including the guaranteed preferred beneficial interests in the Firm's junior subordinated deferrable interest debentures, is based on current market rates and is adjusted for JPMorgan Chase's credit quality.

Lending-Related Commitments

JPMorgan Chase has reviewed the unfunded portion of its commitments to extend credit as well as its standby and other letters of credit and has determined that the fair value of such financial instruments is not material.

The following table presents the carrying value and estimated fair value of financial assets and liabilities valued under SFAS 107 and certain derivative contracts used for A/L activities related to these financial assets and liabilities. Accordingly, certain amounts which are not considered financial instruments are excluded from the table.

(in billions)	2000 Carrying Value	2000 Estimated Fair Value	2000 Appreciation/ (Depreciation)	1999 Carrying Value	1999 Estimated Fair Value	1999 Appreciation/ (Depreciation)
Financial Assets						
Assets for Which Fair Value Approximates Carrying Value	$ 154.8	$ 154.8	$ —	$ 166.7	$ 166.7	$ —
Trading Assets	215.6	215.6	—	180.9	180.9	—
Securities Available-for-Sale	73.1	73.1	—	74.9	74.9	—
Securities Held-to-Maturity	0.6	0.6	—	0.9	0.9	—
Loans, Net of Allowance for Loan Losses	212.4	213.6	1.2	199.3	200.1	0.8
Related Derivatives(a)	—	(0.1)	(0.1)	—	0.1	0.1
Other Assets	34.5	35.2	0.7	21.5	22.9	1.4
Related Derivatives(a)(b)	—	0.3	0.3	—	(0.3)	(0.3)
Total Financial Assets	$ 691.0	$ 693.1	$ 2.1	$ 644.2	$ 646.2	$ 2.0
Financial Liabilities						
Liabilities for Which Fair Value Approximates Carrying Value	$ 277.7	$ 277.7	$ —	$ 234.9	$ 234.9	$ —
Interest-Bearing Deposits	216.7	217.0	(0.3)	230.2	230.6	(0.4)
Related Derivatives(a)	—	—	—	—	0.4	(0.4)
Trading Liabilities	128.7	128.7	—	119.0	119.0	—
Long-Term Debt-Related Instruments	47.2	47.2	—	45.5	44.7	0.8
Related Derivatives(a)	—	(0.3)	0.3	—	0.5	(0.5)
Total Financial Liabilities	$ 670.3	$ 670.3	$ —	$ 629.6	$ 630.1	$ (0.5)
Net Appreciation (Depreciation)			$ 2.1			$ 1.5

(a) The carrying value of derivatives used for A/L activities is recorded as receivables and payables and is primarily included in Other Assets on the balance sheet except for derivatives used in connection with available-for-sale securities, which are carried at fair value and are included in Securities Available-for-Sale on the balance sheet.

(b) At December 31, 2000, deferred gains and losses associated with anticipatory A/L transactions were insignificant.

29 – Segment Information

JPMorgan Chase is organized into five major businesses as set forth in the table below. These businesses are segmented based on the products and services provided, or the type of customer serviced, and reflect the manner in which financial information is evaluated by management.

JPMorgan Chase uses SVA, Operating Earnings and Cash Operating Earnings as its principal measures of franchise profitability. For a discussion of these measurements, see Management Performance Measurements in the MD&A on page 25 and the Glossary of Terms on page 98.

The accounting policies of the segments are principally the same as those described in Note 1. Operating revenues and expenses directly associated with each respective franchise are included in determining the franchises' operating earnings. Guidelines exisr for assigning those remaining expenses that are not directly incurred by the franchises, such as overhead and taxes. In addition, management has developed a risk-adjusted capital methodology that quantifies different types of risk – credit, market and operational – within the various businesses and assigns capital

Segment Results and Reconciliation (table continued on next page)

Year Ended December 31, (in millions, except ratios)	Investment Bank 2000	Investment Bank 1999	Investment Bank 1998	Investment Management & Private Banking 2000	Investment Management & Private Banking 1999	Investment Management & Private Banking 1998	Treasury & Securities Services 2000	Treasury & Securities Services 1999	Treasury & Securities Services 1998
Operating Net Interest Income	$ 2,457	$ 2,491	$ 2,514	$ 597	$ 508	$ 501	$ 1,391	$ 1,242	$ 1,265
Operating Noninterest Revenue	13,006	11,076	9,110	2,559	1,844	1,614	1,969	1,820	1,556
Equity-Related Income[(b)]	22	4	5	109	70	36	22	12	7
Intersegment Revenue[(c)]	263	(21)	(31)	33	18	38	172	98	69
Total Revenue	15,748	13,550	11,598	3,298	2,440	2,189	3,554	3,172	2,897
Noninterest Expense	10,012	7,732	6,759	2,431	1,928	1,811	2,476	2,308	2,040
Amortization of Intangibles	131	47	42	141	34	32	71	69	36
Total Expense	10,143	7,779	6,801	2,572	1,962	1,843	2,547	2,377	2,076
Operating Margin	5,605	5,771	4,797	726	478	346	1,007	795	821
Credit Costs	233	196	326	46	19	13	5	9	16
Operating Earnings (Loss) before Taxes	5,372	5,575	4,471	680	459	333	1,002	786	805
Income Taxes (Benefit)	1,959	2,085	1,764	233	169	129	374	295	309
Operating Earnings (Loss)	$ 3,413	$ 3,490	$ 2,707	$ 447	$ 290	$ 204	$ 628	$ 491	$ 496
Restructuring Costs and Special Items	—	—	—	—	—	—	—	—	—
Net Income (Loss)	3,413	3,490	2,707	447	290	204	628	491	496
Cash Operating Earnings (Loss)	$ 3,528	$ 3,534	$ 2,749	$ 586	$ 325	$ 236	$ 693	$ 553	$ 525
Average Common Equity	$ 17,089	$ 17,313	$ 21,324	$ 3,168	$ 1,436	$ 1,320	$ 2,729	$ 2,918	$ 2,249
Average Managed Assets[(d)]	$ 474,477	$ 454,866	$ 496,318	$ 30,643	$ 21,026	$ 20,035	$ 16,054	$ 16,595	$ 14,343
Shareholder Value Added	$ 1,380	$ 1,405	$ (33)	$ 177	$ 166	$ 64	$ 335	$ 166	$ 223
Cash Return on Common Equity	20.4%	20.1%	12.6%	18.2%	22.4%	17.5%	25.2%	18.6%	22.9%
Cash Overhead Ratio	64%	57%	59%	74%	79%	83%	70%	73%	70%

(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 valu
(d) Excludes the impact of credit card securitizations. The impact of securitizations on total average assets was $18,775 million in 2000, $17,711 million in 1999 and $18,011 million in 1998.
NM- Not Meaningful

accordingly. The provision for loan losses is allocated to the segments utilizing a credit risk methodology and a risk grading system appropriate for each segment's portfolio.

A summary of the business segment results is shown in the following table. The Corporate/Reconciling Items column reflects revenues and expenses excluded from the determination of the franchises' operating earnings. This column includes the effects remaining at the corporate level after the implementation 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 Lines of Business Results in the MD&A on pages 26 and 27. Additionally, financial information relating to JPMorgan Chase's operations by geographic area is provided in the following note (Note 30).

(table continued from previous page)

JPMorgan Partners			Retail & Middle Market Financial Services			Corporate/ Reconciling Items[a]			Total		
2000	1999	1998	2000	1999	1998	2000	1999	1998	2000	1999	1998
$ (306)	$ (156)	$ (131)	$ 6,195	$ 6,349	$ 6,331	$ (180)	$ (320)	$ (370)	$ 10,154	$ 10,114	$ 10,110
1,075	3,240	1,380	3,798	3,465	2,848	51	(25)	(206)	22,458	21,420	16,302
—	—	—	38	79	34	(10)	(4)	29	181	161	111
24	1	11	16	14	4	(508)	(110)	(91)	—	—	—
793	3,085	1,260	10,047	9,907	9,217	(647)	(459)	(638)	32,793	31,695	26,523
389	313	178	5,226	5,015	4,638	331	247	310	20,865	17,543	15,736
22	1	—	157	171	178	6	7	5	528	329	293
411	314	178	5,383	5,186	4,816	337	254	315	21,393	17,872	16,029
382	2,771	1,082	4,664	4,721	4,401	(984)	(713)	(953)	11,400	13,823	10,494
—	—	2	2,069	2,215	2,252	14	—	(8)	2,367	2,439	2,601
382	2,771	1,080	2,595	2,506	2,149	(998)	(713)	(945)	9,033	11,384	7,893
129	995	388	1,014	990	852	(603)	(583)	(630)	3,106	3,951	2,812
$ 253	$ 1,776	$ 692	$ 1,581	$ 1,516	$ 1,297	$ (395)	$ (130)	$ (315)	5,927	$ 7,433	$ 5,081
—	—	—	—	—	—	(200)	68	(336)	(200)	68	(336)
253	1,776	692	1,581	1,516	1,297	(595)	(62)	(651)	5,727	7,501	4,745
$ 269	$ 1,777	$ 692	$ 1,728	$ 1,675	$ 1,466	$ (349)	$ (102)	$ (294)	$ 6,455	$ 7,762	$ 5,374
$ 7,881	$ 5,918	$ 4,155	$ 8,074	$ 7,740	$ 7,746	$ (2,765)	$ (2,394)	$ (4,650)	$ 36,176	$ 32,931	$ 32,144
$ 13,480	$ 9,801	$ 7,495	$ 146,487	$ 130,617	$ 120,516	$ 14,439	$ 14,843	$ 15,700	$ 695,580	$ 647,748	$ 674,407
$ (686)	$ 1,093	$ 142	$ 661	$ 645	$ 424	$ (211)	$ (100)	$ 242	$ 1,656	$ 3,375	$ 1,062
3.2%	29.7%	16.3%	21.2%	21.3%	18.5%	NM	NM	NM	17.6%	23.2%	16.3%
49%	10%	14%	52%	51%	50%	NM	NM	NM	64%	55%	59%

The tables below present reconciliations of the combined segment information included in the preceding table to JPMorgan Chase's reported revenue and net income as included in the Consolidated Statement of Income.

Year Ended December 31, (in millions)	2000	1999	1998
Segments' Operating Revenue	$33,440	$32,154	$27,161
Corporate/Reconciling Items	(647)	(459)	(638)
Consolidated Operating Revenue	32,793	31,695	26,523
Impact of Securitizations	(990)	(993)	(1,148)
Special Items	1,131	228	378
Consolidated Revenue	$32,934	$30,930	$25,753

Year Ended December 31, (in millions)	2000	1999	1998
Segments' Cash Operating Earnings	$6,804	$7,864	$5,668
Corporate/Reconciling Items	(349)	(102)	(294)
Consolidated Cash Operating Earnings	6,455	7,762	5,374
Amortization of Intangibles	(528)	(329)	(293)
Consolidated Operating Earnings	5,927	7,433	5,081
Special Items and Restructuring Costs	(200)	68	(336)
Consolidated Net Income	$5,727	$7,501	$4,745

30 – International Operations

The following table presents income statement information of JPMorgan Chase by major geographic areas. JPMorgan Chase defines international activities as business transactions that involve customers residing outside the U.S., and the information presented below is based primarily on the domicile of the customer. However, many of the Firm's domestic operations service international businesses.

As these operations are highly integrated, estimates and subjective assumptions have been made to apportion revenue and expense between domestic and international operations. The estimates and assumptions used to apportion revenue and expense are consistent with the allocations used for JPMorgan Chase's segment reporting as set forth in Note 29.

JPMorgan Chase's long-lived assets for the periods presented are not considered by management to be significant in relation to total assets. The majority of its long-lived assets are located domestically.

For the Year Ended December 31, (in millions)	Revenue[a]	Expense[b]	Income (Loss) before Income Taxes	Net Income (Loss)
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 Oomestic	21,238	17,251	3,987	2,764
Total Corporation	$32,934	$ 24,201	$ 8,733	$ 5,727
1999				
Europe/Middle East and Africa	$ 5,899	$ 3,267	$ 2,632	$ 1,612
Asia and Pacific	1,853	1,647	206	137
Latin America and the Caribbean	1,696	794	902	555
Other	65	29	36	21
Total International	9,513	5,737	3,776	2,325
Total Oomestic	21,417	13,704	7,713	5,176
Total Corporation	$ 30,930	$ 19,441	$11,489	$ 7,501
1998				
Europe/Middle East and Africa	$ 4,289	$ 3,199	$ 1,090	$ 658
Asia and Pacific	2,363	1,477	886	544
Latin America and the Caribbean	1,146	634	512	324
Other	48	27	21	12
Total International	7,846	5,337	2,509	1,538
Total Oomestic	17,907	13,069	4,838	3,207
Total Corporation	$ 25,753	$ 18,406	$ 7,347	$ 4,745

(a) Revenue is composed of Net Interest Income and Noninterest Revenue.
(b) Expense is composed of Noninterest Expense and Provision for Loan Losses.

31 – Parent Company

Parent Company – Balance Sheet

December 31, (in millions)	2000	1999
Assets		
Cash with Banks	$ 27	$ 48
Deposits with Banking Subsidiaries	8,796	6,889
Securities Purchased under Resale Agreements	1,297	1,669
Securities AFS	65	1,296
Advances to Subsidiaries	40,430	40,075
Investment (at Equity) in Subsidiaries	46,578	42,033
Other Assets	16,152	7,488
Total Assets	$113,345	$99,498
Liabilities and Stockholders' Equity		
Other Borrowed Funds, Primarily Commercial Paper	$ 25,016	$21,852
Other Liabilities	6,316	4,102
Long-Term Debt[(a)]	39,675	38,488
Total Liabilities	71,007	64,442
Stockholders' Equity	42,338	35,056
Total Liabilities and Stockholders' Equity	$113,345	$99,498

(a) Includes long-term debt with subsidiaries, net of discount of $4,200 million and $4,542 million at December 31, 2000 and 1999, respectively. At December 31, 2000, aggregate principal amount of all debt that matures in the years 2001 through 2005 were $7,934 million, $8,730 million, $1,966 million, $3,009 million and $2,469 million, respectively.

Parent Company – Statement of Income

Year Ended December 31, (in millions)	2000	1999	1998
Income			
Dividends from Subsidiaries	$5,404	$6,049	$3,019
Interest from Subsidiaries	3,038	2,474	2,225
All Other Income	664	680	451
Total Income	$9,106	$9,203	$5,695
Expense			
Interest Expense	$3,859	$3,065	$2,748
Noninterest Expense	922	520	432
Total Expense	$4,781	$3,585	$3,180
Income before Income Tax Benefit and Equity in Undistributed Net Income of Subsidiaries	4,325	5,618	2,515
Income Tax Benefit	602	233	278
Equity in Undistributed Net Income of Subsidiaries	800	1,650	1,952
Net Income	$5,727	$7,501	$4,745

Parent Company – Statement of Cash Flows

Year Ended December 31, (in millions)	2000	1999	1998
Operating Activities			
Net Income	$ 5,727	$ 7,501	$ 4,745
Less – Net Income of Subsidiaries	6,204	7,699	4,971
Parent Company Net Loss	(477)	(198)	(226)
Add – Dividends from Subsidiaries	5,404	6,049	3,019
Other, Net	(1,712)	(296)	(110)
Net Cash Provided by Operating Activities	3,215	5,555	2,683
Investing Activities			
Net Change in:			
Deposits with Banking Subsidiaries	(1,907)	(1,004)	(3,635)
Advances to Subsidiaries	(347)	(9,506)	(7,040)
Investment (at Equity) in Subsidiaries[(a)]	(3,305)	(1,188)	(975)
Securities Purchased under Resale Agreements	372	842	(583)
Investment Securities	1,186	(68)	(43)
Other, Net	(295)	(260)	(739)
Net Cash Used in Investing Activities	(4,296)	(11,184)	(13,015)
Financing Activities			
Net Change in Other Borrowed Funds	3,195	7,683	2,406
Proceeds from the Issuance of Long-Term Debt	11,127	8,463	14,773
Repayments of Long-Term Debt	(10,208)	(5,126)	(3,548)
Proceeds from the Issuance of Stock and Stock-Related Awards	2,278	2,755	1,749
Redemption of Preferred Stock	(100)	(100)	(912)
Treasury Stock Purchased	(2,950)	(6,493)	(1,846)
Cash Dividends Paid	(2,282)	(2,133)	(1,985)
Net Cash Provided by Financing Activities	1,060	5,049	10,637
Net Increase (Decrease) in Cash with Banks	(21)	(580)	305
Cash with Banks at the Beginning of the Year	48	628	323
Cash with Banks at the End of the Year	$ 27	$ 48	$ 628
Cash Interest Paid	$ 3,927	$ 3,048	$ 2,660
Taxes Paid	$ 1,694	$ 448	$ 921

(a) Includes investment in Flemings and Beacon in 2000 and investment in H&Q in 1999.

supplementary information

Selected Quarterly Financial Data (unaudited)

As of or for the Period Ended (in millions, except per share and ratio data)	2000 4th	2000 3rd	2000 2nd	2000 1st	1999 4th	1999 3rd	1999 2nd	1999 1st
INCLUDING JPMP(a)								
Operating Basis(b)								
Revenue	$ 7,575	$ 7,913	$ 8,282	$ 9,023	$ 8,616	$ 7,377	$ 7,790	$ 7,912
Noninterest Expense	5,742	5,273	5,025	5,353	4,629	4,330	4,393	4,520
Credit Costs(c)	667	534	570	596	669	591	529	650
Earnings	$ 763	$ 1,419	$ 1,757	$ 1,988	$ 2,176	$ 1,629	$ 1,855	$ 1,773
Diluted Earnings per Share(d)	0.37	0.70	0.89	1.01	1.09	0.80	0.91	0.86
Return on Average Managed Assets	0.42%	0.80%	1.03%	1.19%	1.32%	1.01%	1.15%	1.10%
Return on Average Common Equity	7.31	14.87	20.60	23.82	25.95	19.62	22.22	21.17
Common Dividend Payout Ratio	85	42	33	29	24	33	29	30
Overhead Ratio	76	67	61	59	54	59	56	57
Cash Operating Basis(e)								
Cash Earnings	$ 949	$ 1,576	$ 1,849	$ 2,081	$ 2,262	$ 1,707	$ 1,939	$ 1,854
Diluted Cash Earnings per Share(d)	0.46	0.78	0.94	1.06	1.13	0.84	0.95	0.90
Shareholder Value Added	(391)	332	730	985	1,159	618	843	755
Cash Return on Average Common Equity	9.14%	16.54%	21.69%	24.95%	26.98%	20.57%	23.25%	22.15%
Cash Overhead Ratio	73	65	60	58	53	58	55	56
Reported Basis								
Revenue	$ 8,543	$ 7,723	$ 7,899	$ 8,769	$ 8,438	$ 7,139	$ 7,710	$ 7,643
Noninterest Expense (Excluding Restructuring Costs)	5,742	5,273	5,025	5,353	4,629	4,330	4,493	4,520
Merger and Restructuring Costs	1,302	79	50	—	23	—	—	—
Provision for Loan Losses	409	298	328	342	429	353	283	381
Net Income	$ 708	$ 1,398	$ 1,633	$ 1,988	$ 2,202	$ 1,629	$ 1,897	$ 1,773
Net Income per Share:(d)								
Basic	$ 0.36	$ 0.73	$ 0.87	$ 1.06	$ 1.16	$ 0.84	$ 0.97	$ 0.90
Diluted	0.34	0.69	0.83	1.01	1.10	0.80	0.93	0.86
Cash Dividends Declared	0.32	0.32	0.32	0.32	0.27	0.27	0.27	0.27
Book Value at Period-End	21.17	20.98	19.19	18.49	18.07	17.39	17.26	17.27
Return on Average Assets	0.40%	0.81%	0.98%	1.23%	1.38%	1.04%	1.21%	1.13%
Return on Average Common Equity	6.77	14.65	19.12	23.82	26.26	19.62	22.74	21.17
Total Assets	$ 715,348	$ 707,497	$ 662,368	$ 676,046	$ 667,003	$ 625,863	$ 626,262	$ 630,328
Deposits	279,365	269,785	270,916	258,995	287,064	268,446	264,837	264,445
Long-Term Debt(f)	47,238	49,573	48,217	49,513	45,540	45,734	48,849	47,834
Total Stockholders' Equity	42,338	41,402	36,635	35,596	35,056	34,349	34,511	34,898
Share Price(d)								
High	$ 48.13	$ 58.38	$ 62.00	$ 67.17	$ 59.50	$ 59.00	$ 60.75	$ 59.67
Low	32.38	44.56	44.13	45.50	43.88	48.38	46.75	45.38
Close	45.44	46.19	46.06	58.13	51.79	50.25	57.67	54.25
EXCLUDING JPMP(a)								
Operating Basis(b)								
Revenue	$ 7,711	$ 7,983	$ 7,891	$ 8,415	$ 6,997	$ 6,726	$ 7,270	$ 7,617
Earnings	$ 903	$ 1,539	$ 1,555	$ 1,677	$ 1,212	$ 1,272	$ 1,555	$ 1,617
Diluted Earnings per Share(d)	0.44	0.77	0.79	0.85	0.61	0.63	0.76	0.78
Return on Average Common Equity	10.80%	20.57%	23.89%	26.42%	18.23%	18.80%	22.37%	22.86%
Overhead Ratio	73	65	63	62	65	63	60	59
Cash Operating Basis(e)								
Cash Earnings	$ 1,081	$ 1,689	$ 1,643	$ 1,767	$ 1,298	$ 1,350	$ 1,639	$ 1,698
Diluted Cash Earnings per Share(d)	0.53	0.84	0.84	0.90	0.65	0.67	0.80	0.82
Cash Return on Average Common Equity	12.97%	22.61%	25.26%	27.85%	19.54%	19.97%	23.60%	24.02%
Cash Overhead Ratio	71	63	62	61	63	62	59	58

(a) JPMP is JPMorgan Chase's private equity investment business. See pages 92 and 93 for its line of business results.
(b) Excludes the impact of credit card securitizations, merger and restructuring costs, and special items. For a listing of special items, see Glossary of Terms on page 98.
(c) Includes provision for loan losses and credit costs related to the securitized credit card portfolio.
(d) JPMorgan Chase's common stock is listed and traded on the New York Stock Exchange and the London Stock Exchange Limited. 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.
(e) Excludes the impact of the amortization of intangibles.
(f) Includes Guaranteed Preferred Beneficial Interests in JPMorgan Chase's Junior Subordinated Deferrable Interest Debentures.

Selected Financial Data (unaudited)

As of or for the Year Ended December 31, (in millions, except per share and ratio data)	2000	1999	1998	1997	1996
INCLUDING JPMP[(a)]					
Operating Basis[(b)]					
Revenue	$ 32,793	$ 31,695	$ 26,523	$ 24,919	$ 23,306
Noninterest Expense	21,393	17,872	16,029	14,833	13,836
Credit Costs[(c)]	2,367	2,439	2,601	1,797	1,467
Earnings	$ 5,927	$ 7,433	$ 5,081	$ 5,314	$ 5,090
Diluted Earnings per Share[(d)]	2.96	3.65	2.43	2.48	2.30
Return on Average Managed Assets	0.85%	1.15%	0.75%	0.85%	0.93%
Return on Average Common Equity	16.12	22.25	15.39	17.28	17.12
Common Dividend Payout Ratio	40	29	39	34	33
Overhead Ratio	65	56	60	60	59
Cash Operating Basis[(e)]					
Cash Earnings	$ 6,455	$ 7,762	$ 5,374	$ 5,486	$ 5,259
Diluted Cash Earnings per Share[(d)]	3.23	3.82	2.58	2.56	2.38
Shareholder Value Added	1,656	3,375	1,062	1,435	1,333
Cash Return on Average Common Equity	17.58%	23.25%	16.31%	17.87%	17.72%
Cash Overhead Ratio	64	55	59	59	59
Reported Basis					
Revenue	$ 32,934	$ 30,930	$ 25,753	$ 24,028	$ 22,730
Noninterest Expense (Excluding Restructuring Costs)	21,393	17,972	16,066	14,968	13,876
Merger and Restructuring Costs	1,431	23	887	192	1,814
Provision for Loan Losses	1,377	1,446	1,453	804	897
Net Income	$ 5,727	$ 7,501	$ 4,745	$ 5,173	$ 4,035
Net Income per Share:[(d)]					
Basic	$ 2.99	$ 3.87	$ 2.37	$ 2.53	$ 1.88
Diluted	2.86	3.69	2.27	2.41	1.79
Cash Dividends Declared	1.28	1.08	0.96	0.83	0.75
Book Value at Period-End	21.17	18.07	17.39	16.04	14.71
Return on Average Assets	0.85%	1.19%	0.72%	0.85%	0.75%
Return on Average Common Equity	15.56	22.46	14.35	16.80	13.39
Total Assets	$ 715,348	$ 667,003	$ 626,942	$ 627,680	$ 558,125
Deposits	279,365	287,064	267,465	252,567	233,645
Long-Term Debt[(f)]	47,238	45,540	47,132	39,266	27,167
Total Stockholders' Equity	42,338	35,056	35,099	33,146	32,426
Share Price[(d)]					
High	$ 67.17	$ 60.75	$ 51.71	$ 42.19	$ 31.96
Low	32.38	43.88	23.71	28.21	17.38
Close	45.44	51.79	47.33	36.50	29.79
EXCLUDING JPMP[(a)]					
Operating Basis[(b)]					
Revenue	$ 32,000	$ 28,610	$ 25,263	$ 23,778	$ 22,362
Earnings	$ 5,674	$ 5,656	$ 4,389	$ 4,659	$ 4,551
Diluted Earnings per Share[(d)]	2.84	2.78	2.10	2.17	2.05
Return on Average Common Equity	19.79%	20.61%	15.26%	16.13%	16.16%
Overhead Ratio	66	61	63	62	61
Cash Operating Basis[(e)]					
Cash Earnings	$ 6,180	$ 5,985	$ 4,682	$ 4,831	$ 4,720
Diluted Cash Earnings per Share[(d)]	3.10	2.94	2.24	2.25	2.13
Cash Return on Average Common Equity	21.58%	21.83%	16.31%	16.75%	16.79%
Cash Overhead Ratio	64	60	62	61	61

(a) JPMP is JPMorgan Chase's private equity investment business. See pages 92 and 93 for its line of business results.
(b) Excludes the impact of credit card securitizations, merger and restructuring costs, and special items. For a listing of special items, see Glossary of Terms on page 98.
(c) Includes provision for loan losses and credit costs related to the securitized credit card portfolio.
(d) JPMorgan Chase's common stock is listed and traded on the New York Stock Exchange and the London Stock Exchange Limited. 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 two-for-one stock split effective as of the close of business on May 20, 1998 and a three-for-two stock split effective as of the close of business on June 9, 2000.
(e) Excludes the impact of the amortization of intangibles.
(f) Includes Guaranteed Preferred Beneficial Interests in JPMorgan Chase's Junior Subordinated Deferrable Interest Debentures.

Glossary of Terms

The page numbers included after each definition below represent the pages in the MD&A and Notes to Consolidated Financial Statements where the term is primarily used.

CAGR: "Compound Annual Growth Rate." (Pages 23 and 32)

Cash Operating Earnings: Operating earnings excluding the impact of the amortization of intangibles. (Pages 23 and 25)

Cash Overhead Ratio: Noninterest expense, excluding amortization of intangibles, as a percentage of the total of net interest income and noninterest revenue (excluding merger and restructuring costs and special items). (Pages 26 and 27)

Credit Risk: The risk of loss due to borrower or counterparty default. (Pages 43 and 46)

FASB: Financial Accounting Standards Board. (Page 60)

Investment Grade Equivalent: JPMorgan Chase's internal risk assessment which represents a risk profile similar to that of a BBB-/Baa3 or better rating as generally defined by independent rating agencies, such as Standard & Poor's or Moody's. (Page 49)

Liquidity Risk: The risk of being unable to fund JPMorgan Chase's portfolio of assets at appropriate maturities and rates, and the risk of being unable to liquidate a position in a timely manner at a reasonable price. (Page 59)

Managed Credit Card Receivables or Managed Basis: JPMorgan Chase uses this terminology to refer to its credit card receivables on the balance sheet plus securitized credit card receivables. (Pages 51 and 52)

Mark-to-Market Exposure: Mark-to-market exposure is a measure, at a point in time, of the value of a derivative or foreign exchange contract in the open market. When the mark-to-market is positive, it indicates the counterparty owes JPMorgan Chase and, therefore, creates a repayment risk for JPMorgan Chase. When the mark-to-market is negative, JPMorgan Chase owes the counterparty. In this situation, JPMorgan Chase does not have repayment risk. (Pages 50 and 86)

Market Risk: The risk of loss relating to the change in value of a financial instrument or a portfolio due to changes in the value of market variables, such as interest rates, foreign exchange rates, credit spreads, and equity and commodity prices. (Pages 43 and 54)

Merger: The term refers to the December 31, 2000 merger of The Chase Manhattan Corporation and J.P. Morgan & Co. Incorporated. (Pages 22, 23, 44, 66 and 72)

Net Yield on Interest-Earning Assets: The average rate for interest-earning assets less the average rate paid for all sources of funds. (Page 40)

Operating Basis or Operating Earnings: Reported results excluding the impact of credit card securitizations, merger and restructuring costs and special items. (Pages 23 and 25)

Operational Risk: The risk of loss resulting from inadequate or failed internal processes or systems, human factor, or external events. (Pages 43 and 58)

Overhead Ratio: Noninterest expense as a percentage of the total of net interest income and noninterest revenue (excluding merger and restructuring costs and special items). (Page 41)

SFAS: Statement of Financial Accounting Standards.

SFAS 107: "Disclosures about Fair Value of Financial Instruments." (Page 90)

SFAS 109: "Accounting for Income Taxes." (Page 80)

SFAS 114: "Accounting by Creditors for Impairment of a Loan." (Page 74)

SFAS 123: "Accounting for Stock-Based Compensation." (Page 84)

SFAS 125: "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." (Page 60)

SFAS 128: "Earnings per Share." (Page 79)

SFAS 133: "Accounting for Derivative Instruments and Hedging Activities." (Page 60)

SFAS 140: "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a replacement of FASB Statement No. 125." (Page 60)

Shareholder Value Added ("SVA"): Represents operating earnings excluding the impact of amortization of goodwill and certain other intangibles (i.e., cash operating earnings) minus preferred dividends and an explicit charge for capital. (Page 25)

Special Items: All amounts are on a pre-tax basis. Special items in 2000 include a gain on the sale of the Hong Kong retail banking business ($827 million), a gain from the transfer of Euroclear-related business ($399 million), gain from the sale of a business in Panama ($81 million) and loss resulting from the economic hedge of the purchase price of Flemings prior to its acquisition ($176 million). The 1999 special items were interest income from prior-years' tax refunds ($62 million), gains from sales of non-strategic assets ($166 million) and a special contribution to The Chase Manhattan Foundation ($100 million). In 1998, special items were interest income from prior-years' tax refunds ($191 million), sale of a global trust and agency services business ($131 million), sale of an investment management business in Australia ($56 million) and costs incurred for accelerated vesting of stock-based incentive awards ($37 million). In 1997, special items were gains on the sales of JPMorgan Chase's remaining interests in The CIT Group Holdings, Inc. ($58 million) and a partially owned foreign investment ($44 million), as well as costs incurred for accelerated vesting of stock-based incentive awards ($135 million). Special items in 1996 included aggregate tax benefits and refunds ($54 million), the loss on the sale of a building in Japan ($60 million) and costs incurred in combining JPMorgan Chase's foreign retirement plans ($40 million). (Pages 23 and 25)

Stress Testing: Discloses market risk under plausible events in abnormal markets. (Pages 54 and 56)

Value-at-Risk ("VAR"): A measure of the dollar amount of potential loss from adverse market moves in an everyday market environment. (Pages 24, 54 and 55)

JPMorgan International Council

The heritage Chase and J.P. Morgan international advisory councils were established in 1965 and 1967 respectively. These councils, composed of business leaders and prominent individuals from public life, have advised senior management of the predecessor firms on matters relating to their global businesses. With the creation of JPMorgan Chase, a new council drawing on the membership of the two predecessor councils was formed in January 2001. The council meets approximately every eight months to discuss relevant issues of international concern and interest.

Hon. George P. Shultz
Chairman of the Council
Distinguished Fellow
Hoover Institution, Stanford University
Stanford, California

H.E. Sheikh Mohammed Ali Abalkhail
Chairman
Saudi International Bank
Riyadh, Saudi Arabia

Giovanni Agnelli
Honorary Chairman
FIAT S.p.A.
Turin, Italy

Jean-Louis Beffa
Chairman and Chief Executive Officer
Compagnie de Saint-Gobain
Paris-La Défense, France

Bill Bradley
Former U.S. Senator
Allen & Company
New York, New York

Martin Feldstein
President and Chief Executive Officer
National Bureau of Economic Research Inc.
Cambridge, Massachusetts

Fritz Gerber
Chairman of the Board
Roche Holding Ltd.
Basel, Switzerland

Claudio X. González
Director General
Kimberly-Clark de México, S.A. de C.V.
Mexico City, Mexico

Sir Christopher Hogg
Chairman
Reuters Group PLC
London, United Kingdom

The Rt. Hon. The Lord Howe of Aberavon, CH, QC
House of Lords
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William R. Johnson
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H.J. Heinz Company
Pittsburgh, Pennsylvania

Alain A. Joly
Chairman and Chief Executive Officer
L'Air Liquide S.A.
Paris, France

Karen Katen
President, U.S. Pharmaceuticals
Pfizer Inc.
New York, New York

Hon. Henry A. Kissinger
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Kissinger Associates, Inc.
New York, New York

Yotaro Kobayashi
Chairman of the Board
Fuji Xerox Co., Ltd.
Tokyo, Japan

Rahmi M. Koç
Chairman
Koç Holding A.Ş.
Istanbul, Turkey

Hon. Lee Kuan Yew
Senior Minister
Republic of Singapore
Singapore

Antonio Madero
Chairman of the Board and Chief Executive Officer
SANLUIS Corporación, S.A. de C.V.
Mexico City, Mexico

Roberto Irineu Marinho
Vice President
Organizações Globo
Rio de Janeiro, Brazil

The Rt. Hon. Brian Mulroney
Senior Partner
Ogilvy Renault
Montreal, Canada

Shijuro Ogata
Former Deputy Governor for International Relations
Bank of Japan
Tokyo, Japan

John B. Prescott, A.C.
Executive Chairman
Horizon Private Equity Management Pty Ltd
Melbourne, Australia

David Rockefeller
Retired Chairman
The Chase Manhattan Bank, N.A.
New York, New York

José E. Rohm
Chairman of the Board
Banco General de Negocios
Buenos Aires, Argentina

Jürgen E. Schrempp
Chairman of the Board of Management
DaimlerChrysler A.G.
Stuttgart, Germany

Walter V. Shipley
Retired Chairman of the Board
The Chase Manhattan Corporation
New York, New York

Jess Søderberg
Partner and Chief Executive Officer
A.P. Møller
Copenhagen, Denmark

William S. Stavropoulos
Chairman of the Board
The Dow Chemical Company
Midland, Michigan

Ratan Naval Tata
Chairman
Tata Sons Limited
Mumbai, India

Marco Tronchetti Provera
President and Chief Executive Officer
Pirelli S.p.A.
Milan, Italy

Cees J.A. van Lede
Chairman, Board of Management
Akzo Nobel
Arnhem, The Netherlands

L.R. Wilson, O.C.
Chairman of the Board
CAE Inc.
Toronto, Canada

Peter K.C. Woo
Chairman
Hong Kong Trade Development Council
Hong Kong

Jaime Augusto Zobel de Ayala
President
Ayala Corporation
Makati City, Philippines

Frederick H.S. Allen
Executive Secretary of the Council
New York, New York

Ex-Officio Members
Douglas A. Warner III
William B. Harrison, Jr.

JPMorgan National Advisory Board

The heritage Chase National Advisory Board was established in 1986. The JPMorgan National Advisory Board is composed of a geographically and functionally diverse group of prominent business executives. The Board meets twice a year and provides a forum to discuss current business issues and exchange ideas for the purpose of offering advice, counsel and business development expertise to senior management of JPMorgan on the investment bank's affairs in the United States.

J.T. Battenberg III
Chairman of the Board,
Chief Executive Officer and President
Delphi Automotive Systems

Richard I. Beattie, Esq.
Chairman, Executive Committee
Simpson Thacher & Bartlett

Leon D. Black
Founding Partner
Apollo Management, L.P.

Richard J. Bressler
Chairman and Chief Executive Officer
Time Warner Digital Media

David F. DeVoe
Chief Financial Officer
News Corporation

Archie W. Dunham
Chairman, President and
Chief Executive Officer
Conoco Inc.

Charles E. Golden
Executive Vice President and
Chief Financial Officer
Eli Lilly and Company

John B. Hess
Chairman of the Board and
Chief Executive Officer
Amerada Hess Corporation

Thomas O. Hicks
Chairman of the Board and
Chief Executive Officer
Hicks, Muse, Tate & Furst Incorporated

J. Michael Kelly
Senior Vice President and
Chief Financial Officer
America Online, Inc.

John W. Kluge
Chairman and President
Metromedia Company

Thomas H. Lee
Chairman and Chief Executive Officer
Thomas H. Lee Partners, LP

Gregory B. Maffei
President and Chief Executive Officer
360networks

Alex J. Mandl
Chairman and Chief Executive Officer
Teligent, Inc.

David C. McCourt
Chairman and Chief Executive Officer
RCN Corporation

Darla D. Moore
President
Rainwater, Inc.

Robert M. Neumeister, Jr.
Chief Financial Officer
Aerie Networks, Inc.

J. Pedro Reinhard
Executive Vice President and
Chief Financial Officer
The Dow Chemical Company

Fredric G. Reynolds
Executive Vice President and
Chief Financial Officer
Viacom Inc.

Joseph L. Rice III
Chairman
Clayton, Dubilier & Rice, Inc.

Thomas W. Ryan
Chief Financial Officer
Allied Waste Industries, Inc.

Frederic V. Salerno
Vice Chairman and
Chief Financial Officer
Verizon Communications

Stephen A. Schwarzman
President and Chief Executive Officer
The Blackstone Group

David L. Shedlarz
Executive Vice President and
Chief Financial Officer
Pfizer Inc.

Henry R. Silverman
Chairman, President and
Chief Executive Officer
Cendant Corporation

Daniel E. Somers
President and Chief Executive Officer
AT&T Broadband

Scott D. Sullivan
Chief Financial Officer
WorldCom, Inc.

Martin E. Welch III
Executive Vice President and
Chief Financial Officer
Kmart Corporation

Gary Winnick
Founder and Chairman of the Board
Global Crossing Ltd.

Ward W. Woods
Partner
Bessemer Holdings & Co.

Mortimer B. Zuckerman
Chairman
Boston Properties, Inc.

Northeast Regional Advisory Board

The heritage Chase, Chemical and Manufacturers Hanover institutions each had long-standing regional advisory boards. The Northeast Regional Advisory Board is comprised of a diverse group of prominent, regional business people who offer advice and counsel to senior management on market strategies for providing consumer and commercial products and services to the regional banking sector and insight on JPMorgan Chase's role and responsibility in the community.

Philip C. Ackerman
President
National Fuel Gas Company

Robert L. Ayres
Chief Operating Officer and
Chief Financial Officer
Bush Industries, Inc.

Howard Berman
Presidenr and Chief Executive Officer
Excellus, Inc.

Douglas F. Brush
President and Chief Executive Officer
Sentry Group

Joseph P. Clayton
President and Chief Executive Officer,
North America
Global Crossing

Eugene R. Corasanti
Chairman and Chief Executive Officer
CONMED Corporation

Michael Dranichak
Vice Chairman
Crellin International

Lewis Golub
Chairman and Chief Executive Officer
The Golub Corporation

Wallace A. Graham
Chairman of rhe Board and
Chief Executive Officer
Schenecrady International, Inc.

Thomas H. Jackson
President
University of Rochester

Peter J. Kallet
Chairman, President and
Chief Executive Officer
Oneida Lrd.

Brian J. Lipke
Chairman and Chief Executive Officer
Gibralrar Steel Corporation

John Morphy
Chief Financial Officer
Paychex, Inc.

Dennis M. Mullen
President and Chief Executive Officer
Agrilink Foods, Inc.

Michael C. Nahl
Senior Vice President and
Chief Financial Officer
Albany Internarional Corp.

Thomas S. Richards
Chairman, President and
Chief Executive Officer
Rochester Gas & Electric Corporarion
RGS Energy Group, Inc.

Charles R. Trego, Jr.
Executive Vice President and
Chief Financial Officer
Rich Products Corporation

Metropolitan Regional Advisory Board

The heritage Chase, Chemical and Manufacturers Hanover institutions each had long-standing regional advisory boards. The Metropolitan Regional Advisory Board is comprised of a diverse group of prominent, New York regional business people who offer advice and counsel to senior management on market strategies for providing consumer and commercial products and services to the regional banking sector and insight on JPMorgan Chase's role and responsibility in the community.

Richard A. Bernstein
Chairman and Chief Executive Officer
R.A.B. Holdings, Inc.

Russell Berrie
Chairman
Russ Berrie and Company, Inc.

Robert B. Catell
Chairman and Chief Executive Officer
KeySpan Energy Corporation

Jerry Della Femina
Chairman and Chief Executive Officer
Della Femina, Rothschild, Jeary and Partners

Charles F. Fortgang
Chairman
M. Fabrikant & Sons, Inc.

Arnold B. Glimcher
President
PaceWildenstein

Martha Clark Goss
Chief Financial Officer
The Capital Markets Company

Joel J. Horowitz
Chief Executive Officer
Tommy Hilfiger Corporation

Shirley Strum Kenny
President
SUNY at Stony Brook

Charles A. Krasne
President and Chief Executive Officer
Krasdale Foods, Inc.

Richard S. LeFrak
President
Lefrak Organization, Inc.

Leo Liebowitz
President and Chief Executive Officer
Getty Realty Corp.

Kenneth Lipper
Chairman
Lipper & Company, L.P.

William L. Mack
Founder and Managing Partner
Apollo Real Estate Advisors, LP
President and Chief Executive Officer
The Mack Organization

Theodore Markson
Chairman
Paris Accessories, Inc.

Herman I. Merinoff
Chairman of the Board
Charmer Industries, Inc.

Bruce M. Newman
President
Newel Art Galleries, Inc.

William C. Rudin
President
Rudin Management Company, Inc.

Patrick J. Scollard
President
Scollard Associates, LLC

John Shalam
President and Chief Executive Officer
Audiovox Corporation

Arthur T. Shorin
Chairman of the Board, President and Chief Executive Officer
The Topps Company, Inc.

Edward W. Stack
Vice President
The Clark Foundation

Kenneth L. Wallach
President and Chief Executive Officer
Central National-Gottesman, Inc.

Fred Wilpon
Chairman
Sterling Equities, Inc.

Judith D. Zuk
President and Chief Executive Officer
Brooklyn Botanic Garden

Texas Regional Advisory Board

The Texas Regional Advisory Board emanates from the former Board of Directors of Texas Commerce Bank, which traces its roots to 1866. Texas Commerce changed its name to Chase Bank of Texas in 1998 and merged into The Chase Manhattan Bank in 2000. The members of the Texas Regional Advisory Board include the 38th President of the U.S. and other prominent business and community leaders throughout Texas and the Southern U.S. The Texas Board meets quarterly and advises management on business strategies and opportunities in that broad and diverse market.

E. William Barnett
Senior Counsel
Baker & Botts, L.L.P.

David W. Biegler
President and Chief Operating Officer
Texas Utilities Company

Alan R. Buckwalter III
Chairman, President and
Chief Executive Officer
Texas Region
J.P. Morgan Chase & Co.

Philip J. Burguieres
Chairman Emeritus
Weatherford International Inc.

Kirbyjon H. Caldwell
Senior Pastor
Windsor Village United
Methodist Church

Eugenio Clariond-Reyes
President
Grupo IMSA, S.A. de C.V.

William T. Dillard II
Chief Executive Officer
Dillard Department Stores, Inc.

Gale Duff-Bloom
Retired President
Company Communications and
Corporate Image
J.C. Penney Company, Inc.

Archie W. Dunham
Chairman, President and
Chief Executive Officer
Conoco Inc.

The Honorable
Gerald R. Ford

Juliet V. Garcia
President
University of Texas
at Brownsville

Dennis R. Hendrix
Retired Chairman and
Chief Executive Officer
PanEnergy Corp.

Forrest E. Hoglund
Retired Chairman and
Chief Executive Officer
Enron Oil & Gas Company

Harold S. Hook
Retired Chairman and
Chief Executive Officer
American General Corporation

Woody L. Hunt
Chairman and Chief Executive Officer
Hunt Building Corporation

Alphonso R. Jackson
State President-Texas
American Electric Power

Don D. Jordan
Retired Chairman and
Chief Executive Officer
Reliant Energy, Incorporated

Herbert D. Kelleher
Chairman, President and
Chief Executive Officer
Southwest Airlines

James C. Kennedy
Chairman and Chief Executive Officer
Cox Enterprises, Inc.

R. Bruce LaBoon
Managing Partner
Locke Liddell & Sapp L.L.P.

R. Steve Letbetter
Chairman, President and
Chief Executive Officer
Reliant Energy, Incorporated

Ben F. Love
Retired Chairman and
Chief Executive Officer
Texas Commerce
Bancshares, Inc.

S. Todd Maclin
Vice Chairman
Texas Region
J.P. Morgan Chase & Co.

R. Drayton McLane, Jr.
Owner
Houston Astros
Professional Baseball Team

Diana S. Natalicio
President
University of Texas
at El Paso

Robert R. Onstead
Investments

Caren Harvey Prothro
Civic Leader

J. Hugh Roff, Jr.
Investments

Wayne R. Sanders
Chairman and Chief Executive Officer
Kimberly-Clark Corporation

Marc J. Shapiro
Vice Chairman
J.P. Morgan Chase & Co.

Walter V. Shipley
Retired Chairman and
Chief Executive Officer
The Chase Manhattan Corporation

Jim L. Turner
Chairman
Dr Pepper Bottling
Company of Texas

Cyril Wagner, Jr.
Partner
Wagner & Brown

Harriet S. Wasserstrum
Vice Chairman
Texas Region
J.P. Morgan Chase & Co.

Max P. Watson, Jr.
Retired Chairman, President
and Chief Executive Officer
BMC Software, Inc.

Isabel Brown Wilson
Chairman
The Brown Foundation

William A. Wise
Chairman, President and
Chief Executive Officer
El Paso Energy Corporation

Community Advisory Board

The Community Advisory Board was formed in 1991 to provide advice and counsel in the areas of Housing, Economic Development, Faith-Based Community Development and Human Services. The 48 members are Presidents or Chief Executives of major not-for-profit organizations in the communities they serve. The board meets quarterly and has proven invaluable to the bank in the fulfillment of its community development goals.

Janie Barrera
President and Chief Executive Officer
ACCION Texas
San Antonio, TX

Florence E. Baugh
Director-Neighborhood Services
Community Action
Organization of Erie County
Buffalo, NY

Pascual Blanco
Executive Director
La Fuerza Unida De Glen Cove
Glen Cove, NY

Sylvia K. Brooks
President and Chief Executive Officer
Houston Area Urban League
Houston, TX

James Buckley
Executive Director
University Neighborhood
Housing Program
Bronx, NY

Joseph M. Carbone
President and Chief Operating Officer
The WorkPlace, Inc.
Bridgeport, CT

Edwina P. Carrington
Chief Executive Officer
Texas Housing Finance Corporation
Austin, TX

David Chen
Executive Director
Chinese American Planning Council
New York, NY

William Clark
President and Chief Executive Officer
Urban League of Rochester
Rochester, NY

Frederick A. Davie, Jr.
Program Officer
The Ford Foundation
New York, NY

Harold DeRienzo
President and Chief Executive Officer
Parodneck Foundation for
Self-Help Housing &
Community Development
New York, NY

Madeline Dolan Taylor
Executive Vice President
Albany-Colonie Regional
Chamber of Commerce
Albany, NY

William Frey
Vice President and Director
New York City Office
Enterprise Foundation
New York, NY

David Gallagher
Executive Director
Center for Neighborhood
Economic Development
Queens, NY

Luther Gatling
President
Budget & Credit
Counseling Services
New York, NY

Ernest Gonzalez
Corporate Chair
Long Island Hispanic
Chamber of Commerce
Holbrook, NY

Roy Hastick
President and Chief Executive Officer
Caribbean American Chamber of
Commerce & Industry
Brooklyn, NY

Jim Heath
President
Business Opportunity Network
Owego, NY

Lynda Ireland
Executive Director
New York/New Jersey
Minority Purchasing Council
New York, NY

Kim Jacobs
Executive Director
Hudson Valley Affordable
Housing Finance Corporation
Hawthorne, NY

Mark Jahr
Program Vice President
New York City Local
Initiatives Support Corporation
New York, NY

Erma Chansler Johnson
Vice Chancellor
Tarrant County College
Fort Worth, TX

Francine Justa
Executive Director
Neighborhood Housing
Services of New York City
New York, NY

Christopher Kui
Executive Director
Asian Americans for Equality
New York, NY

Martha Lewin
Co-Director
YWCA Hudson County
Jersey City, NJ

Anne S. Li
Executive Director
New Jersey Community Loan Fund
Trenton, NJ

William Linder
Chief Executive Officer
New Community Corporation
Newark, NJ

Fred Lucas
President and Chief Executive Officer
Faith Cenrer for
Community Development
New York, NY

John Madeo
President
Fairfield 2000 Homes Corporation
Stamford, CT

Ghebre Selassie Mehreteab
President and Chief Executive Officer
The NHP Foundation
Washington, DC

Luis Miranda
Chairman
Audubon Partnership for
Economic Development
New York, NY

James Morgo
President
Long Island Housing Partnership
Hauppauge, NY

David Pagan
Executive Director
Southside United Housing
Development Fund Corporation
Brooklyn, NY

James Paley
Executive Director
Neighborhood Housing
Services of New Haven
New Haven, CT

Karen Phillips
Chief Executive Officer
Abyssinian Development
Corporation
New York, NY

Ralph Porter
President
MBD Community Housing
Corporation
Bronx, NY

Edwin Reed
Chief Financial Officer
Allen AME Church
Queens, NY

Marcos Ronquillo
General Partner
The Ronquillo Law Firm, P.C.
Dallas, TX

Clifford Rosenthal
Executive Director
National Federation of
Community Development
Credit Unions
New York, NY

Winston A. Ross
Executive Director
Westchester Community
Opportunity Program
Elmsford, NY

Roberta Schofield
Executive Director
Salvation Army
Syracuse, NY

Carlisle Towery
President
Greater Jamaica
Development Corporation
Queens, NY

Terry Troia
Executive Director
Project Hospitality
Staten Island, NY

Reginald Tuggle
Pastor
Memorial Presbyterian Church
Roosevelt, NY

Donna Wertenbach
President
Community Economic
Development Fund
Harrford, CT

Lloyd Williams
President and Chief Executive Officer
Greater Harlem
Chamber of Commerce
New York, NY

Kathryn Wylde
President and Chief Executive Officer
New York City Partnership and
New York City Investment Fund
New York, NY

Johnny Ray Youngblood
Senior Pastor
St. Paul Community
Baptist Church
Brooklyn, NY

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

The Chase Manhattan Bank
Chase Manhattan Bank USA, National Association
Chase Securities Inc.
J.P. Morgan Securities, Inc.
Morgan Guaranty Trust Company of New York

Notice of Annual Meeting

The Annual Meeting of Stockholders of J.P. Morgan Chase & Co. will be held on Tuesday, May 15, 2001 in the Auditorium of The Chase Manhattan Bank located at One Chase Manhattan Plaza, New York, New York.

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

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 C (10.84% Preferred Stock)
JPM pfr H (Depositary Shares Each Representing a One-Tenth Interest in 6 5/8% Cumulative Preferred Stock)
JPM pfr L (Adjustable Rate Cumulative Preferred Stock, Series L)
JPM pfr N (Adjustable Rate Preferred Stock, Series N)

Financial information about J.P. Morgan Chase & Co. can be accessed by visiting the investor relations site of www.jpmorganchase.com. Additional questions should be addressed to:

Investor Relations
J.P. Morgan Chase & Co.
270 Park Avenue
New York, New York 10017-2070
Telephone: 212-270-6000

Transfer Agent and Registrar

Mellon Investor Services LLC
Overpeck Center
85 Challenger Road
Ridgefield Park, New Jersey 07660-2108
Telephone: 1-800-758-4651
http://vault.mellon-investor.com/isd

Stockholder Inquiries

Contact Mellon Investor Services LLC:

By Telephone:

Within the United States, Canada and Puerto Rico: 1-800-758-4651 (toll free)

From all other locations: 1-201-329-8660 (collect)

TDD service for the hearing impaired within the United States, Canada and Puerto Rico: 1-800-231-5469 (toll free)

All other locations: 1-201-329-8354 (collect)

By Mail:

Mellon Investor Services LLC
Overpeck Center
85 Challenger Road
Ridgefield Park, New Jersey 07660

Dividend Reinvestment Plan

Shareholders of J.P. Morgan Chase & Co. may use their dividends to purchase shares of J.P. Morgan Chase & Co. common stock through the Dividend Reinvestment Plan. A prospectus and enrollment card may be obtained by calling 1-800-758-4651 or by writing to Mellon Investor Services, 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

Design: Russell Design Associates, New York Photography: John Madere

Printed in U.S.A.

J.P. Morgan Chase & Co.

www.jpmorganchase.com