10-Q 1 y52362e10-q.txt J.P. MORGAN CHASE & CO. 1 SECURITIES AND EXCHANGE COMMISSION WASHINGTON, DC 20549 FORM 10-Q QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTER ENDED JUNE 30, 2001 COMMISSION FILE NUMBER 1-5805 ------------- ------ J.P. MORGAN CHASE & CO. --- (EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER) DELAWARE 13-2624428 ------------------------------ ------------------- (STATE OR OTHER JURISDICTION OF (IRS EMPLOYER INCORPORATION OR ORGANIZATION) IDENTIFICATION NO.) 270 PARK AVENUE, NEW YORK, NEW YORK 10017 ----------------------------------- ---------- (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE) REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (212) 270-6000 -------------- INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS. YES X NO ---- ---- COMMON STOCK, $1 PAR VALUE 1,986,285,709 -- NUMBER OF SHARES OUTSTANDING OF EACH OF THE ISSUER'S CLASSES OF COMMON STOCK ON JULY 31, 2001. 2

== FORM 10-Q TABLE OF CONTENTS

== The Management's Discussion and Analysis contains statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based upon the current beliefs and expectations of J.P. Morgan Chase & Co.'s management and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. Factors that could cause J.P. Morgan Chase & Co.'s results to differ materially from those described in the forward-looking statements can be found in the 2000 Annual Report on Form 10-K of J.P. Morgan Chase & Co. filed with the Securities and Exchange Commission.   Part I Item 1 J.P. MORGAN CHASE & CO. CONSOLIDATED STATEMENT OF INCOME (IN MILLIONS, EXCEPT PER SHARE DATA)

SECOND QUARTER SIX

MONTHS -----

- --------------
------ 2001
2000 2001 2000

----- ~~REVENUE~~
~~Investment~~
~~Banking Fees $~~
~~929 $ 1,107 $~~
~~1,870 $ 2,298~~
~~Trading Revenue~~
~~1,261 1,730~~
~~3,262 3,701~~
~~Fees and~~
~~Commissions~~
~~2,388 2,218~~
~~4,453 4,415~~
~~Private Equity -~~
~~Realized Gains~~
~~(Losses) (46)~~
~~630 366 1,022~~
~~Private Equity -~~
~~Unrealized Gains~~
~~(Losses) (783)~~
~~(171) (1,068)~~
~~111 Securities~~
~~Gains 67 24 522~~
~~21 Other~~
~~Revenue 274 67~~
~~520 392 --------~~
~~----------------~~
~~----------------~~
~~----------------~~
~~----------------~~
~~----------------~~
~~--------------~~
~~Total Noninterest~~
~~Revenue 4,090~~
~~5,605 9,925~~
~~11,960 --------~~
~~----------------~~
~~----------------~~
~~----------------~~
~~----------------~~
~~----------------~~
~~--------------~~
~~Interest Income~~
~~8,469 8,858~~
~~17,649 17,298~~
~~Interest Expense~~
~~5,688 6,564~~
~~12,450 12,590 -~~
~~----------------~~
~~----------------~~
~~----------------~~
~~----------------~~
~~----------------~~
~~----------------~~
~~----- Net~~
~~Interest Income~~
~~2,781 2,294~~
~~5,199 4,708 ----~~
~~----------------~~
~~----------------~~
~~----------------~~
~~----------------~~
~~----------------~~
~~----------------~~
~~-- Revenue~~
~~before Provision~~
~~for Loan Losses~~
~~6,871 7,899~~
~~15,124 16,668~~

~~Provision for Loan Losses 525 328 972 670 --- -- --- Total Net Revenue 6,346 7,571 14,152 15,998 --------- --- EXPENSE Compensation Expense 3,052 2,963 6,409 6,303 Occupancy Expense 327 297 675 605 Technology and Communications 674 574 1,328 1,154 Merger and Restructuring Costs 478 50 806 50 Amortization of Intangibles 183 92 360 185 Other Expense 1,047 1,099 2,109 2,131 ---- -- --- Total Noninterest Expense 5,761 5,075 11,687 10,428 --------- --- INCOME BEFORE INCOME TAX EXPENSE AND EFFECT OF ACCOUNTING CHANGE 585 2,496 2,465 5,570 Income Tax Expense 207 863 863 1,949 ---------- --- INCOME BEFORE EFFECT OF~~

~~EFFECT OF ACCOUNTING CHANGE $ 378 $ 1,633 $ 1,602 $ 3,621 Net Effect of Change in Accounting Principle -- -- (25) -- ---~~

~~NET INCOME $ 378 $ 1,633 $ 1,577 $ 3,621 -- NET INCOME APPLICABLE TO COMMON STOCK $ 359 $ 1,607 $ 1,537 $ 3,570 ---~~

~~NET INCOME PER SHARE (a) Basic $ 0.18 $ 0.87 $ 0.78 $ 1.92 Diluted $ 0.18 $ 0.83 $ 0.76 $ 1.84 --~~

(a) Basic and diluted earnings per share have been reduced by $(0.01) in the first six months of 2001 due to the impact of the adoption of SFAS 133 relating to the accounting for derivative instruments and hedging activities. -- The Notes to Consolidated Financial Statements are an integral part of these Statements. -3- 4 Part I Item 1 (continued) J.P. MORGAN CHASE & CO. CONSOLIDATED BALANCE SHEET (IN MILLIONS, EXCEPT SHARE DATA)

JUNE 30, December 31, 2001 2000 -- ~~ASSETS Cash and Due from Banks $ 24,219 $ 23,972 Deposits with Banks 11,903 8,333 Federal Funds Sold and Securities Purchased under Resale Agreements 61,308 69,474 Securities Borrowed 38,296 32,371 Trading Assets: Debt and Equity Instruments 139,135 139,249 Derivative Receivables 68,910 76,373 Securities: Available-for-Sale~~

~~Available for Sale 67,974 73,106 Held-to-Maturity (Fair Value: $520 at June 30, 2001 and $593 at December 31, 2000) 514 589 Loans (Net of Allowance for Loan Losses of $3,673 at June 30, 2001 and $3,665 at December 31, 2000) 216,245 212,385 Goodwill and Other Intangibles 16,224 15,833 Private Equity Investments 9,855 11,428 Accrued Interest and Accounts Receivable 17,080 20,618 Premises and Equipment 7,186 7,087 Other Assets 33,853 24,530~~

~~TOTAL ASSETS $ 712,702 $ 715,348~~

~~LIABILITIES Deposits: Noninterest-Bearing $ 64,231 $ 62,713 Interest-Bearing 212,573 216,652~~

~~Total Deposits 276,804 279,365 Federal Funds Purchased and Securities Sold under Repurchase Agreements 155,062 131,738 Commercial Paper 19,985 24,851 Other Borrowed Funds 18,418 19,840 Trading Liabilities: Debt and Equity Instruments 53,571 52,157 Derivative Payables 62,373 76,517 Accounts Payable and Other Liabilities (including the Allowance for Credit Losses of $285 at June 30, 2001 and $283 at December 31, 2000) 38,157 40,754 Long-Term Debt 40,917 43,299 Guaranteed Preferred Beneficial Interests in the Firm's Junior Subordinated Deferrable Interest Debentures 4,439~~

~~Debentures 4,439 3,939~~ ~~---~~

~~TOTAL LIABILITIES 669,726 672,460~~ ~~---~~

~~PREFERRED STOCK OF SUBSIDIARY 550 550~~ ~~---~~

~~STOCKHOLDERS' EQUITY Preferred Stock 1,025 1,520 Common Stock (Authorized 4,500,000,000 Shares, Issued 1,989,576,087 Shares at June 30, 2001 and 1,940,109,081 Shares at December 31, 2000) 1,990 1,940 Capital Surplus 12,000 11,598 Retained Earnings 28,265 28,096 Accumulated Other Comprehensive Income (Loss) (834) (241) Treasury Stock, at Cost (391,153 Shares at June 30, 2001 and 11,618,856 Shares at December 31, 2000) (20) (575)~~ ~~---~~

~~TOTAL STOCKHOLDERS' EQUITY 42,426 42,338~~ ~~---~~

~~TOTAL LIABILITIES, PREFERRED STOCK OF SUBSIDIARY AND STOCKHOLDERS' EQUITY $ 712,702 $ 715,348~~ ~~---~~

The Notes to Consolidated Financial Statements are an integral part of these Statements. -4- 5 Part I Item 1 (continued) J.P. MORGAN CHASE & CO. CONSOLIDATED STATEMENT OF

CHANGES IN STOCKHOLDERS' EQUITY (IN MILLIONS, EXCEPT PER SHARE DATA)
SIX MONTHS ENDED JUNE 30, 2001 2000 --
PREFERRED STOCK Balance at Beginning of Year $ 1,520 $ 1,622 Redemption of Stock (450) (100) Purchase of Treasury Stock (45) -- --- Balance at End of Period 1,025 1,522 --
COMMON STOCK Balance at Beginning of Year 1,940 1,625 Issuance of Common Stock for a Three-for-Two Stock Split -- 441 Issuance of Common Stock 48 -- Issuance of Common Stock for Purchase Accounting Acquisitions 2 -- -- Balance at End of Period 1,990 2,066 -- CAPITAL SURPLUS Balance at Beginning of Year 11,598 12,724 Issuance of Common Stock for a Three-for-Two Stock Split -- (441) Issuance of Common Stock for Purchase Accounting Acquisitions 79 -- Shares Issued and Commitments to Issue Common Stock for Employee Stock-Based Awards and Related Tax Effects 323 (78) --- Balance at End of Period 12,000 12,205 -----

~~-------------------- -------------------- -------------------- -------------------- ------------------ RETAINED EARNINGS Balance at Beginning of Year 28,096 28,455 Net Income 1,577 3,621 Cash Dividends Declared: Preferred Stock (40) (51) Common Stock ($0.68 and $0.64 per share) (1,368) (1,138) ------------ -------------------- -------------------- -------------------- -------------------- ------------ Balance at End of Period 28,265 30,887 ----- -------------------- -------------------- -------------------- -------------------- ------------------- ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) Balance at Beginning of Year (241) (1,428) Other Comprehensive Income (Loss) (593) 147 ---------------- -------------------- -------------------- -------------------- -------------------- -------- Balance at End of Period (834) (1,281) ------------ -------------------- -------------------- -------------------- -------------------- ----------- TREASURY STOCK, AT COST Balance at Beginning of Year (575) (7,942) Purchase of Treasury Stock -- (2,153) Reissuance of Treasury Stock 555 1,331 ---------- -------------------- -------------------- -------------------- -------------------- -------------- Balance at End of Period (20) (8,764) - -------------------- -------------------- -------------------- -------------------- -------------------- --- TOTAL STOCKHOLDERS' EQUITY $ 42,426 $ 36,635 ------------ -------------------- -------------------- --------------------~~

~~------------------------------- COMPREHENSIVE INCOME Net Income $ 1,577 $ 3,621 Other Comprehensive Income (Loss) (593) 147 -- Comprehensive Income $ 984 $ 3,768 --~~

The Notes to Consolidated Financial Statements are an integral part of these Statements. -5- 6 Part I Item 1 (continued) J.P. MORGAN CHASE & CO. CONSOLIDATED STATEMENT OF CASH FLOWS (IN MILLIONS)

SIX MONTHS ENDED JUNE 30, 2001 2000 ---

~~OPERATING ACTIVITIES Net Income $ 1,577 $ 3,621 Adjustments to Reconcile Net Income to Net Cash (Used in) Provided by Operating Activities: Provision for Loan Losses 972 670 Merger and Restructuring Costs 806 50 Depreciation and Amortization 1,381 1,113 Private Equity Unrealized (Gains) Losses and Write-offs 1,223 (111) Net Change in: Trading-Related Assets 7,577 (3,863) Securities Borrowed (5,925) 1,357 Accrued Interest and Accounts Receivable 3,538 3,565 Other Assets~~

~~(10,267) (3,137) Trading-Related Liabilities (12,939) (2,303) Accounts Payable and Other Liabilities (3,279) 2,058 Other, Net (172) (1,415) -- Net Cash (Used in) Provided by Operating Activities (15,508) 1,605 --- INVESTING ACTIVITIES Net Change in: Deposits with Banks (3,570) 21,644 Federal Funds Sold and Securities Purchased under Resale Agreements 8,166 (17,228) Loans Due to Sales and Securitizations 25,164 12,468 Other Loans, Net (28,718) (18,085) Other, Net 2,834 (858) Held-to-Maturity Securities: Proceeds 75 236 Purchases -- (66) Available-for-Sale Securities: Proceeds from Maturities 5,349 5,603 Proceeds from Sales 84,974 41,882~~

~~41,882 Purchases (88,679) (43,011) Cash Used in Acquisitions (1,677) -- Proceeds from Divestitures of Nonstrategic Businesses and Assets 106 -- ------- ------------- ------------- ------------- ------------- ------------- ------------- ------------- ---- Net Cash Provided by Investing Activities 4,024 2,585 - ------------- ------------- ------------- ------------- ------------- ------------- ------------- ---------- FINANCING ACTIVITIES Net Change in: Domestic Deposits 5,486 (2,415) Foreign Deposits (8,047) (13,807) Federal Funds Purchased and Securities Sold under Repurchase Agreements 23,324 21,632 Commercial Paper and Other Borrowed Funds (6,288) (7,369) Other, Net (7) (441) Proceeds from the Issuance of Long-Term Debt and Capital Securities 7,289 7,557 Repayments of Long-Term Debt (9,164) (4,660) Proceeds from the Issuance of Stock and Stock-Related Awards 926 776 Redemption~~

~~Redemption of Preferred Stock (450) (100) Treasury Stock Purchased (45) (2,153) Cash Dividends Paid (1,325) (1,113)~~

~~---~~

~~Net Cash Provided by (Used in) Financing Activities 11,699 (2,093)~~

~~---~~

~~Effect of Exchange Rate Changes on Cash and Due from Banks 32 70 Net Increase in Cash and Due from Banks 247 2,167 Cash and Due from Banks at December 31, 2000 and 1999 23,972 18,692~~

~~---~~

~~Cash and Due from Banks at June 30, 2001 and 2000 $ 24,219 $ 20,859 Cash Interest Paid $ 12,352 $ 11,599 Taxes Paid $ 390 $ 1,535~~

~~--~~

The Notes to Consolidated Financial Statements are an integral part of these Statements. 7 Part I Item 1 (continued) --

----- See Glossary of Terms on page 50 for definition of terms used throughout the Notes to Consolidated Financial Statements. --- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS NOTE 1 - MERGER WITH J.P. MORGAN & CO. INCORPORATED 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", "JPMC" or "the Firm"). The merger was accounted for as a pooling of interests and, accordingly, the information included in these financial statements and consolidated notes 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. NOTE 2 - BASIS OF PRESENTATION The accounting and financial reporting policies of JPMorgan Chase and its subsidiaries conform to U.S. generally accepted accounting principles ("GAAP") and prevailing industry practices for interim reporting. Additionally, where applicable, the policies conform to the accounting and reporting guidelines prescribed by bank regulatory authorities. The unaudited consolidated financial statements prepared in conformity with GAAP require 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. In the opinion of management, all necessary adjustments, consisting only of normal recurring adjustments, have been included for a fair presentation of this interim financial information. These unaudited financial statements should be read in conjunction with the audited financial statements included in JPMorgan Chase's 2000 Annual Report on Form 10-K ("2000 Annual Report"), with the exception of Note 3 below, "Accounting for Derivative Instruments and Hedging Activities." NOTE 3 - ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES On January 1, 2001, JPMorgan Chase adopted SFAS 133, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and used for hedging activities. The adoption of SFAS 133 resulted in an after-tax reduction to net income of $25 million and an after-tax reduction to other comprehensive income ("OCI") of $36 million. The impact of reclassifying certain SFAS 115 securities from available-for-sale to trading was not material at the adoption date. The majority of JPMorgan Chase's derivatives are entered into for trading purposes and were not affected by the adoption of SFAS 133. The Firm also uses derivatives as an end user to hedge market exposures, modify the interest rate characteristics of related balance sheet instruments or meet longer-term investment objectives. Both trading and end-user derivatives are recorded in trading assets and liabilities. For further discussion of the Firm's use of derivative instruments, see Note 3 of the JPMorgan Chase March 31, 2001 Form 10-Q in addition to Note 25 and page 50 of the JPMorgan Chase 2000 Annual Report. The following table presents derivative instrument and hedging related activities for the periods indicated:

(in millions) SECOND QUARTER SIX MONTHS -------------- ------------ 2001 2001 -------- --------- ~~Fair Value Ineffective Hedging Net Gains (a) $ 70 $ 76 Cash Flow Ineffective Hedging Net Gains (Losses) (a) 1 (3) Cash Flow Hedging Gains (Losses) on Forecasted Transactions that did not occur -- 40 Expected Reclassifications from OCI to Earnings (46) (b) (87) (b) Net Investment Hedging (Losses) on Forward Points (10) (c) (27) (c) ---------------------~~ ---

(a) Includes ineffectiveness and the portion of the hedging instrument excluded from the assessment of hedge effectiveness. (b) Represents the reclassification of net losses on derivative instruments from OCI to earnings that are expected to occur over the next 12 months. (c) Represents the forward points on forward foreign exchange ("FX") contracts used to hedge the investments in foreign subsidiaries in foreign currencies. -7- 8 Part I Item 1 (continued) NOTE 4 - MERGER AND RESTRUCTURING COSTS The following table shows the activity in the merger liability for the six months ended June 30, 2001: (dollars in millions)

MERGER LIABILITY 2001 ---------- ~~Liability Balance at December 31, 2000 $ 917 Liability Utilized in the six months ended June 30 (421) --------- Liability Balance at June 30, 2001 $ 496~~

~~Employee Reductions as a result of the Merger during 2001 4,508 Cumulative Employee Reductions as a result of the Merger since the Merger announcement (including attrition of approximately 28% of the total) 4,663~~

Additionally, during the second quarter of 2001, the Firm incurred $478 million of costs relating to previously announced merger actions ($405 million) and to relocation and other business initiatives ($73 million). Under current accounting pronouncements, these costs (primarily system integration costs, facilities costs and retention payments) are not recognized until incurred. For a discussion of JPMorgan Chase's merger and restructuring costs, refer to Note 7 and page 42 of JPMorgan Chase's 2000 Annual Report. NOTE 5 - TRADING ASSETS AND LIABILITIES For a discussion of the accounting policies relating to trading assets and liabilities, see Note 1 of JPMorgan Chase's 2000 Annual Report. The following table presents trading assets and trading liabilities for the dates indicated.

(in millions) JUNE 30, December 31, 2001 2000 ------ ----- ----------- ~~TRADING ASSETS Debt and Equity Instruments: U.S. Government,~~

~~Federal Agencies and Municipal Securities $ 41,598 $ 43,251 Certificates of Deposit, Bankers' Acceptances and Commercial Paper 8,455 7,258 Debt Securities Issued by Foreign Governments 40,519 41,631 Corporate Securities and Other 48,563 47,109 ------------ ----------- Total Trading Assets - Debt and Equity Instruments $ 139,135 $ 139,249~~

~~Derivative Receivables: Interest Rate Contracts $ 36,253 $ 41,124 Foreign Exchange Contracts 15,455 15,484 Debt, Equity, Commodity and Other Contracts 17,202 19,765 ------------ ----------- Total Trading Assets - Derivative Receivables $ 68,910 $ 76,373~~

~~TRADING LIABILITIES Debt and Equity Instruments: Securities Sold, Not Yet Purchased $ 53,190 $ 51,762 Structured Notes 381 395 ------------ ----------- Total Trading Liabilities - Debt and Equity Instruments $ 53,571 $ 52,157~~

~~Derivative Payables: Interest Rate Contracts $ 27,845 $ 27,968 Foreign Exchange Contracts 14,174 17,759 Debt, Equity, Commodity and Other Contracts 20,354 30,790 ------------ ----------- Total Trading Liabilities -~~

~~Derivative Payables $ 62,373 $ 76,517~~

Debt and equity instruments pledged as collateral that can be sold or repledged by the secured party amounted to $56.3 billion at June 30, 2001 and $53.6 billion at December 31, 2000. -8- 9 Part I Item 1 (continued) NOTE 6 - SECURITIES For a discussion of the accounting policies relating to securities, see Note 1 of JPMorgan Chase's 2000 Annual Report. The following table presents realized gains and losses from available-for-sale ("AFS") securities.

(in millions)	SECOND QUARTER 2001	SECOND QUARTER 2000	SIX MONTHS 2001	SIX MONTHS 2000
~~Realized Gains~~	~~$ 176~~	~~$ 142~~	~~$ 827~~	~~$ 251~~
~~Realized Losses~~	~~(109)~~	~~(118)~~	~~(305)~~	~~(230)~~
~~Net Realized Gains~~	~~$ 67~~	~~$ 24~~	~~$ 522~~	~~$ 21~~

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

(in millions)	JUNE 30, 2001 AMORTIZED COST	JUNE 30, 2001 FAIR VALUE	December 31, 2000 Amortized Cost	December 31, 2000 Fair Value
AVAILABLE-FOR-SALE SECURITIES				
U.S. Government and Federal Agency/Corporation Obligations:				
Mortgage-Backed Securities	$ 30,444	$ 29,712	$ 38,107	$ 37,168
Collateralized Mortgage Obligations	2,567	2,419	5,130	5,215
U.S. Treasuries	16,366	16,015	16,250	16,294
Obligations of State and Political Subdivisions	1,211	1,297	896	967
Debt Securities Issued by Foreign Governments	16,943	16,931	10,749	10,800
Corporate Debt, Equity and Other (a)	1,593	1,600	2,434	2,662
Total Available-for-Sale Securities	$ 69,124	$ 67,974	$ 73,566	$ 73,106
HELD-TO-MATURITY SECURITIES (b)	$ 514	$ 520	$ 589	$ 593

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

AFS securities pledged as collateral that can be sold or repledged by the secured party amounted to $30.6 billion and $28.7 billion at June 30, 2001 and December 31, 2000, respectively.

NOTE 7 - MORTGAGE SERVICING RIGHTS

The following table summarizes the changes in residential mortgage servicing rights ("MSRs"):

(in millions)
SIX MONTHS -

2001 2000 -
-------- ----------

~~Balance at Beginning of Period $ 6,362 $ 5,187 Originations and Purchases of MSRs 1,848 909 Sales (83) (159) Pre-SFAS 133 Hedging Activities -- 112 Amortization of MSRs (499) (310) SFAS 133 Hedge Valuation Adjustments (81) -- Change in Valuation Allowance (474) -- ---------- ------ -- Balance at June 30, $ 7,073 $ 5,739~~

~~Estimated Fair Value at June 30, $ 7,100~~

~~Weighted-Average Prepayment Speed Assumption 11.07% CPR~~

~~Weighted-Average Discount Rate 9.27%~~

-- CPR - Constant prepayment rate.

  Various interest rate derivatives are designated as fair value hedges of residential mortgage servicing rights. SFAS 133 hedge valuation adjustments are adjustments to the carrying value of the MSRs. For the six months ended June 30, 2001, the SFAS 133 hedge valuation adjustments, which include the impact of adopting SFAS 133, totaled $81 million. These losses were partially offset by derivative gains, including SFAS 133 hedges, of $66 million. In addition, certain AFS securities are used as economic hedges of the MSRs with gains on sales of the securities partially offsetting impairment losses on the MSRs. During the six months 2001, there was a $474 million unfavorable change in the valuation allowance, partially offset by $315 million of realized AFS security gains. NOTE 8 - SUBORDINATED DEFERRABLE INTEREST DEBENTURES At June 30, 2001, 11 wholly owned Delaware statutory business trusts established by JPMorgan Chase had issued an aggregate $4,439 million of capital securities, net of discount. There were no issuances or redemptions of capital securities during the second quarter of 2001. For a discussion of these business trusts, see page 78 of JPMorgan Chase's 2000 Annual Report and Note 8 of JPMorgan Chase's March 31, 2001 Form 10-Q. NOTE 9 - EARNINGS PER SHARE For a discussion of JPMorgan Chase's earnings per share ("EPS"), see Note 17 of the 2000 Annual Report. For the calculation of basic and diluted EPS for the second quarter and six months ended June 30, 2001 and 2000, see Exhibit 11 on page 57. NOTE 10 - COMPREHENSIVE INCOME Comprehensive income is composed of net income and other comprehensive income, which includes the after-tax change in unrealized gains and losses on AFS securities, cash flow hedging activities and foreign currency translation adjustments.

SIX MONTHS ENDED JUNE 30, (in millions)

2001

	UNREALIZED GAINS(LOSSES)	TRANSLATION ADJUSTMENTS	CASH FLOW HEDGES	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
Beginning Balance	$ (244)	$ 3	$ --	$ (241)
Change during Period	(457)	(9) (b)	(127) (d)	(593)
Ending Balance	$ (701) (a)	$ (6) (c)	$ (127)	$ (834)

2000

	Unrealized Gains(Losses)	Translation Adjustments	Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
Beginning Balance	$ (1,427)	$ (1)	$ N/A	$ (1,428)
Change during Period	143	4	N/A	147
Ending Balance	$ (1,284) (a)	$ 3 (c)	$ N/A	$ (1,281)

(a) Primarily represents the after-tax difference between the fair value and amortized cost of the available-for-sale securities portfolio. (b) Includes $313 million of after-tax losses on foreign currency translation from operations for which the functional currency is other than the U.S. dollar, which are offset by $304 million of after-tax gains on hedges. (c) Includes after-tax gains and losses on foreign currency translation from operations for which the functional currency is other than the U.S. dollar. (d) Includes $16 million of after-tax losses reclassified to income and $143 million of after-tax losses representing the net change in derivative fair values and the impact of the adoption of SFAS 133 that were recorded in comprehensive income. The net derivative amounts included in OCI as of June 30, 2001 are expected to be reclassified into earnings through 2011. N/A - Not applicable, as SFAS 133 was adopted effective January 1, 2001.

NOTE 11 - CAPITAL

For a discussion of the calculation of risk-based capital ratios, see Note 23 of JPMorgan Chase's 2000 Annual Report. The following table presents the risk-based capital ratios for JPMorgan Chase and its significant banking subsidiaries. At June 30, 2001, the Firm and each of its depository institutions, including those listed in the table below, were "well-capitalized" as defined by banking regulators.

SIGNIFICANT BANKING SUBSIDIARIES

JUNE 30, 2001 THE CHASE MORGAN (in millions, except ratios) JPMORGAN CHASE (a) MANHATTAN BANK GUARANTY TRUST CO. CHASE USA -- ----------- ---- ---------- ------ ------------ ---- ----- ~~Tier 1 Capital $ 39,069 $ 21,804 $ 10,873 $ 3,338 Total Capital 55,027 29,814 13,356 5,138 Risk-Weighted Assets (b) 451,191 274,378 117,104 43,709 Adjusted Average Assets 727,078 406,428 173,306 46,812 Tier 1 Capital Ratio 8.66% 7.95% 9.28% 7.64% Total Capital Ratio 12.20 10.87 11.41 11.76 Tier 1 Leverage Ratio 5.37 5.36 6.27 7.13~~ --

(a) Assets and capital amounts for JPMorgan Chase's significant banking subsidiaries reflect intercompany transactions, whereas the respective amounts for JPMorgan Chase reflect the elimination of intercompany transactions. (b) Risk-weighted assets include off-balance sheet risk-weighted assets in the amounts of $147,395 million, $87,525 million, $56,041 million and $3,565 million, respectively. ==================================== NOTE 12 - INTEREST INCOME AND INTEREST EXPENSE The following table details the components of interest income and interest expense.
====================================

(in millions) SECOND QUARTER SIX MONTHS -- --
INTEREST INCOME 2001 2000 2001 2000 -- ------------------------------ ------- -- ---------
~~Loans $ 4,090 $ 4,118 $~~

~~8,558 $ 8,059 Securities 985 1,082 2,038 2,234 Trading Assets 1,860 1,753 3,691 3,270 Federal Funds Sold and Securities Purchased under Resale Agreements 1,076 1,201 2,272 2,291 Securities Borrowed 347 528 840 1,056 Deposits with Banks 111 176 250 388 -------- ------- ---------- - ------- TOTAL INTEREST INCOME 8,469 8,858 17,649 17,298 INTEREST EXPENSE -- -------------- Deposits 2,122 2,644 4,758 5,151 Short-Term and Other Liabilities 2,932 3,147 6,314 5,931 Long-Term Debt 634 773 1,378 1,508 -------- ---------- ---- ----- -------- TOTAL INTEREST EXPENSE 5,688 6,564 12,450 12,590 ------ -- -------- --- ------ ------- - NET INTEREST INCOME 2,781 2,294 5,199 4,708 Provision for Loan Losses 525 328 972 670 -------- ------ ------ --- -------- NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES $ 2,256 $ 1,966 $ 4,227 $~~

4,038

NOTE 13 - COMMITMENTS AND CONTINGENCIES For a discussion of legal proceedings, see Part II, Item 1 of this Form 10-Q. -11- 12 Part I Item 1 (continued) NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS For a discussion of JPMorgan Chase's fair value methodologies, see Note 28 of JPMorgan Chase's 2000 Annual Report. The following table presents the financial assets and liabilities valued under SFAS 107.

(in billions) JUNE 30, 2001 December 31, 2000 -- ------------------------------------- CARRYING ESTIMATED APPRECIATION/ Carrying Estimated Appreciation/ VALUE FAIR VALUE (DEPRECIATION) Value Fair Value (Depreciation) ------------------------- -- ~~Total Financial Assets $ 689.5 $ 693.4 $ 3.9 $ 691.0 $ 693.1 $ 2.1~~ ~~Total Financial Liabilities $ 668.9 $ 668.8 0.1 $ 670.3 $ 670.3 --~~ -------- ----- ~~Estimated Fair Value in Excess of Carrying Value $ 4.0 $ 2.1~~

NOTE 15 - ACCOUNTING DEVELOPMENTS For a discussion of JPMorgan Chase's recent accounting developments, see page 44 of this Form 10-Q. NOTE 16 - SEGMENT INFORMATION JPMorgan Chase is organized into five major businesses: Investment Bank, Investment Management & Private Banking, Treasury & Securities Services, JPMorgan Partners and Retail & Middle Market Financial Services. 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 currently evaluated by the Firm's management. For a further discussion concerning JPMorgan Chase's business segments, see Lines of Business Results in the Management's Discussion and Analysis ("MD&A") section of this Form 10-Q on pages 17 through 25. Shareholder Value Added ("SVA") is JPMorgan Chase's primary performance measure of its businesses. SVA represents operating earnings excluding the amortization of goodwill and certain other intangibles (i.e., cash operating earnings) minus preferred dividends and an explicit charge for capital. The Firm implemented an integrated cost of capital during the first quarter of 2001. A 12% cost of capital has been used for all businesses except JPMorgan Partners. This business is charged a 15% cost of equity capital, which is equivalent to a representative after-tax hurdle rate for private equity investments. The effective cost of equity capital used in the SVA framework for JPMorgan Chase overall is 12%. All prior periods have been restated. See Management Performance Measurements in the MD&A on page 25 and Note 29 of JPMorgan Chase's 2000 Annual Report for a further discussion of performance measurements and policies for cost allocation. The table below presents a reconciliation of the combined segment information to the Firm's reported net income as included in the Consolidated Statement of Income.

(in millions) SECOND QUARTER SIX MONTHS ---------- ----------------- ----- --------------------- 2001 2000 2001 2000 ---------- ---------- --------- -------- - ~~SEGMENTS' CASH OPERATING EARNINGS $ 899 $ 1,890 $ 2,658 $ 4,039 Corporate/Reconciling Items (26) (41) (172) (109) -------- -------- -------- -------- CONSOLIDATED CASH OPERATING EARNINGS 873 1,849 2,486 3,930 Amortization of Intangibles (183) (92) (360) (185) -------- -------- -------- -------- CONSOLIDATED OPERATING EARNINGS 690 1,757 2,126 3,745 Special Items and Restructuring Costs (312) (124) (524) (124) Net Effect of Change in Accounting Principle -- -- (25) -- -------- -------- -------- -------- CONSOLIDATED NET INCOME $ 378 $ 1,633 $ 1,577 $ 3,621~~

-12- 13 Part I Item 1 (continued) The following table provides the Firm's segment results.

INVESTMENT RETAIL & MANAGEMENT TREASURY & MIDDLE MARKET

CORPORATE/ INVESTMENT & PRIVATE SECURITIES JPMORGAN FINANCIAL RECONCILING (in millions, except ratios) BANK BANKING SERVICES PARTNERS SERVICES ITEMS (a) TOTAL --------- ------------------ ------------------ ------------------ ------------------ ------------------ ----------------

~~SECOND QUARTER 2001 ------------------ - Operating Revenue (b) $ 3,775 $ 788 $ 909 $ (894) $ 2,642 $ (76) $ 7,144 Intersegment Revenue (b) (52) 30 41 (12) (5) (2) -- Operating Earnings 750 47 148 (618) 403 (40) 690 Cash Operating Earnings (c) 790 117 167 (613) 438 (26) 873 Average Managed Assets (d) 510,954 33,495 18,612 11,683 165,177 12,573 752,494 SVA 233 (62) 76 (857) 183 33 (394) Cash Return on Common Equity (e) 17.1% 7.8% 22.2% NM 20.8% NM 8.2% ------------------ ------------------ ------------------ ------------------ ----------~~

~~SECOND QUARTER 2000 ------------------ - Operating Revenue (b) $ 3,899 $ 749 $ 899 $ 390 $ 2,513 $ (168) $ 8,282 Intersegment Revenue (b) (101) 37 47 (7) 9 15 -- Operating Earnings 919 117 157 201 414 (51) 1,757 Cash Operating Earnings (c) 936 127 173 203 451 (41) 1,849~~

~~(11) 1,849 Average Managed Assets (d) 468,645 27,862 16,094 13,397 144,460 16,617 687,075 SVA 445 52 85 (76) 198 110 814 Cash Return on Common Equity (e) 23.1% 20.5% 23.9% 10.8% 21.7% NM 21.7% SIX MONTHS 2001 --------------- Operating Revenue (b) $ 8,213 $ 1,595 $ 1,816 $ (837) $ 5,201 $ (350) $ 15,638 Intersegment Revenue (b) (112) 58 80 11 3 (40) - - Operating Earnings (f) 1,769 76 309 (643) 811 (196) 2,126 Cash Operating Earnings (e)(f) 1,849 216 346 (633) 880 (172) 2,486 Average Managed Assets (d) 511,938 34,364 17,900 12,415 161,353 12,128 750,098 SVA 716 (147) 168 (1,130) 382 (12) (23) Cash Return on Common Equity (e) 19.7% 7.1% 23.6% NM 21.3% NM 11.9% --- SIX MONTHS 2000 --------------- Operating Revenue (b) $ 8,394 $ 1,554 $ 1,768 $ 991 $ 4,909 $ (311) $ 17,305 Intersegment Revenue (b) (210) 83 99 (8) 11 25 - - Operating Earnings 2,090 254 301 507 723 (130) 3,745 Cash Operating Earnings (e) 2,124 275 332 511 797 (109) 3,930 Average Managed Assets (d) 464,260 26,740 16,101 13,257 142,940 15,152 678,450 SVA 1,127 124 156 (42) 288 228~~

~~(42) 208 228 1,881 Cash Return on Common Equity (e) 25.9% 22.2% 22.8% 13.8% 18.9% NM 23.3%~~

-- (a) Corporate/Reconciling Items include LabMorgan, Support Units, Corporate and the net effect of management accounting policies. (b) Operating Revenue includes Intersegment Revenue, which includes intercompany revenue and revenue sharing agreements, net of intersegment expenses. Transactions between business segments are primarily conducted at fair value. (c) Cash Operating Earnings exclude the impact of restructuring costs, special items, and amortization of goodwill and certain other intangibles. (d) Excludes the impact of credit card securitizations. (e) Based on annualized amounts. (f) Excludes the after-tax impact of SFAS 133 cumulative transition adjustment for the Investment Bank $(19) million, Retail & Middle Market Financial Services $(3) million and Corporate $(3) million. NM - Not meaningful.

OVERVIEW Results for all periods give effect to the merger of The Chase Manhattan Corporation and J.P. Morgan & Co. Incorporated on December 31, 2000. FINANCIAL RESULTS: Reported net income, which includes merger and restructuring costs, was $378 million, or $0.18 per share, in the second quarter of 2001. This compares with $1,199 million, or $0.58 per share, in the first quarter of 2001 and $1,633 million, or $0.83 per share, in the second quarter of 2000. For the first six months of 2001, reported net income was $1,577 million, or $0.76 per share, compared with $3,621 million, or $1.84 per share, in the same period last year.

SECOND
QUARTER
SIX
MONTHS -

---------- --

------ (in
millions,
except per
share
Over(Under)
Over(Under)
and ratio
data) 2001
2000 2000
2001 2000
2000 -------
- -------- --
--------- ---
------ ------
-- ----------
~~REPORTED~~
~~BASIS~~
~~Revenue $~~
~~6,871 $~~
~~7,899 (13)%~~
~~$ 15,124 $~~
~~16,668 (9)%~~
~~Net Income~~
~~378 1,633~~
~~(77) 1,577~~
~~3,621 (56)~~
~~Diluted Net~~
~~Income per~~
~~Share 0.18~~
~~0.83 (78)~~
~~0.76 1.84~~
~~(59) Return~~
~~on Average~~
~~Common~~
~~Equity~~
~~("ROCE")~~
~~3.5% 19.1%~~
~~(1,560)bp~~
~~7.5% 21.4%~~
~~(1,390)bp~~
~~Tier 1~~
~~Capital Ratio~~
~~8.7 8.6 10~~
~~Total Capital~~
~~Ratio 12.2~~
~~12.3 (10)~~
~~Tier 1~~
~~Leverage~~
~~5.4 5.8 (40)~~
~~-------------~~
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bp - Denotes basis points; 100 bp equals 1%. ═══ In addition to disclosing its results on a reported basis, JPMorgan Chase reviews and discloses the financial performance of the Firm on an operating basis. In the view of JPMorgan Chase's management, "operating basis" excludes the impact of credit card securitizations, merger and restructuring costs, special items and the net effect of a change in accounting principle. Management's Discussion and Analysis ("MD&A") in this Form 10-Q discusses the Firm's performance on an operating basis unless otherwise noted. For a reconciliation between reported results and results on an operating basis, see page 26.

SECOND
QUARTER
SIX
MONTHS --

------ --------

---------- (in
millions,
except per
share
Over(Under)
Over(Under)
and ratio data)
2001 2000
2000 2001
2000 2000 --
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~~OPERATING BASIS (a) Revenue $ 7,144 $ 8,282 (14)% $ 15,638 $ 17,305 (10)% Earnings 690 1,757 (61) 2,126 3,745 (43) Diluted Earnings per Share ("EPS") 0.33 0.89 (63) 1.03 1.90 (46) ROCE 6.5% 20.6% (1,410)bp 10.1% 22.2% (1,210)bp Cash Operating Earnings (b) $ 873 $ 1,849 (53)% $ 2,486 $ 3,930 (37)% Diluted Cash EPS 0.42 0.94 (55) 1.20 2.00 (40) Cash ROCE 8.2% 21.7% (1,350)bp 11.9% 23.3% (1,140)bp ---~~

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(a) Operating basis excludes the impact of credit card securitizations, merger and restructuring costs, special items and the net effect of a change in accounting principle. (b) Cash operating earnings also exclude the impact of the amortization of goodwill and certain other intangibles. For a further discussion, see Glossary of Terms on page 50.

On an operating basis, JPMorgan Chase's diluted earnings per share for the second quarter of 2001 were $0.33, compared with $0.70 in the first quarter of 2001 and $0.89 in the second quarter of 2000. Operating earnings were $690 million in the 2001 second quarter, compared with $1,436 million in the first quarter of 2001 and $1,757 million one year ago. For the first half of 2001, operating earnings were $2,126 million, or $1.03 per share, as against $3,745 million, or $1.90 per share, in last year's same period. Management also tracks the operating performance of JPMorgan Chase excluding JPMorgan Partners' ("JPMP") results. Over the past few years, volatile stock markets and financing environments have yielded significant fluctuations in the values of the securities held by JPMorgan Partners, resulting in unrealized and realized valuation adjustments for various periods that have significantly affected, both favorably and unfavorably, the Firm's operating results. Excluding the results of JPMorgan Partners, operating earnings were $1,308 million in the second quarter of 2001, compared with $1,461 million in the first quarter of 2001 and $1,556 million in the 2000 second quarter. Operating earnings excluding JPMP for the first six months of 2001 were $2,769 million, compared with $3,239 million in the first half of 2000.

(in millions, except per share and ratio data)	SECOND QUARTER 2001	2000	Over(Under) 2000	SIX MONTHS 2001	2000	Over(Under) 2000
~~OPERATING BASIS (EXCLUDING JPMORGAN PARTNERS)~~						
~~Revenue~~	~~$ 8,038~~	~~$ 7,892~~	~~2%~~	~~$ 16,475~~	~~$ 16,314~~	~~1%~~
~~Earnings~~	~~1,308~~	~~1,556~~	~~(16)~~	~~2,769~~	~~3,239~~	~~(15)~~
~~Diluted EPS~~	~~0.64~~	~~0.79~~	~~(19)~~	~~1.35~~	~~1.65~~	~~(18)~~
~~Cash Operating Earnings~~	~~1,486~~	~~1,646~~	~~(10)~~	~~3,119~~	~~3,419~~	~~(9)~~
~~Diluted Cash EPS~~	~~0.72~~	~~0.84~~	~~(14)~~	~~1.52~~	~~1.74~~	~~(13)~~
~~Cash ROCE~~	~~16.7%~~	~~24.7%~~	~~(800)bp~~	~~17.8%~~	~~25.9%~~	~~(810)bp~~

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

The contribution of JPMP to operating earnings per share was a loss of $0.31 in the second quarter of 2001, compared with a $0.01 loss in the first quarter of 2001 and income of $0.10 in the second quarter of 2000. Excluding the results of JPMP, operating earnings per share were $0.64 in the second quarter of 2001. This compares with $0.71 in the first quarter of 2001 and $0.79 in the second quarter of 2000. The annualized cash operating return on common equity for the second quarter of 2001 was 16.7% excluding the results of JPMorgan Partners. The impact of the amortization of intangibles was $0.09 per share in the second quarter of 2001, $0.08 per share in the first quarter of 2001 and $0.05 per share one year ago. For a reconciliation of diluted EPS from reported net income to cash operating earnings (excluding JPMP), see the table below.

	SECOND QUARTER 2001	SECOND QUARTER 2000	SIX MONTHS 2001	SIX MONTHS 2000
DILUTED EPS				
REPORTED NET INCOME	$ 0.18	$ 0.83	$ 0.76	$ 1.84
Special Items	0.15	0.06	0.27	0.06
OPERATING EARNINGS	0.33	0.89	1.03	1.90
Less: JPMorgan Partners	(0.31)	0.10	(0.32)	0.25
OPERATING EARNINGS (EXCLUDING JPMP)	0.64	0.79	1.35	1.65
Add Back: Amortization of Intangibles	0.08(a)	0.05	0.17	0.09 (a)
CASH OPERATING EARNINGS (EXCLUDING JPMP)	$ 0.72	$ 0.84	$ 1.52	$ 1.74

(a) Amortization of intangibles excludes $0.01 related to JPMP.

Part I Item 2 (continued) SUMMARY OF SECOND QUARTER 2001 OPERATING RESULTS: Weak global market conditions adversely affected the results of the 2001 second quarter. The decline in operating income was driven primarily by losses at JPMorgan Partners. (All periods in 2000 give pro forma effect to the purchase of Robert Fleming Holdings Limited ("Flemings"), which is treated as if it had occurred at the beginning of that year.) - Results of JPMorgan Partners were negatively affected by $1.02 billion of write-downs and write-offs, particularly from telecommunications investments in the privately held portion of the portfolio. - Total operating expenses declined by 6%, or $315 million, from the first quarter of 2001 and declined by 4% from the second quarter of 2000. - Investment banking fees were down 1% from the first quarter, reflecting market share gains in a weaker market. - Treasury & Securities Services and Retail & Middle

Market Financial Services posted solid results, with cash ROE in excess of 20% for each. - Investment Management & Private Banking expense initiatives led to 18% growth in cash operating earnings from a weak first quarter. Assets under management, associated management fees and cash operating earnings declined versus one year ago as a consequence of the weaker market conditions. Despite the poor performance in second quarter of 2001, management of JPMorgan Chase continues to believe in the long-term value of the Firm's business model, which combines the best of an investment bank and a commercial bank. In a difficult business environment, the Firm maintained during the first six months of 2001, its position as No. 1 arranger of leveraged and syndicated loans and as No. 2 arranger of U.S. high-grade bonds. The Firm improved its global announced mergers and acquisitions ("M&A") ranking to No. 5, as compared with No. 7 during the same period one year ago. Management reiterated its commitment to capital discipline, as evidenced by the common stock repurchase authorization discussed more fully below, and to continued expense discipline. JPMorgan Chase continues to target cash operating expenses for full-year 2001 to be lower than cash operating expenses for full-year 2000. Nonperforming assets were $2.50 billion at June 30, 2001, compared with $2.23 billion and $2.04 billion at March 31, 2001 and June 30, 2000, respectively. The increase from March 31 primarily relates to U.S. commercial and industrial loans. Net charge-offs on a managed basis (i.e., treating securitized credit card receivables as if owned by JPMC) were $798 million in the 2001 second quarter, up from $688 million in the first quarter of 2001 and $577 million in the second quarter of 2000. Total assets as of June 30, 2001 were $713 billion, compared with $714 billion as of March 31, 2001 and $662 billion one year ago. JPMorgan Chase's Tier One capital ratio was 8.7% at June 30, 2001 and at March 31, 2001 and 8.6% one year ago. JPMorgan Chase's second quarter 2001 special items were $478 million (pre-tax) of merger and restructuring costs. Special items in the second quarter of 2000 included a $141 million loss resulting from the economic hedge of the purchase price of Flemings prior to its acquisition and $50 million of restructuring costs associated with previously announced relocation initiatives. COMMON STOCK REPURCHASE AUTHORIZATION: The Board of Directors of J.P. Morgan Chase & Co. has authorized, effective July 19, 2001, the repurchase of up to $6 billion of JPMorgan Chase's common stock in the open market or through negotiated transactions. This authorization is in addition to any amounts necessary to provide for issuances under JPMorgan Chase's dividend reinvestment plan and its various stock-based director and employee benefits plans. MERGER UPDATE: - The merger of Chase Securities Inc. and J.P. Morgan Securities Inc. occurred on May 1, 2001. The merger of The Chase Manhattan Bank and Morgan Guaranty Trust Company of New York currently is scheduled to occur in October 2001. - JPMC management anticipates that revenue synergies from the merger for full-year 2001 are likely to be lower than previously estimated because of weak market conditions. The level of M&A and equity underwriting activity are not expected to improve in the second half of 2001. - Total expense savings are expected to be larger than originally estimated for 2001 and in excess of the original three year target of $2 billion. -16- 17 Part I Item 2 (continued) -- LINES OF BUSINESS RESULTS --- The table below provides summary financial information on a cash operating basis for the five major business segments. All periods below have been restated on a comparable basis to reflect the changes in capital allocation adopted in the first quarter of 2001; restatements may occur in future periods to reflect further alignment of management accounting policies or changes in organizational structures between businesses. Shareholder Value Added ("SVA") is JPMorgan Chase's primary performance measure of its businesses. SVA represents operating earnings excluding the amortization of goodwill and certain other intangibles (i.e., cash operating earnings) minus preferred dividends and an explicit charge for capital. During the first quarter of 2001, JPMorgan Chase adopted a new framework for capital allocation and for business performance measurement across the Firm. The SVA framework now utilizes a 12% cost of equity capital for each business, with the exception of JPMorgan Partners. That business is charged a 15% cost of equity capital, which is equivalent to a representative after-tax hurdle rate for private equity investments. The effective cost of equity capital used in the SVA framework for JPMorgan Chase overall is 12%. For a discussion of each business profile, see pages 28-36 of the JPMorgan Chase 2000 Annual Report.

(in millions) SECOND QUARTER SIX MONTHS --- ------- --------------------- Over (Under) Over (Under) ------------------------ --------------- Pro Forma (a) Pro Forma (a) 2001 2Q 2000 1Q 2001 2Q 2000 2001 2000 2000 -------- ------- ------- ------- -------- ------ --------

~~OPERATING REVENUE ----------------- Investment Bank $ 3,775 (3)% (15)% (11)% $ 8,213 (2)% (9)% Investment Management & Private Banking 788 5 (2) (15) 1,595 3 (19) Treasury & Securities Services 909 1 -- 1 1,816 3 3 Retail & Middle Market Financial Services 2,642 5 3 5~~

~~5,201 6 6 Corporate (b) (76) NM NM NM (350) NM NM ------- --------- OPERATING REVENUE EXCLUDING JPMP 8,038 2 (5) (4) 16,475 1 (5) JPMorgan Partners (894) NM NM NM (837) NM NM ------- -------- OPERATING REVENUE INCLUDING JPMP $ 7,144 (14) (16) (18) $ 15,638 (10) (15)~~

~~======= ======== CASH OPERATING EARNINGS - --------------------- Investment Bank $ 790 (16)% (25)% (20)% $ 1,849 (13)% (17)% Investment Management & Private Banking 117 (8) 18 (26) 216 (21) (40) Treasury & Securities Services 167 (3) (6) (3) 346 4 4 Retail & Middle Market Financial Services 438 (3) (1) (3) 880 10 10 Corporate (b) (26) NM NM NM (172) NM NM ------- --------- CASH OPERATING EARNINGS EXCLUDING JPMP 1,486 (10) (9) (14) 3,119 (9) (14) JPMorgan Partners (613) NM NM NM (633) NM NM ------- -------- CASH OPERATING EARNINGS INCLUDING JPMP $ 873 (53) (46) (55) $ 2,486 (37)~~

~~(40)~~

(a) Pro forma results assume that the purchase of Flemings occurred at the beginning of 2000 and primarily affected Investment Bank, Investment Management & Private Banking and total consolidated results. (b) Includes LabMorgan, Support Units and the effects remaining at the corporate level after the implementation of management accounting policies. NM - Not meaningful.

INVESTMENT BANK The following table sets forth selected financial data of the Investment Bank.

(in millions, except ratios) SECOND QUARTER SIX MONTHS Over (Under) Over (Under) Pro Forma (a) Pro Forma (a) 2001 2Q 2000 1Q 2001 2000 2001 2000 2000

~~Trading-Related Revenue $ 1,614 (10)% (24)% (11)% $ 3,740 (5)% (6)% Investment Banking Fees 921 (16) (2) (21) 1,860 (18) (22) Net Interest Income 748 20 3 12 1,477 11 4 Fees and Commissions 400 21 (15) (16) 867 22 (13) All Other Revenue 92 30 (47) (19) 269 62 5 OPERATING REVENUE 3,775 (3) (15) (11) 8,213 (2) (9) Compensation Expense 1,499 -- (14) (11) 3,240 (1) (11) Noncompensation Expense 867 6 (2) (1) 1,754 12 4 CASH EXPENSE 2,366 2 (10) (8) 4,994 4 (7) CASH OPERATING EARNINGS $ 790 (16) (25) (20) $ 1,849 (13) (17)~~

~~Average Common Equity $ 18,340 14 (4) -- $ 18,751 15 1 Average Assets 510,954 9 -- 6 511,938 10 7 Shareholder Value Added 233 (48) (52) (46) 716 (36) (35) Cash Return on Common Equity 17.1% (600)bp (510)bp (440)bp 19.7% (620)bp (420)bp Cash Overhead Ratio 63 400 400 200 61 400 200 --~~

(a) Pro forma results assume that the purchase of Flemings occurred at the beginning of 2000. bp - Denotes basis points; 100 bp equals 1%.
== (All comments related to 2000 give pro forma effect to the purchase of Flemings, which is treated as if it had occurred at the beginning of that year.) The Investment Bank's operating revenue in the second quarter of 2001 was $3.78 billion, down 11% from the second quarter of 2000 and for the first half of the year was $8.21 billion, down 9% from last year. The declines in revenue were primarily a consequence of the continuing difficult market environment in 2001. Cash operating expense declined 8% from the second quarter of 2000 and 7% from the first six months of 2000, benefiting from expense discipline that included net headcount reductions in excess of 3,000 since the start of the year and lower incentive accruals. Further net headcount reductions and expense reductions are planned as the merger integration continues through 2001 and 2002. Cash operating earnings declined 20% from the second quarter of 2000 and 17% from the first half of 2000. Trading revenue (including the associated net interest income ("NII")) of $1.61 billion in the second quarter declined by 11% from the second quarter of 2000. Year-to-date trading revenue was lower by 6%, compared with the same period last year. The declines were a result of overall challenging market conditions and slower market activity and were experienced across most of the Firm's trading activities. For additional comments on trading revenue products, see page 28. Trading-related revenue for the remainder of the year is likely to be lower than trading-related revenue realized in the first half of 2001 due to both seasonal patterns and market conditions. Investment banking fees declined by 21% from the second quarter of 2000 and by 22% from the first half of 2000. The declines were driven by the lower level of M&A and equity underwriting activity in 2001. Investment banking revenues for the remainder of the year will be largely dependent upon the level of market activity for underwriting and M&A advisory work, which are currently expected to remain at the same weak levels as experienced during the first half of the year. Double-digit percentage decreases in fees and commissions from both the second quarter and first half of last year were driven by lower equity brokerage commissions. All other revenue includes securities gains and reflected increases in securities gains of $70 million in the second quarter of 2001 and $247 million in the first half of 2001. The increases are the result of the Firm's asset/liability management ("A/L") activities in a declining interest rate environment. The Investment Bank's cash overhead ratio for the second quarter of 2001 was 63% and 61% for the first half of 2001. The Investment Bank is targeting a cash overhead ratio of 60% for the full-year 2001 assuming no further deterioration in market conditions.   JPMORGAN PARTNERS The following table sets forth selected financial data of JPMorgan Partners. == (in millions, except ratios)

SECOND QUARTER SIX MONTHS --- ------------------------------ Over (Under) Over (Under) ------------------------ ------------ 2001 2Q 2000 1Q 2001 2001 2000 --------- ------- ------- -------- ---- Private Equity: Realized Gains (Losses) $ (60) NM NM $ 353 (65)% Unrealized Gains (Losses) (767) NM NM (1,048) NM Net Interest Income (81) 17% (9)% (170) 31 Fees and Other Revenue 14 17 -- 28 40 ----------- ------- OPERATING REVENUE (894) NM NM (837) NM Compensation Expense 33 (3) (21) 75 (17) Noncompensation Expense 35 (17) (31) 85 (22) --------- --------- CASH EXPENSE 68 (11) (27) 160 (20) CASH OPERATING EARNINGS (LOSS) $ (613) NM NM $ (633) NM ========= ========= Average Common Equity $ 6,447 (12) (5) $ 6,599 (9) Average Assets 11,683 (13) (11) 12,415 (6) Shareholder Value Added (857) NM NM (1,130) NM Cash Return on Common Equity NM NM NM NM NM Cash Overhead Ratio NM NM NM NM NM --

NM - Not meaningful. == JPMorgan Partners generated net private equity losses of $827 million in the second quarter of 2001, compared with gains of $447 million in the second quarter of 2000. Included in the second quarter of 2001 were write-downs and write-offs of

$1.02 billion taken on JPMP's direct private investments and fund positions as a result of lower overall valuation levels of its investments. A majority of the write-downs and write-offs were associated with technology, media and telecommunications ("TMT") investments, with particular focus on transactions funded during 1999 and 2000. During this period, investments made in the TMT sector reflected historically high valuations. JPMP's TMT investments from 1999 and 2000 currently are valued at 55% of initial cost. (Exclusive of investments with increased valuation adjustments recognized upon the initial public offering of such securities or as a result of an additional round of private financing). At June 30, 2001, TMT investments represented approximately 32% of the total of JPMP's portfolio. The carrying values of the equity investments recorded on JPMC's financial statements are net of interests of investors other than JPMC. JPMP has sold interests in certain of its fund investments to unaffiliated third parties and is in the process of offering interests in a new investment fund that will co-invest with JPMP in its direct investments. As a result, JPMC's proportional ownership share of investments to be made by JPMP in the future will be reduced. -19- 20 Part I Item 2 (continued) JPMORGAN PARTNERS INVESTMENT PORTFOLIO The following table presents the carrying values and costs of the JPMP investment portfolio for the dates indicated.

(in millions)	JUNE 30, 2001		March 31, 2001		June 30, 2000	
	CARRYING VALUE	COST	Carrying Value	Cost	Carrying Value	Cost
Public Securities (198 companies) (a) (b)	$ 1,680	$ 974	$ 1,611	$ 1,018	$ 3,585	$ 1,219
Private Direct Securities (930 companies) (b)	6,089	6,998	7,144	7,318	6,500	6,453
Private Fund Investments (329 funds) (b)	2,086	2,201	2,122	2,141	2,492	2,476
Total Investment Portfolio	$ 9,855	$ 10,173	$ 10,877	$ 10,477	$ 12,577	$10,148

(a) Publicly traded positions only. (b) Represents the number of companies and funds at June 30, 2001.

The following table presents information about the 10 largest holdings of public securities in the JPMP investment portfolio.

PUBLIC SECURITIES INVESTMENTS AT JUNE 30, 2001 (a) -------- ------------------ ------------------ -- (in millions) QUOTED SYMBOL SHARES PUBLIC VALUE COST - ----- ------ ----- ------- ----

~~Triton PCS Holdings, Inc. TPCS 20.2 $ 829 $ 88 Telecorp PCS TLCP 11.4 221 8 American Tower Corp. AMT 5.8 121 18 Northern Border Partners, L.P. NBP 3.1 117 24 Guitar Center Inc. GTRC 4.7 100 51 Fisher Scientific FSH 3.0 85 27 Encore Acquisition Company EAC 6.4 74 44 Packaging Corp. of America PKG 3.9 60 18 1-800 FLOWERS.com FLWS 4.1 60 15 Crown Media Holdings Inc. CRWN 2.7 51 40 --------- ----- ---- TOP 10 PUBLIC SECURITIES $ 1,718 $ 333 Other Public Securities (188 companies) 697 641 --------- --- ------ TOTAL PUBLIC SECURITIES (198 companies) $ 2,415 $ 974~~

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

The Firm continues to believe JPMP's equity-related investments will create long-term value for JPMC. During the first half of 2001, JPMP invested $0.5 billion in direct equity. The pace of investments may increase over the next 12-18 months. JPMP intends to increase industry and geographic diversification in its portfolio over time. The Firm is currently prepared to commit at least $1.5 billion of its own funds to JPMP in each of the next four years. -20- 21 Part I Item 2 (continued) INVESTMENT MANAGEMENT & PRIVATE BANKING The following table reflects selected financial data for Investment Management & Private Banking ("IMPB").

(in millions, except ratios) SECOND QUARTER SIX MONTHS --- ------------------------------------ Over (Under) Over (Under) -------- -------------------------- --------------------- Pro Forma (a) Pro Forma (a) 2001 2Q 2000 1Q 2001 2000 2001 2000 2000 ---------- ------- ------- ----------- ---------- ---- ----------

~~Fees and Commissions $ 592 20% (1)% (8)% $ 1,190 22% (9)% Net Interest Income 126 (19) (5) (21) 258 (19) (21) Trading-Related Revenue 19 (44) (14) (44) 41 (59) (59) All Other Revenue 51 (24) (6) (44) 106 (34) (56) ----------- ---------- OPERATING REVENUE 788 5 (2) (15) 1,595 3 (19) Compensation Expense 340 12 (10) (9) 717 12 (10) Noncompensation Expense 304 21 (1) (2) 612 26 -- ----------- ---------- CASH EXPENSE 644 16 (6) (6) 1,329 18 (6) CASH OPERATING EARNINGS $ 117 (8) 18 (26) $ 216 (21) (40) Average Common Equity $ 5,885 139 (4) (6) $ 5,998 144 (4) Average Assets 33,495 20 (5) (8) 34,364 29 (3) Shareholder Value Added (62) NM (27) 107 (147) NM NM Cash Return on Common Equity 7.8% (1,270)bp 140bp (230)bp 7.1% (1,510)bp (440)bp Cash Overhead Ratio 82 800 (300) 800 83 1,100 1,200~~

(a) Pro forma results assume that the purchase of Flemings occurred at the beginning of 2000. bp - Denotes basis points; 100 bp equals 1%. NM - Not meaningful.

(All comments related to 2000 give pro forma effect to the purchase of Flemings, which is treated as if it had occurred at the beginning of that year.) IMPB had operating revenues of $788 million, down 15% from the second quarter of 2000. For the first half of 2001, revenues decreased 19% from the same period a year ago. The declines were mainly due to lower investment fees as a result of the lower values of funds under management in a weaker market environment. Also a consequence of the weaker markets was the reduction in brokerage commissions and trading revenues that are related to the wealth management activities of Private Banking. IMPB's cash operating expenses of $644 million declined 6% from both the second quarter of 2001 and the first half of 2000, driven by lower compensation expense. Cash operating earnings were $117 million, down from $159 million in the second quarter of 2000. For the first half of 2001, cash operating earnings were $216 million, a 40% decline from 2000. The table below reflects the assets under management in IMPB as of June 30, 2001 and 2000, respectively.

ASSETS UNDER MANAGEMENT ---------------------------- (in billions) JUNE 30, ---------------------------- Pro Forma (a) 2001 2000 -------- - ---------- Institutional/Retail $ 467 $ 499 Private Bank 144 152 -------- --------- Total $ 611 $ 651 ------------------------

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

Market conditions in the second quarter of 2001 led to a 6% decline in assets under management from the second quarter of 2000 level. This excludes assets managed by other lines of business and assets attributable to the Firm's 45% interest in American Century Companies, Inc. ("American Century"). -21- 22 Part I Item 2 (continued) TREASURY & SECURITIES SERVICES The following table sets forth selected financial data of Treasury & Securities Services ("T&SS").

(in millions, except ratios) SECOND QUARTER SIX MONTHS -- --------------------------------- Over (Under) Over (Under) ------------ --------------- ----------- 2001 2Q 2000 1Q 2001 2001 2000 ---------- ------- ------- ---------- ---- Fees and Commissions $ 521 4% 3% $ 1,026 6% Net Interest Income 342 2 (5) 702 4 All Other Revenue 46 (27) 12 88 (30) ----------- ----------- OPERATING REVENUE 909 1 -- 1,816 3 Compensation Expense 284 3 (4) 579 6 Noncompensation Expense 367 3 9 703 (1) ----------- ----------- CASH EXPENSE 651 3 3 1,282 2 CASH OPERATING EARNINGS $ 167 (3) (6) $ 346 4 Average Common Equity $ 3,003 4 5 $ 2,928 1 Average Assets 18,612 16 8 17,900 11 Shareholder Value Added 76 (11) (17) 168 8 Cash Return on Common Equity 22.2% (170)bp (290)bp 23.6% 80bp Cash Overhead Ratio 72 200 200 71 -- ------------------------

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

Treasury & Securities Services' operating revenues were $909 million in the second quarter of 2001 and $1,816 million in the first half of this year, an increase of 1% and 3% from the respective periods last year. Revenues were stronger for Treasury Services and Institutional Trust, reflecting new business and higher volume from existing customers, partially offset by the negative effect of declining short-term interest rates on deposits. Revenue declines at Investor Services were primarily the result of lower asset-based fees, lower foreign exchange and reduced net asset growth. Cash expense in the second quarter of 2001 rose 3%, resulting in a 3% decline in cash operating earnings. For the first six months of 2001, however, cash expense grew by only 2%, contributing to an increase in cash operating earnings of 4%. Under current market conditions, revenue growth at Investor Services will be slower in 2001 than in 2000. Expense discipline will continue, and management is still working towards its previously-announced long-term targeted cash overhead ratio for T&SS of approximately 65%. -22- 23 Part I Item 2 (continued) RETAIL & MIDDLE MARKET FINANCIAL SERVICES The following table reflects selected financial data for Retail & Middle Market Financial Services ("RMMFS").

(in millions, except ratios) SECOND QUARTER SIX MONTHS --- ---------------------------------- Over (Under) Over (Under) ------------- ------------- ------------ 2001 2Q 2000 1Q 2001 2001 2000 ---------- ------- ------- ---------- ---- Net Interest Income $ 1,685 7% 5% $ 3,289 7% Fees and Commissions 838 6 80 1,304 (18) Securities Gains -- NM NM 316 NM All Other Revenue 119 (6) (31) 292 29 ------------ ------------ OPERATING REVENUE 2,642 5 3 5,201 6 Compensation Expense 593 9 6 1,155 4 Noncompensation Expense 746 1 3 1,472 -- ------------ ------------ CASH EXPENSE 1,339 4 4 2,627 2 CASH OPERATING EARNINGS $ 438 (3) (1) $ 880 10 Average Common Equity $ 8,380 1 3 $ 8,241 (1) Average Managed Assets (a) 165,177 14 5 161,353 13 Shareholder Value Added 183 (8) (8) 382 33 Cash Return on Common Equity 20.8% (90)bp (120)bp 21.3% 240bp Cash Overhead Ratio 51 -- 100 51 (200) ------------------------

(a) Excludes the impact of credit card securitizations. bp - Denotes basis points; 100 bp equals 1%. NM - Not meaningful.

Operating revenue for RMMFS in the second quarter of 2001 rose to $2.64 billion, 5% over last year's second quarter and, for the first six months, revenue increased to $5.20 billion, 6% over the first half of 2000. These increases are attributable to significant increases in business volumes. Home Finance, Cardmember Services and Auto Finance, realized substantial increases in originations. In addition, comparisons to the first six months of 2000 benefit from the $100 million charge for auto lease residual taken in the first quarter of 2000. The risk of future charges for residual values has been substantially mitigated in the first quarter of 2001 by obtaining a residual value insurance policy to cover previously uninsured auto leases in the portfolio. Cash operating expenses of $1.34 billion in the second quarter of 2001 increased 4% from last year's quarter but were relatively flat in the first half of 2001 versus the first half of 2000. Cash operating earnings in the second quarter decreased by 3% from the same quarter in 2000, partly as a result of the sale of the consumer banking operations in Hong Kong and Panama at the end of 2000. For the first half of 2001, however, cash operating earnings increased by 10% from the first half of 2000, reflecting the benefit of operating efficiencies and the $100 million charge in 2000 mentioned above. -23- 24 Part I Item 2 (continued) Management's goal is double-digit cash operating earnings growth for RMMFS in 2001. Current conditions in the mortgage market may continue to affect adversely the valuation of mortgage servicing rights and may impact management's ability to meet this target. The following table sets forth certain key financial performance measures of the businesses within RMMFS.

(in millions) SECOND QUARTER SIX MONTHS --- -------------------------------- Over (Under) Over (Under) ---------------------------- - ---------- 2001 2Q 2000 1Q 2001 2001 2Q 2000 ----------- ------- ------- --------- ------- OPERATING REVENUE ----------------- Cardmember Services $ 1,061 15% 7% $ 2,050 12% Regional Banking Group 759 (3) (1) 1,527 (1) Home Finance 393 25 15 736 16 Middle Markets 263 (5) (6) 544 (1) Auto Finance 133 23 21 242 97 Other 33 NM NM 102 NM ---------- ---------- Total $ 2,642 5 3 $ 5,201 6 CASH OPERATING EARNINGS ---------------------- Cardmember Services $ 135 7% 15% $ 252 14% Regional Banking Group 131 (9) (6) 271 (5) Home Finance 90 25 8 173 24 Middle Markets 58 (16) (22) 131 (4) Auto Finance 34 36 55 56 NM Other (10) NM NM (3) NM ---------- ---------- Total $ 438 (3) (1) $ 880 10 ------------------------

--- NM - Not meaningful.

-24- 25 Part I Item 2 (continued) CARDMEMBER SERVICES Cardmember Services operating revenues were up 15% for the second quarter and 12% for the first six months of 2001 compared with the same periods last year. Cash operating earnings were up 7% and 14% for the second quarter and first six months of 2001, respectively, compared with the same periods in 2000. The higher revenue was driven by an increase in new accounts over the last several quarters, higher purchase volume and higher fee-based revenue. Credit card outstandings grew by 16% from one year ago and over two million new accounts were added in the first six months of 2001. The increase in cash operating earnings was partially offset by higher expenses reflecting higher business volumes and higher marketing costs. In addition, credit costs increased in the 2001 second quarter reflecting the slowing economy and higher bankruptcy filings. REGIONAL BANKING GROUP Regional Banking Group's operating revenues for the second quarter of 2001 and the first six months of 2001 declined slightly from the respective periods of 2000, and cash operating earnings for the second quarter of 2001 and the first six months of 2001 declined 9% and 5%, when compared with the second quarter and first half of 2000, respectively. These results reflect the adverse effects of declining interest rates on deposit spreads and lower investment brokerage volume as a result of weaker market conditions in 2001. HOME FINANCE Home Finance's operating revenues and cash operating earnings each rose 25% in the second quarter of 2001 versus the prior year's quarter and were up 16% and 24%, respectively, for the first six months of 2001 over the same period last year. The increases in 2001 were due to a 200% growth in origination volume, a 24% growth in servicing balances and higher net interest margin. Home Finance revenues were reduced in the first half of 2001 by $207 million, due to impairments on MSRs and other assets, partially offset by gains on hedging instruments, AFS securities and other derivative instruments. This reduction in revenue resulted from accelerated prepayments due to the decline in interest rates. Originations (residential, home equity and manufactured housing) for the second quarter of 2001 were $54 billion, a record level, and included originations from the retail, wholesale and correspondent (traditional and negotiated) channels. The Home Finance servicing portfolio exceeded $400 billion at June 30, 2001. MIDDLE MARKETS Middle Markets' operating revenues and cash operating earnings for the second quarter of 2001 declined 5% and 16%, respectively, from the second quarter of 2000. Operating revenues and cash operating earnings each were essentially flat, compared with the first six months of 2000. The decrease in cash operating earnings in the second quarter reflected the negative impact of narrower spreads on deposits, partially offset by higher deposit volume. AUTO FINANCE Auto Finance's operating revenues and cash operating earnings were $242 million and $56 million, respectively, in the first half of 2001. Year-to-date auto originations of $9 billion, a record increase in origination volume, the impact of lower interest rates, and the effect of a $100 million charge recognized last year for the estimated decrease in auto lease residual value contributed to the growth over last year.

SUPPORT UNITS AND CORPORATE JPMorgan Chase's support units include LabMorgan, Enterprise Technology Services and Corporate Business Services. For the second quarter of 2001, Support Units and Corporate had a cash operating loss of $26 million, compared with a cash operating loss of $41 million in the second quarter of 2000. Included in the second quarter of 2001 was a net loss at LabMorgan primarily as a result of a $30 million (pre-tax) write-down of investments and equity investment losses. -25- 26 Part I Item 2 (continued) ------------------------------ -- RESULTS OF OPERATIONS -- The following section provides a discussion of JPMorgan Chase's results of operations on both a reported and operating basis. The table below provides a reconciliation between the Firm's reported and operating results.

(in millions, except per share data) SECOND QUARTER 2001 Second Quarter 2000 --- --- REPORTED CREDIT SPECIAL OPERATING Reported Credit Special Operating RESULTS CARD ITEMS BASIS Results Card Items Basis (a) (b) (c) (a) (b) (c) ---------- -------- --------- ----------- --------- ------- --------- ---------- INCOME STATEMENT Revenue $ 6,871 $ 273 $ -- $ 7,144 $ 7,899 $ 242 $ 141 $ 8,282 Cash Expense 5,100 -- -- 5,100 4,933 -- -- 4,933 Amortization of Intangibles 183 -- -- 183 92 -- -- 92 ---------- -------- --------- ---------- --------- ------- --------- ---------- Operating Margin 1,588 273 -- 1,861 2,874 242 141 3,257 Credit Costs 525 273 -- 798 328 242 -- 570 ---------- -------- --------- ---------- --------- ------- --------- ---------- Income before Merger and Restructuring Costs 1,063 -- -- 1,063 2,546 -- 141 2,687 Merger and Restructuring Costs 478 -- (478) -- 50 -- (50) -- ---------- -------- --------- ---------- --------- ------- --------- ---------- Income before Income Tax Expense 585 -- 478 1,063 2,496 -- 191 2,687 Tax Expense 207 -- 166 373 863 -- 67 930 ---------- -------- --------- ---------- --------- ------- --------- ---------- Net Income $ 378 $ -- $ 312 $ 690 $ 1,633 $ -- $ 124 $ 1,757 Add Back: Amortization of Intangibles 183 -- -- 183 92 -- -- 92 ---------- -------- --------- ---------- --------- ------- --------- ---------- Cash Earnings $ 561 $ -- $ 312 $ 873 $ 1,725 $ -- $ 124 $ 1,849 ========== ======== ========= ========== ========= ======= ========= ========== NET INCOME PER SHARE Basic $ 0.18 $ 0.34 $ 0.87 $ 0.93 Diluted 0.18 0.33 0.83 0.89 CASH EARNINGS PER SHARE Basic $ 0.43 $ 0.98 Diluted 0.42 0.94 -- ------------------------------

(a) Represents condensed results as reported in JPMorgan Chase's financial statements. (b) This column excludes the impact of credit card securitizations. For receivables that have been securitized, amounts that would have been reported as net interest income and as provision for loan losses are instead reported as components of noninterest revenue. (c) Includes merger and restructuring costs and special items. The 2001 second quarter and six months include $478 million and $806 million (pre-tax), respectively, in merger and restructuring expenses. The 2000 second quarter and six months included a $141 million loss (pre-tax) resulting from the economic hedge of the purchase price of Flemings prior to its acquisition and $50 million (pre-tax) of restructuring costs associated with previously announced relocation initiatives. (d) Includes the effect of the accounting change. Excluding the accounting change, basic and diluted net income per share for the first six months of 2001 were $0.79 and $0.77, respectively. ==================== -26- 27 Part I Item 2 (continued) REVENUES

(in millions) SECOND QUARTER SIX MONTHS -------------------------------------- ----------------------------------- Pro Forma Pro Forma OPERATING REVENUE: 2001 2000 2000 (a) 2001 2000 2000 (a) ---------- ---------- -------- --------- ---------- -------- Investment Banking Fees $ 929 $ 1,107 $ 1,152 $ 1,870 $ 2,298 $ 2,387 Trading-Related Revenue (including Trading NII) 1,594 1,879 1,918 3,761 4,096 4,174 Fees and Commissions 2,350 2,114 2,446 4,366 4,242 4,971 Private Equity - Realized Gains (Losses) (46) 630 630 366 1,022 1,022 Private Equity - Unrealized Gains (Losses) (783) (171) (171) (1,068) 111 111 Securities Gains 67 24 23 522 21 20 Other Revenue 274 205 233 525 525 645 Net Interest Income (excluding Trading NII) 2,759 2,494 2,534 5,296 4,990 5,061 ---------- --------- --------- ---------- --------- --------- TOTAL OPERATING REVENUE $ 7,144 $ 8,282 $ 8,765 $ 15,638 $ 17,305 $ 18,391 ========== ========= ========= ========== ========= ========= -- --

(a) Pro forma revenue assumes that the purchase of Flemings occurred at the beginning of 2000.

==================== INVESTMENT BANKING FEES Investment banking fees in the second quarter and first half of 2001 declined significantly from last year's respective periods. The declines were due to the much weaker market for all products, including M&A advisory, loan syndication and securities underwriting.

(in millions) SECOND QUARTER SIX MONTHS ---------------------------- ------------------------------ 2001 2000 2001 2000 ----------- ----------- ----------- ----------- Advisory $ 308 $ 392 $ 648 $ 754 Underwriting and Other Fees 621 715 1,222 1,544 ---------- ---------- ---------- ---------- TOTAL INVESTMENT BANKING FEES $ 929 $ 1,107 $ 1,870 $ 2,298 ========== ========== ========== ==========

-27- 28 Part I Item 2 (continued) TRADING-RELATED REVENUE Trading-related revenue (including associated NII) in the second quarter of 2001 was lower by 15% from last year's same period and for the first six months was down 8% from 2000. The declines were due to challenging market conditions, which reduced the overall volume of activities and volatility. Also contributing to the depressed levels were the losses realized on economic hedges of mortgage servicing rights at Home Finance.

(in millions) SECOND QUARTER SIX MONTHS --------------------------------- ----------------------------- TRADING-RELATED REVENUE: (a) 2001 2000 2001 2000 ------------- --------- ------------ ---------- Equities (b) $ 450 $ 486 $ 955 $ 1,064 Debt Instruments (c) 262 346 487 913 Foreign Exchange Revenue (d) 178 280 427 622 Interest Rate Contracts, Commodities and Other (e) 704 767 1,892 1,497 ---------- -------- ---------- --------- TOTAL TRADING-RELATED REVENUE (f) $ 1,594 $ 1,879 $ 3,761 $ 4,096 ========== ======== ========== ========= TRADING REVENUE $ 1,261 $ 1,730 $ 3,262 $ 3,701 Net Interest Income Impact (g) 333 149 499 395 ---------- -------- ---------- --------- TOTAL TRADING-RELATED REVENUE $ 1,594 $ 1,879 $ 3,761 $ 4,096 ========== ======== ========== ========= -- --

(a) Trading-related revenue includes net interest income attributable to trading activities. Trading-related net interest income has been restated in the prior periods in order to conform to the current presentation. (b) Includes equity securities and equity derivatives revenue. (c) Includes credit-related products such as bonds and commercial paper issued by U.S. and non-U.S. entities, as well as credit derivatives revenue. (d) Includes foreign exchange spot and option contracts, excluding emerging markets product revenues. (e) Includes various types of interest rate products across bonds and derivatives, combined with commodities and other trading revenue. (f) Derivative and foreign exchange contracts are marked-to-market, and valuation adjustments are included in trading-related revenue. (g) Includes interest recognized on interest-earning and interest-bearing trading-related positions, as well as management allocations reflecting the funding costs or benefits associated with trading positions. These amounts are included in net interest income on the Consolidated Statement of Income.

==================== - Revenues from equities were down 10% from the first half of last year due to difficulties in the equities market, particularly lower over-the-counter activities. This was partly offset by the strong demand for equity derivatives, one of the Firm's product capabilities strengthened by the merger. - The declines of debt instruments from both periods largely reflected the less active market for these products. - The lower levels of foreign exchange revenues were a result of the much slower environment for foreign currency flows, when compared with last year. - Interest rate contracts, commodities and other in the 2001 second quarter and six months were lower than the second quarter of 2000 but were 26% higher than the first half of last year. Results for the six months of 2001 were primarily driven by the results of the first quarter, which benefited from the increased market demand for interest rate contracts and which produced volatility in their prices as a result of the substantial decline in interest rates during the first quarter. -28- 29 Part I Item 2 (continued) FEES AND COMMISSIONS Fees and commissions for the second quarter of 2001 rose 11%, when compared with the second quarter of 2000 and for the first six months increased slightly versus last year's same period. The table below provides the significant components of fees and commissions.

(in millions) SECOND QUARTER SIX MONTHS --------------------------- ------------------------- 2001 2000 2001 2000 ----------- ---------- --------- ----------- Investment Management, Custody and Processing Services $ 943 $ 859 $ 1,917 $ 1,657 Credit Card Revenue - Operating 427 339 811 667 Brokerage and Investment Services 308 246 671 572 Mortgage Servicing Fees, Net of Amortization and Write-downs 75 131 (158) 281 Other Lending-Related Service Fees 122 154 252 304 Deposit Service Charges 258 226 484 447 Other Fees 217 159 389 314 ---------- --------- --------- ---------- Total Fees and Commissions - Operating $ 2,350 $ 2,114 $ 4,366 $ 4,242 ========== ========= ========= ==========

Investment Management, Custody and Processing Services Investment management, custody and processing services fees in the second quarter of 2001 rose 10% from the prior year's quarter and 16% from the first six months of 2000. Investment management fees were higher than last year, primarily as a result of the contributions of Flemings, which increased the level of funds under management. Custody and processing services decreased slightly from the second quarter of 2000 but increased from the first six months of 2000. The decrease for the quarter was largely due to the impact of lower security values on custody fees, partly offset by higher institutional trust fees related to new business and increased volume from existing clients. The increase for the first half reflected the higher aforementioned institutional trust fees from new business and cash management fees related to treasury activities. Credit Card Revenue The increases in credit card revenue for the second quarter and first half of 2001 reflect the impact of an increase in average receivables outstanding and higher late and overlimit fees. The increases also reflect higher interchange income due to stronger customer purchase volume, as well as higher other fee-based revenue. The following table reconciles JPMorgan Chase's reported credit card revenue and operating credit card revenue (which excludes the impact of credit card securitizations).

(in millions)	SECOND QUARTER 2001	SECOND QUARTER 2000	SIX MONTHS 2001	SIX MONTHS 2000
Reported Credit Card Revenue	$ 465	$ 443	$ 898	$ 840
Less Impact of Credit Card Securitizations	(38)	(104)	(87)	(173)
Operating Credit Card Revenue	$ 427	$ 339	$ 811	$ 667

Brokerage and Investment Services Brokerage and investment services in the 2001 second quarter increased $62 million from the prior year's same quarter and $99 million in the first six months of 2001 as a result of the Flemings acquisition. This increase was partly offset by the effect of the weaker markets that reduced the volume of institutional brokerage and retail investment activities. -29- 30 Part I Item 2 (continued) Mortgage Servicing Fees Mortgage servicing fees in the second quarter and first half of 2001 declined $56 million and $439 million from the same periods last year, respectively, reflecting the net impact of mortgage servicing rights related impairment due to the decline in mortgage rates. Securities gains of $315 million for the first half of 2001 partially offset the decline in mortgage servicing fees. Securities are used to economically hedge the mortgage servicing rights. While lower mortgage rates had a negative impact on mortgage servicing revenue, they had a positive impact on loan origination revenue through increased residential mortgage originations. Other Lending-Related Service Fees Other lending-related service fees were lower by $32 million than the second quarter of 2000 and $52 million than the first six months of last year. The declines were primarily attributable to the repositioning of the trade finance business. Deposit Service Charges Deposit service charges in the 2001 second quarter increased $32 million from the prior year's quarter and for the first six months of 2001 increased by $37 million from the prior year. The increases reflected the impact of the lower interest rates as customers who customarily would pay for deposit products and services by maintaining a higher level of compensating balances instead reduced their balances and paid for the services through separate fees. Also contributing to the increase were new pricing schedules implemented for the deposit products in the second quarter of 2001. Other Fees The increases in all other fees of $58 million and $75 million in the second quarter and first six months of 2001 from the same periods in the prior year, respectively, primarily reflected the growth in the volume of variable annuity sales. Also contributing to the increases were the acquisitions of Flemings and Colson Services Corp., a provider of record keeping, paying agent and other financial services. PRIVATE EQUITY GAINS Private equity gains (losses) were significantly affected by the downturn in the equities market. In the second quarter of 2001, both realized and unrealized categories had losses. These unfavorable results were attributable to write-offs and write-downs, particularly in JPMP's investment in the technology, media and telecommunications sectors. In addition, the ability of JPMP to realize cash gains upon the sale of an investment has become more difficult, as the weaker initial public offering and M&A environment during the first six months of 2001 has limited JPMP's ability to implement various "exit" strategies for its investments. For a further discussion of JPMorgan Chase's private equity results, see the JPMP line of business results on pages 19-20 of this Form 10-Q.

(in millions)	SECOND QUARTER 2001	SECOND QUARTER 2000	SIX MONTHS 2001	SIX MONTHS 2000
Realized Gains (Losses)	$ (46)	$ 630	$ 366	$ 1,022
Unrealized Gains (Losses)	(783)	(171)	(1,068)	111
PRIVATE EQUITY GAINS (LOSSES)	$ (829)	$ 459	$ (702)	$ 1,133

SECURITIES GAINS Securities gains in the second quarter of 2001 were up $43 million from last year's same quarter. For the first half, gains were $501 million above the same period last year. These increases resulted from the decline in interest rates since the fourth quarter of 2000, compared with the rate increases in the same period last year. As a consequence of the interest rate declines in the first half of 2001, the value of debt securities held this year rose and produced significant gains upon the sale of those securities. Home Finance utilized debt securities in addition to derivatives to hedge the value of the mortgage servicing rights it carries on the Balance Sheet. In the 2001 first quarter, Home Finance realized $315 million of gains from the sale of debt securities used to economically hedge the mortgage servicing rights which partially offset the decline in mortgage servicing fees. In the 2001 second quarter, no material gains were recorded from the sale of securities. (However, hedge contracts were acquired to cover impairment losses and the results were recorded within mortgage servicing fees.) -30- 31 Part I Item 2 (continued) OTHER REVENUE

(in millions)	SECOND QUARTER 2001	SECOND QUARTER 2000	SIX MONTHS 2001	SIX MONTHS 2000
Residential Mortgage Origination / Sales Activities	$ 146	$ 41	$ 245	$ 85
All Other Revenue	128	164	280	440
Operating Other Revenue	274	205	525	525
Loss on Economic Hedge of the Flemings Purchase Price	--	(141)	--	(141)
Other Revenue - Credit Card Securitizations	--	3	(5)	8
Reported Other Revenue	$ 274	$ 67	$ 520	$ 392

Residential mortgage activities (which include originations and sales of loans and selective dispositions of mortgage servicing rights) in the 2001 second quarter and first six months rose $105 million and $160 million, respectively, from the comparable periods last year. The increases were the result of the higher volume of mortgage loans sold in 2001. The decline in mortgage interest rates and a strong housing market led to the growth of residential loan originations. All other revenue decreased $36 million in the second quarter of this year versus the 2000 second quarter and decreased $160 million in the 2001 first six months compared with the prior year. These decreases were attributable to lower equity income from the American Century investment, reflecting the decline in the value of its funds under management. In addition, the second quarter and first half of 2001 included lower results related to economic hedges for planned overseas revenues. On a reported basis, the second quarter and six months of 2000 results also included a $141 million loss resulting from the economic hedge for the purchase price of Flemings prior to its acquisition. (The offsetting appreciation in the dollar versus pound sterling exchange rate was reflected as a reduction in the purchase price and corresponding goodwill.) NET INTEREST INCOME OPERATING NII adjusts reported NII for 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.

(in millions) NET INTEREST INCOME	SECOND QUARTER 2001	SECOND QUARTER 2000	Change	SIX MONTHS 2001	SIX MONTHS 2000	Change
Reported NII	$ 2,781	$ 2,294	21%	$ 5,199	$ 4,708	10%
Add Impact of Credit Card Securitizations	311	349		596	677	
Less Trading-Related NII	(333)	(149)		(499)	(395)	
Operating NII	$ 2,759	$ 2,494	11%	$ 5,296	$ 4,990	6%

Net Interest Income in the 2001 second quarter and first six months, both on a reported and operating basis, grew from the comparable periods last year, primarily as a result of the interest rate environment this year. Since the start of 2001, the lower interest rate environment contributed to growth in consumer loans, and a decline in the funding costs to support these loans. Last year, on the other hand, interest rates were on the rise, and this depressed the growth of, and spread on, interest earning assets. Also contributing to the increase in both 2001 periods was the receipt in the second quarter of 2001 of several interest refunds aggregating $71 million on prior years' taxes. The first quarter of 2000 included a charge of $100 million for an estimated decrease in the residual value of auto leases. -31- 32 Part I Item 2 (continued) NONINTEREST EXPENSE Total operating noninterest expenses were $5.3 billion in the second quarter of 2001, up 5% from the second quarter of 2000. The increase reflected the higher investments in businesses and, in particular, the acquisition of Flemings. On a pro forma basis, total 2001 operating expenses declined from last year as a result of focused expense management initiatives, which include headcount reductions. The following table presents the components of noninterest expense on an operating and reported basis.

(in millions, except ratios) EXPENSE:	SECOND QUARTER 2001	SECOND QUARTER 2000	SECOND QUARTER Pro Forma 2000 (a)	SIX MONTHS 2001	SIX MONTHS 2000	SIX MONTHS Pro Forma 2000 (a)
Compensation Expense	$ 3,052	$ 2,963	$ 3,249	$ 6,409	$ 6,303	$ 6,938
Occupancy Expense	327	297	315	675	605	642
Technology and Communications	674	574	599	1,328	1,154	1,206
Other Expense	1,047	1,099	1,175	2,109	2,131	2,275
CASH OPERATING NONINTEREST EXPENSE	5,100	4,933	5,338	10,521	10,193	11,061
Amortization of Intangibles	183	92	182	360	185	365
OPERATING NONINTEREST EXPENSE	5,283	5,025	5,520	10,881	10,378	11,426
Merger and Restructuring Costs	478	50	50	806	50	50
REPORTED NONINTEREST EXPENSE	$ 5,761	$ 5,075	$ 5,570	$ 11,687	$ 10,428	$ 11,476
Operating Overhead Ratio (b)	74%	61%	63%	70%	60%	62%
Cash Operating Overhead Ratio (b)	71	60	61	67	59	60

(a) Pro forma expense treats the purchase of Flemings as if it had occurred at the beginning of 2000. (b) The overhead ratio is defined as noninterest expense as a percentage of total operating revenue (excluding merger and restructuring costs and special items). The cash overhead ratio also excludes the impact of the amortization of intangibles.

COMPENSATION EXPENSE Compensation expense rose 3% from the 2000 second quarter and 2% from the first half of last year. The increases were attributable to the additions of Flemings and the mortgage business of Advanta. Partially offsetting the increases were the effect of headcount reductions, in particular in the Investment Bank and Investment Management & Private Banking, and lower incentive costs as a result of the decrease in revenues. Further reductions in headcount are anticipated during the rest of the year and in 2002.

FULL-TIME EQUIVALENT EMPLOYEES	JUNE 30, 2001	JUNE 30, 2000
Domestic Offices	58,369	56,351
Foreign Offices	38,855	33,849
Total Full-Time Equivalent Employees	97,224	90,200

The increase in full-time equivalent employees was attributable to the acquisition of Flemings and the mortgage business of Advanta. OCCUPANCY EXPENSE The increases from the second quarter and first half of last year reflected Flemings, as well as growing occupancy requirements of Investment Bank, IMPB and T&SS. Also contributing to the increases were higher leasing costs for several locations. These increases were partially offset by the impact of relocations of certain T&SS operations from the New York area to the South and Southwest. TECHNOLOGY AND COMMUNICATIONS Technology and Communications expense rose from both the second quarter and first half of 2000, primarily due to the addition of Flemings and the depreciation of more sophisticated hardware systems and software applications throughout the Firm. The increases also were attributable to higher leasing of and maintenance expenses for advanced computer and other office equipment. -32- 33 Part I Item 2 (continued) OTHER EXPENSE Other expense declined 5% from the second quarter and 1% from the first half of 2000. The following table presents the components of other expense.

(in millions)	SECOND QUARTER 2001	SECOND QUARTER 2000	SIX MONTHS 2001	SIX MONTHS 2000
Professional Services	$ 288	$ 281	$ 583	$ 563
Outside Services	166	157	332	316
Marketing	144	144	285	261
Travel and Entertainment	137	120	259	232
All Other	312	397	650	759
TOTAL OTHER EXPENSE	$ 1,047	$ 1,099	$ 2,109	$ 2,131

- The increase in PROFESSIONAL SERVICES for the first half of 2001 was mainly driven by higher applications and systems consulting services to support various business-related projects. - OUTSIDE SERVICES increased in both periods of 2001, primarily due to higher outside data processing fees related to the rise in volume of activities at Home Finance and Investor Services. - MARKETING expense rose for the six months of 2001, principally due to the branding campaigns to introduce the new Firm, coupled with more active efforts to reach retail customers nationwide, particularly for the credit card business. - The increase in TRAVEL AND ENTERTAINMENT in both periods of 2001 reflected the higher travel and hotel expenses in connection with global businesses generated by the Investment Bank, coupled with nonreservable activities related to the merger. - The declines in ALL OTHER expense of 21% for the second quarter and 14% for the first half of 2001 were partly the result of decreases in recruitment costs associated with the reduced requirements across the Firm. AMORTIZATION OF INTANGIBLES The increases in amortization of intangibles over both periods in 2000 were attributable to the acquisitions of Flemings and The Beacon Group, LLC in the third quarter of 2000. MERGER AND RESTRUCTURING COSTS The Firm incurred $478 million of restructuring costs in the second quarter of 2001 related to previously announced merger actions and relocation and other business initiatives ($405 million and $73 million, respectively). Under current accounting pronouncements, these costs (primarily systems integration costs, facilities costs and retention payments) are not recognized until incurred. For a further discussion of JPMorgan Chase's merger and restructuring costs, refer to Note 4 of this Form 10-Q and Note 7 and page 42 of JPMorgan Chase's 2000 Annual Report. CREDIT COSTS Credit costs on an operating basis are composed of the provision for loan losses related to loans on the Consolidated Balance Sheet and to the credit costs associated with credit card receivables that have been securitized.

(in millions)	SECOND QUARTER 2001	SECOND QUARTER 2000	SIX MONTHS 2001	SIX MONTHS 2000
Provision for Loan Losses	$ 525	$ 328	$ 972	$ 670
Credit Costs Associated with Credit Card Securitizations	273	242	514	496
Operating Credit Costs	$ 798	$ 570	$ 1,486	$ 1,166

Credit costs in the second quarter and six months of 2001 increased $228 million and $320 million, respectively, as a result of increases in charge-offs in the commercial loan portfolios, primarily in the telecommunications industry, and in the consumer loan portfolio due to increased bankruptcies. See page 39 of this Form 10-Q for a discussion of the allowance for credit losses. -33- 34 Part I Item 2 (continued) INCOME TAXES JPMorgan Chase recognized income tax expense of $207 million in the second quarter of 2001 compared with $863 million in the second quarter of 2000. For the first half of 2001, JPMorgan Chase recorded income tax expense of $863 million, compared with $1,949 million for the first half of 2000. The effective tax rates were 35.4% in the second quarter of 2001 and 35.0% in the first half of 2001, compared with 34.6% and 35.0% in the second quarter of 2000 and first half of 2000, respectively.

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. For a discussion of these risks and definition of terms associated with managing these risks, please refer to the Glossary of Terms on page 50 of this Form 10-Q and pages 43-59 of JPMorgan Chase's 2000 Annual Report.

CREDIT RISK MANAGEMENT

The following discussion of credit risk management focuses primarily on developments since December 31, 2000 and should be read in conjunction with pages 46-53 and 67-68 of JPMorgan Chase's 2000 Annual Report. The following table presents the Firm's credit-related information for the dates indicated.

(in millions)	CREDIT-RELATED ASSETS JUNE 30, 2001	CREDIT-RELATED ASSETS Dec 31, 2000	NONPERFORMING ASSETS (c) JUNE 30, 2001	NONPERFORMING ASSETS (c) Dec 31, 2000	PAST DUE 90 DAYS & OVER AND ACCRUING JUNE 30, 2001	PAST DUE 90 DAYS & OVER AND ACCRUING Dec 31, 2000
Commercial Loans	$ 112,790	$ 119,460	$ 1,890	$ 1,434	$ 82	$ 99
Derivative and FX Contracts (a)	68,910	76,373	88	37	--	--
Consumer Loans (b)	124,881	114,461	401	384	767	788
TOTAL MANAGED CREDIT-RELATED	$ 306,581	$ 310,294	$ 2,379	$ 1,855	$ 849	$ 887
Assets Acquired as Loan Satisfactions			119	68		
TOTAL NONPERFORMING ASSETS			$ 2,498	$ 1,923		

(in millions, except ratios)	NET CHARGE-OFFS SECOND QUARTER 2001	NET CHARGE-OFFS SECOND QUARTER 2000	ANNUAL AVERAGE NET CHARGE-OFF RATES (d) SECOND QUARTER 2001	ANNUAL AVERAGE NET CHARGE-OFF RATES (d) SECOND QUARTER 2000
Commercial Loans	$ 212	$ 95	0.77%	0.32%
Consumer Loans	586	482	1.89	1.81
TOTAL MANAGED CREDIT-RELATED	$ 798	$ 577	1.37%	1.03%

(a) Charge-offs for derivative receivables are included in trading revenue. (b) Includes credit card receivables that have been securitized. (c) Nonperforming assets have not been reduced for credit protection (single name credit default swaps and collateralized loan obligations) aggregating $112 million related to nonperforming counterparties. (d) Annualized.

-34- 35 Part I Item 2 (continued) JPMorgan Chase's managed credit-related assets of $307 billion at June 30, 2001 decreased 1%, when compared with year-end 2000. Commercial loans decreased $6.7 billion, or 6%, reflecting the Firm's ongoing discipline of originating loans for distribution and sale. Derivative and foreign exchange instruments decreased by 10% from $76.4 billion at year-end 2000. Consumer managed credit-related assets increased $10.4 billion, or 9%, from December 31, 2000, largely in the 1-4 family residential mortgage and auto finance portfolios. The increase in nonperforming assets was primarily related to three domestic commercial credits. The portion of the commercial loan portfolio and counterparty credit outstanding considered investment grade was 67% at June 30, 2001, unchanged from year-end 2000. Management currently believes that credit conditions in the United States will remain challenging over the remainder of the year, which could cause a further increase in nonperforming assets in 2001. However, management believes that JPMC's credit performance this year will continue to be better than the industry average. Net charge-offs in the managed portfolio were $798 million and $1,486 million in the second quarter and six months 2001, respectively, an increase of $221 million and $322 million, respectively, from the same periods one year ago, primarily reflecting increased net charge-offs in the telecommunications portion of the domestic commercial loan portfolio and in the consumer credit card portfolio. For the remainder of the year, management expects commercial loan net charge-offs to remain at approximately the same level as in the first half of the year. COMMERCIAL PORTFOLIO

(in millions)	CREDIT-RELATED ASSETS JUNE 30, 2001	CREDIT-RELATED ASSETS Dec 31, 2000	NONPERFORMING ASSETS (b) JUNE 30, 2001	NONPERFORMING ASSETS (b) Dec 31, 2000	PAST DUE 90 DAYS & OVER AND ACCRUING JUNE 30, 2001	PAST DUE 90 DAYS & OVER AND ACCRUING Dec 31, 2000
COMMERCIAL LOANS:						
Domestic Commercial:						
Commercial and Industrial	$ 62,932	$ 64,031	$ 1,211	$ 727	$ 20	$ 95
Commercial Real Estate	4,740	4,834	68	65	28	3
Financial Institutions	6,891	7,342	249	29	-	--
Total Domestic Commercial Loans	74,563	76,207	1,528	821	48	98
Foreign Commercial:						
Commercial and Industrial	34,117	37,002	312	556	34	1
Commercial Real Estate	1,665	1,470	9	9	--	--
Financial Institutions	1,880	3,976	8	13	--	--
Foreign Governments	565	805	33	35	--	--
Total Foreign Commercial Loans	38,227	43,253	362	613	34	1
TOTAL COMMERCIAL LOANS	112,790	119,460	1,890	1,434	82	99
DERIVATIVE AND FX CONTRACTS (a)	68,910	76,373	88	37	--	--
TOTAL COMMERCIAL CREDIT-RELATED	$ 181,700	$ 195,833	$ 1,978	$ 1,471	$ 82	$ 99

(in millions, except ratios) NET CHARGE-OFFS ANNUAL AVERAGE NET CHARGE-OFF RATES (c) ------------------------------ -------- ----------------------------- SECOND QUARTER SECOND QUARTER ------------------------------ -------------------------------- COMMERCIAL LOANS: 2001 2000 2001 2000 ---------- --------- ---------- --------- ~~Domestic Commercial: Commercial and Industrial $ 158 $ 64 0.89% 0.34% Commercial Real Estate -- (1) -- NM Financial Institutions 19 17 1.29 0.98 -------------- Total Domestic Commercial 177 80 0.90 0.38 Foreign Commercial: Commercial and Industrial 39 21 0.54 0.28 Commercial Real Estate -- -- -- -- Financial Institutions (4) (6) NM NM Foreign Governments --- - -- -- -- ---- ---- ---- Total Foreign Commercial 35 15 0.46 0.18 --- ---- ------- TOTAL COMMERCIAL LOANS $ 212 $ 95 0.77% 0.32%~~

-35- 36 Part I Item 2 (continued)

(in millions, except ratios) NET CHARGE-OFFS ANNUAL AVERAGE NET CHARGE-OFF RATES (c) -- -- SIX MONTHS SIX MONTHS --- COMMERCIAL LOANS: 2001 2000 2001 2000 ----------- --------- ---------- ------- ~~Domestic Commercial: Commercial and Industrial $ 272 $ 100 0.77% 0.27% Commercial Real Estate (1) (3) NM NM Financial Institutions 32 25 1.06 0.73 -------------- Total Domestic Commercial 303 122 0.76 0.29 Foreign Commercial: Commercial and Industrial 61 39 0.39 0.27 Commercial Real Estate -- -- -- -- Financial Institutions (4) (4) NM NM Foreign Governments -- 1 -- 0.21 -------------- Total Foreign Commercial 57 36 0.35 0.22 ------------- TOTAL COMMERCIAL LOANS $ 360 $ 158 0.64% 0.27%~~ ======== ======== --

(a) Charge-offs for derivative receivables are included in trading revenue. (b) Nonperforming assets have not been reduced for credit protection (single name credit default swaps and collateralized loan obligations) aggregating $112 million related to nonperforming counterparties. (c) Annualized. NM - Not meaningful. -- COMMERCIAL AND INDUSTRIAL: The domestic commercial and industrial portfolio decreased $1.1 billion from 2000 year-end. Domestic commercial and industrial net charge-offs in the 2001 second quarter amounted to $158 million, compared with $64 million in the 2000 second quarter. Nonperforming domestic commercial and industrial loans were $1.2 billion, an increase of $484 million from the 2000 year-end. The foreign commercial and industrial portfolio totaled $34.1 billion at June 30, 2001, a decrease of 8% from the 2000 year-end level. Nonperforming foreign commercial and industrial loans were $312 million, a decrease of $244 million from year-end 2000 due in large part to continuing improvement in the Asian loan portfolio. Net charge-offs in the foreign commercial and industrial loan portfolio for the second quarter of 2001 increased to $39 million, from $21 million in the same period last year. The telecommunications credit-related asset portfolio at June 30, 2001 was $10.1 billion, representing 5.5% of total JPMorgan Chase commercial credit-related assets, which is consistent with the Firm's strategy of maintaining portfolio diversification. The portion of the telecommunications portfolio considered investment grade as of June 30, 2001 was 60%, which compares with 67% for the aggregate portfolio. At June 30, 2001, 2.3% of the telecommunications portfolio was nonperforming. The more traditional (wireless and wireline) components of total telecommunications credit-related assets represented 86% of the total telecommunications portfolio, with 69% considered investment grade, while emerging telecommunications represented the balance. FINANCIAL INSTITUTIONS: Loans to financial institutions decreased $2.5 billion during 2001, when compared with year-end, primarily as a result of reductions in the foreign portion of the portfolio. Nonperforming financial institution loans increased to $257 million from $42 million at December 31, 2000, primarily because of one borrower in the domestic portion of that portfolio. -36- 37 Part I Item 2 (continued) DERIVATIVE AND FOREIGN EXCHANGE CONTRACTS For a discussion of the derivative and foreign exchange contracts used by JPMorgan Chase, see Note 3 of this Form 10-Q, and page 50 and Notes 1 and 25 of JPMorgan Chase's 2000 Annual Report. The following table provides the remaining maturities of derivative and foreign exchange contracts outstanding at June 30, 2001 and December 31, 2000.

AT JUNE 30, 2001 At December 31, 2000 -- -- INTEREST FOREIGN EQUITY, Interest Foreign Equity, RATE EXCHANGE COMMODITY AND Rate Exchange Commodity and CONTRACTS CONTRACTS OTHER CONTRACTS TOTAL Contracts Contracts Other Contracts Total --------- --------- -------------- ----- --------- --------- -------------- ----- ~~Less Than 1 Year 13% 82% 37% 24% 12% 89% 40% 28% 1 to 5 Years 45 15 59 42 45 9 57 41 Over 5 Years 42 3 4 34 43 2 3 31 --- --- --- --- --- --- --- --- Total 100% 100% 100% 100% 100% 100% 100% 100%~~

COUNTRY EXPOSURE The following table presents JPMorgan Chase's exposure to selected countries. This disclosure is based on management's view of country exposure. The difference between the current presentation and that used at the two prior quarter-ends is primarily as follows: (1) collateral held is used to reduce exposure on counterparty trades within a country; and (2) disclosure is based on total exposure, which includes local exposure funded locally in addition to cross-border exposure. Management believes the current presentation more accurately reflects JPMorgan Chase's country exposure. Amounts as of December 31, 2000 have been restated to conform to the current presentation.

SELECTED COUNTRY EXPOSURE AT JUNE 30, 2001 At Dec 31, 2000 -- --------------- TOTAL Total CROSS BORDER LOCAL (d) EXPOSURE (e) Exposure -- ----- -------- -------- (in billions) LENDING (a) TRADING (b) OTHER (c) ------- ------- ----- ~~Mexico $ 1.2 $ 1.2 $ -- $ 0.7 $ 3.1 $ 3.3 Brazil 0.9 0.2 0.8 0.9 2.8 2.4 Argentina 0.4 0.8 0.1 0.1 1.4 1.4 South Africa 0.2 0.8 0.1 -- 1.1 1.3 Indonesia 0.4 0.1 -- -- 0.5 0.9 Turkey 0.2 -- -- -- 0.2 0.7 Russia -- 0.1 -- -- 0.1 0.3~~

(a) Lending includes loans and accrued interest receivable, interest-bearing deposits with banks, acceptances, other monetary assets, issued letters of credit, and undrawn commitments to extend credit. (b) Trading includes (1) issuer exposure on cross-border debt and equity instruments, held in both trading and investment accounts, adjusted for the impact of issuer hedges including credit derivatives; and (2) counterparty exposure on derivative and foreign exchange contracts as well as security financing trades (resale agreements and securities borrowed). The amounts associated with derivative and foreign exchange contracts are presented after taking into account the impact of legally enforceable master netting agreements. (c) Mainly local exposure funded cross border. (d) Local exposure is defined as exposure to a country denominated in local currency, booked and funded locally. (e) Total exposure includes exposure to both government and private sector entities in a country. -37- 38 Part I Item 2 (continued) CONSUMER PORTFOLIO

PAST DUE 90 DAYS & OVER CREDIT-RELATED ASSETS NONPERFORMING ASSETS AND ACCRUING -------------------- -------------------- ------------------------ (in millions) JUNE 30, Dec 31, JUNE 30, Dec 31, JUNE 30, Dec 31, 2001 2000 2001 2000 2001 2000 CONSUMER LOANS: ------------- ----------- ----------- --------- ----------- --------- ~~1-4 Family Residential Mortgages $ 56,743 $ 50,302 $ 263 $ 269 $ -- $ 2 Credit Card - Reported 19,531 18,495 25 26 326 327 Credit Card Securitizations (a) 17,753 17,871 -- -- 374 387 ------------ ------------ --------- ------- --------- ------- Credit Card - Managed 37,284 36,366 25 26 700 714 Auto Financings 23,322 19,802 97 76 1 1 Other Consumer (b) 7,532 7,991 16 13 66 71 ------------ ------------ --------- ------- --------- ------- TOTAL CONSUMER LOANS $ 124,881 $ 114,461 $ 401 $ 384 $ 767 $ 788~~

NET CHARGE-OFFS ANNUAL AVERAGE NET CHARGE-OFF RATES (c) ------------------------ --------- ------------------------- (in millions, except ratios) SECOND QUARTER SECOND QUARTER ----------------------- ----- ----------------------- CONSUMER LOANS: 2001 2000 2001 2000 ---------- --------- --------- --------- ~~1-4 Family Residential Mortgages $ 7 $ 10 0.05% 0.09% Credit Card - Reported 234 166 4.69 5.52 Credit Card Securitizations (a) 273 242 6.55 4.93 ------- -------- Credit Card - Managed 507 408 5.54 5.16 Auto Financings 26 22 0.46 0.47 Other Consumer (b) 46 42 2.30 1.72 -------- -------- TOTAL CONSUMER LOANS $ 586 $ 482 1.89% 1.81%~~

NET CHARGE-OFFS ANNUAL AVERAGE NET CHARGE-OFF RATES (c)

(in millions, except ratios)	NET CHARGE-OFFS SIX MONTHS		ANNUAL AVERAGE NET CHARGE-OFF RATES (c) SIX MONTHS	
CONSUMER LOANS:	2001	2000	2001	2000
~~1-4 Family Residential Mortgages~~	~~$ 17~~	~~$ 19~~	~~0.06%~~	~~0.08%~~
~~Credit Card - Reported~~	~~452~~	~~354~~	~~4.59~~	~~5.40~~
~~Credit Card Securitizations (a)~~	~~514~~	~~496~~	~~6.20~~	~~5.25~~
~~Credit Card - Managed~~	~~966~~	~~850~~	~~5.33~~	~~5.31~~
~~Auto Financings~~	~~55~~	~~43~~	~~0.51~~	~~0.46~~
~~Other Consumer (b)~~	~~88~~	~~94~~	~~2.11~~	~~1.89~~
~~TOTAL CONSUMER LOANS~~	~~$ 1,126~~	~~$ 1,006~~	~~1.87%~~	~~1.89%~~

(a) Represents the portion of JPMorgan Chase's credit card receivables that have been securitized. (b) Consists of installment loans (direct and indirect types of consumer finance), student loans, unsecured lines of credit and foreign consumer. (c) Annualized.

RESIDENTIAL MORTGAGE LOANS: Residential mortgage loans were $56.7 billion at June 30, 2001, a $6.4 billion increase from year-end. During the first six months of 2001, the level of nonperforming residential mortgage loans decreased 2%. The net charge-off rate of 0.05% for the second quarter of 2001 was four basis points lower than for the second quarter 2000. CREDIT CARD LOANS: JPMorgan Chase analyzes its credit card portfolio on a "managed basis," which includes credit card receivables on the balance sheet as well as credit card receivables that have been securitized. Managed credit card receivables of $37.3 billion as of June 30, 2001 increased 3% when compared with year-end 2000 and increased over 16% from June 30 last year. During the 2001 second quarter, net charge-offs as a percentage of average credit card receivables increased to 5.54%, compared with 5.16% in the prior-year period. Loans over 90 days past due decreased to 1.88% of the portfolio at June 30, 2001, compared with 1.96% at December 31, 2000. Management anticipates that the managed credit card net charge-off ratio for full-year 2001 will be higher than for full-year 2000.   AUTO FINANCINGS: Auto financings outstanding increased 18% at June 30, 2001, when compared with year-end 2000. The charge-off rate of 0.46% for the 2001 second quarter, unchanged from full-year 2000, continues to be indicative of this portfolio's selective approach to asset origination. Total originations were $9.1 billion for the six months of 2001, compared with $5.1 billion for the same 2000 period. OTHER CONSUMER LOANS: The level of other consumer loans of $7.5 billion at June 30, 2001 decreased 6% from year-end 2000. The net charge-off rates related to this portfolio were higher in the second quarter, when compared with the second quarter of 2000 due to higher bankruptcy losses for certain installment loans and revolving lines of credit. ALLOWANCE FOR CREDIT LOSSES Loans: JPMorgan Chase's allowance for loan losses is intended to cover probable credit losses as of June 30, 2001, 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 both specific and expected loss components and a residual component. For a further discussion of the specific loss, expected loss and residual components of the allowance for loan losses, see page 53 of JPMorgan Chase's 2000 Annual Report. The provision for loan losses for the second quarter of 2001 increased $197 million or 60%, when compared with the second quarter of 2000. Foreign commercial loan net charge-offs increased $21 million during the first six months of 2001, when compared with the first six months of 2000, while foreign commercial nonperforming loans decreased $536 million from June 30, 2000 to $362 million at June 30, 2001. However, domestic commercial loan net charge-offs and nonperforming loans increased $181 million and $935 million, respectively, during the same periods.

ALLOWANCE COMPONENTS (in millions) AT JUNE 30, 2001 At December 31, 2000 At June 30, 2000 ---------------- -------------------- ---------------- ~~Specific Loss $ 881 $ 602 $ 577 Expected Loss: Consumer 1,637 1,444 1,455 Commercial 769 919 817 ----------- ----------- ---------- Total Expected Loss 2,406 2,363 2,272 ----------- ----------- ---------- Residual Component 386 700 893 ----------- ----------- ---------- Total $ 3,673 $ 3,665 $ 3,742~~

Lending-Related Commitments: JPMorgan Chase also has an allowance for its lending-related commitments, using a methodology similar to that used for the loan portfolio. This allowance, which is reported in Other Liabilities, was $285 million at June 30, 2001, $283 million at December 31, 2000 and $333 million at June 30, 2000. -39- 40 Part I Item 2 (continued) -- MARKET RISK MANAGEMENT -- AGGREGATE VAR EXPOSURE Value-at-Risk ("VAR") is a measure of the dollar amount of potential loss from adverse market moves in an everyday market environment. VAR calculations are performed for all material trading and investment portfolios and for market risk-related A/L activities. Due to procedural differences at the heritage firms, combined VAR is not available for periods prior to the merger date. Although no single risk statistic can reflect all aspects of market risk, the tables that follow provide an overview of the market risk exposure of JPMorgan Chase at the dates indicated. The following table represents JPMorgan Chase's average and period-end VARs for its trading portfolios and its A/L activities.

AGGREGATE PORTFOLIO ------------------ SIX MONTHS ENDED JUNE 30, 2001 --- AVERAGE MINIMUM MAXIMUM AT JUNE 30, 2001 (in millions) VAR VAR VAR --- ~~Trading Portfolio $ 65.7 $ 48.9 $ 87.0 $ 61.8 Investment Portfolio and A/L Activities (a) 105.0 79.8 120.2 106.3 Less: Portfolio Diversification (41.5) NM NM (51.5) ------------ ------------ ------------ ------------ Total VAR $ 129.2 $ 99.4 $ 163.8 $ 116.6~~

(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. JPMorgan Chase's average and period-end VARs are less than the sum of the VARs of its market risk components due to risk offsets resulting from portfolio diversification. MARKET RISK-RELATED ACTIVITIES Value-at-Risk: JPMorgan Chase is exposed to interest rate-, foreign exchange-, equity- and commodity-market risks in its trading portfolio. The table below reflects VAR data for the trading portfolio by risk category. See the Aggregate VAR Exposure section above for average and period-end VARs for the total trading portfolio.

MARKED-TO-MARKET TRADING PORTFOLIO (a)

SIX MONTHS ENDED JUNE 30, 2001 (in millions)	AVERAGE VAR	MINIMUM VAR	MAXIMUM VAR	AT JUNE 30, 2001 VAR
Interest Rate	$ 41.6	$ 23.5	$ 69.2	$ 39.9
Foreign Exchange	6.1	3.6	10.9	6.3
Equities	22.2	14.1	32.6	22.7
Commodities	3.9	2.5	6.2	4.5
Hedge Fund Investments	3.0	2.5	4.2	2.5
Less: Portfolio Diversification	(11.1)	NM	NM	(14.1)
Total Trading VAR	$ 65.7	$ 48.9	$ 87.0	$ 61.8

(a) While integrated VAR computations are available for the aggregate portfolio, integrated VAR by risk category has not yet been implemented. Accordingly, this table has been prepared using certain estimates and assumptions. Each risk category VAR was computed based on the methodologies used by the heritage firms, assuming no correlation between the heritage firms' exposures. Actual risk category VAR may differ from these estimates. NM - Because the minimum and maximum may occur on different days for different risk components, it is not meaningful to compute a portfolio diversification effect. JPMorgan Chase's average and period-end VARs are less than the sum of the VARs of its market risk components due to risk offsets resulting from portfolio diversification.

HISTOGRAM: The following histogram illustrates JPMorgan Chase's daily market risk-related revenue, which is defined as the daily change in value of the marked-to-market trading portfolios plus any trading-related net interest income, brokerage commissions, underwriting fees or other revenue. In the first half of 2001, JPMorgan Chase posted positive daily market risk-related revenue for 112 out of 126 business days, with 91 days exceeding positive $20 million. Losses were sustained on 14 of the 126 days represented in the histogram. JPMorgan Chase incurred four daily trading losses in excess of $20 million in the first half of 2001. Due to significant differences in the definition of market risk-related revenues used in the preparation of histograms at Chase and J.P. Morgan, it is not feasible to include a histogram for fiscal-year 2000. [SEE APPENDIX 1 -- NARRATIVE DESCRIPTION OF GRAPHIC IMAGE MATERIAL] Stress Testing: Whereas VAR captures exposure to unlikely events in normal markets, stress testing discloses market risk under plausible events in abnormal markets.

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

LARGEST MONTHLY STRESS TEST LOSS - PRE-TAX -- SIX MONTHS ENDED JUNE 30, 2001 ------------ -------------------------------- (in millions) AVERAGE MINIMUM MAXIMUM AT JUNE 30, 2001 --- Stress Test Loss - Pre-Tax $ (277) $ (118) $ (447) $ (344) --

INVESTMENT PORTFOLIO AND ASSET/LIABILITY ACTIVITIES JPMorgan Chase also is exposed to market risk in its investment portfolio and A/L activities. Market risk measurements for JPMorgan Chase's investment portfolio and A/L activities reflect all significant market risk-related factors that have an effect on these activities. Non-market factors that are not included in market risk measurements, such as changes in credit quality, also may have an affect on these activities. Value-at-Risk: See the VAR Aggregate Exposure section on page 40 for JPMorgan Chase's average and period-end VARs for its investment portfolio and market risk-related A/L activities. Stress Testing: Economic value stress testing measures the potential change in the market value of JPMorgan Chase's investment portfolio and A/L activities. As of June 30, 2001, the largest potential loss under the various economic value stress test scenarios utilized by the Firm on the value of JPMorgan Chase's investment portfolio and A/L activities would have been equivalent to less than 1% of JPMorgan Chase's market capitalization. The NII stress test measures the potential change in JPMorgan Chase's interest earnings over a one-year time horizon. At June 30, 2001, JPMorgan Chase's largest potential NII stress test loss was estimated to be approximately 3.8% of projected net income for the full-year 2001. Nonstatistical Risk Measures: Exposure to interest rate risk is assessed using a Basis Point Value ("BPV") method. BPV measures the change in market value of JPMorgan Chase's investment portfolio and A/L activities to a one basis point increase in interest rates (directional risk) or one basis point widening of interest rate spreads (basis risk). The table that follows shows that JPMorgan Chase had a directional BPV of $(6.5) million (pre-tax) at June 30, 2001. This indicates that the market value of JPMorgan Chase's A/L positions would have declined by approximately $6.5 million for every one basis point increase in interest rates along the interest rate yield curve. The table also shows that the economic value of JPMorgan Chase's investment portfolio and A/L activities would have declined by $(14.6) million (pre-tax) for every one basis point widening of interest rate spreads (basis risk).

MARKET RISK-RELATED A/L ACTIVITIES ---------------------------------- SIX MONTHS ENDED JUNE 30, 2001 --------------------------------- ----------- (in millions) AVERAGE MINIMUM MAXIMUM AT JUNE 30, 2001 --- Directional Risk $ (7.6) $ (6.0) $ (8.9) $ (6.5) Basis Risk (14.5) (11.1) (18.4) (14.6)

-42- 43 Part I Item 2 (continued) -- CAPITAL MANAGEMENT -- ----------------------------- The following discussion of JPMorgan Chase's capital management focuses primarily on the developments since December 31, 2000 and should be read in conjunction with pages 44-45 and Note 23 of JPMorgan Chase's 2000 Annual Report. CAPITAL JPMorgan Chase's capital levels at June 30, 2001 continued to improve with ratios well in excess of regulatory guidelines. At June 30, 2001, the Tier 1 and Total Capital ratios were 8.7% and 12.2%, respectively. The following table shows JPMorgan Chase's capital generation and use during the periods indicated.

SECOND QUARTER SIX MONTHS ---------------------- --------------------- (in billions) 2001 2000 2001 2000 -------- -------- -------- -------- SOURCES OF FREE CASH FLOW Cash Operating Earnings Less Dividends $ 0.2 $ 1.3 $ 1.1 $ 2.7 Plus: Preferred Stock and Equivalents/Special Items (0.7) (0.3) (0.5) (0.3) Less: Capital for Internal Asset Growth (0.5) (0.7) (1.0) (1.2) -------- -------- -------- -------- Total Sources of Free Cash Flow $ (1.0) $ 0.3 $ (0.4) $ 1.2 ======== ======== ======== ======== USES OF FREE CASH FLOW Increases (Decreases) in Capital Ratios $ (0.7) $ 0.4 $ 0.5 $ 0.3 Acquisitions -- -- 0.1 -- Repurchases Net of Stock Issuances (0.3) (0.1) (1.0) 0.9 -------- -------- -------- -------- Total Uses of Free Cash Flow $ (1.0) $ 0.3 $ (0.4) $ 1.2 ======== ======== ======== ========

In the first quarter of 2001, JPMorgan Chase raised the quarterly cash dividend on its common stock to $0.34 per share from $0.32 per share. The Firm's current dividend policy is to pay over time common stock dividends equal to approximately 25% to 35% of operating earnings less preferred stock dividends, although in any given quarter the common stock dividend may be higher or lower than this range. The current quarterly dividend exceeds the target range given this quarter's lower operating earnings. Future dividend policies will be determined by JPMorgan Chase's Board of Directors after taking into consideration the Firm's earnings, financial condition and applicable governmental regulations and policies. At June 30, 2001, the total capitalization of JPMorgan Chase (the sum of Tier 1 and Tier 2 Capital) was $55.0 billion, an increase of $1.6 billion from December 31, 2000. This increase reflects retained earnings (net income less common and preferred dividends) generated during the period, aggregate common stock issuances and treasury stock reissuances of $1.0 billion and the issuance of an aggregate $2.5 billion in trust preferred capital securities and subordinated debt. These sources of capital were partially offset by the redemption of preferred stock and subordinated debt and by capital needed for internal asset growth. The Board of Directors of J.P. Morgan Chase & Co. has authorized, effective July 19, 2001, the repurchase of up to $6 billion of JPMorgan Chase's common stock. This authorization is in addition to any amounts necessary to provide for issuances under JPMorgan Chase's dividend reinvestment plan and its various stock-based director and employee benefits plans. ----------------------------- -- LIQUIDITY RISK MANAGEMENT --- The following discussion of JPMorgan Chase's liquidity risk management focuses primarily on the developments since December 31, 2000 and should be read in conjunction with page 59 of JPMorgan Chase's 2000 Annual Report. -43- 44 Part I Item 2 (continued) LIQUIDITY During the first six months of 2001, JPMorgan Chase issued approximately $6.8 billion of long-term debt and $500 million of trust preferred capital securities. During the same period, $9.2 billion of long-term debt matured or was redeemed and $0.5 billion of preferred stock was called. --- -- OPERATIONAL RISK MANAGEMENT --- For a discussion of JPMorgan Chase's operational risk management, refer to page 58 of JPMorgan Chase's 2000 Annual Report. --- SUPERVISION AND REGULATION --- The following discussion should be read in conjunction with the Supervision and Regulation section on pages 1 through 6 of JPMorgan Chase's 2000 Form 10-K. DIVIDENDS JPMorgan Chase's bank subsidiaries, without the approval of their relevant banking regulators, could pay dividends to their respective bank holding companies in amounts up to the limitations imposed upon such banks by regulatory restrictions. These dividend limitations, in the aggregate, totaled approximately $3.8 billion at June 30, 2001. --- ACCOUNTING DEVELOPMENTS --------- -- LEGAL ISOLATION In July 2001, the FASB issued a Technical Bulletin that would delay the effective date of SFAS 140 for certain provisions that impact entities subject to possible receivership by the FDIC. For those entities, the Technical Bulletin delays the isolation standards of SFAS 140 until at least December 31, 2001. The Firm currently is reviewing its transactions to determine what modifications will be required to conform with SFAS 140 and the Technical Bulletin. BUSINESS COMBINATIONS AND INTANGIBLE ASSETS In June 2001, the FASB issued SFAS 141, which revises the financial accounting and reporting for business combinations, and also issued SFAS 142, which revises the financial accounting and reporting for goodwill and other intangible assets. SFAS 141 requires that all business combinations be accounted for using the purchase method. Accounting for business combinations using the pooling of interests method no longer is allowed. SFAS 141 also requires that intangible assets acquired in a business combination be recognized apart from goodwill if the intangible assets meet one of two criteria -- the contractual-legal criterion or the separability criterion. The provisions of SFAS 141 apply to all business combinations initiated after June 30, 2001 as well as business combinations accounted for by the purchase method for which the date of acquisition is July 1, 2001 or later. Certain transition provisions could affect the accounting for business combinations using the purchase method that were completed before July 1, 2001. SFAS 142 establishes how intangible assets (other than those acquired in a business combination) should be accounted for upon acquisition. It also addresses how goodwill and other intangible assets should be accounted for subsequent to their acquisition. Goodwill and intangible assets that have indefinite useful lives no longer will be amortized but will be tested at least annually for impairment. Intangible assets with finite lives will continue to be amortized over their useful lives. The provisions of SFAS 142 are required to be adopted by the Firm beginning January 1, 2002. Impairment losses that arise due to the initial application of SFAS 142 are required to be reported as a change in accounting principle. The Firm currently is assessing the impact of SFAS 141 and SFAS 142 on its financial condition and operating performance. -44- 45 Part I Item 2 (continued) J.P. MORGAN CHASE & CO. FINANCIAL HIGHLIGHTS (IN MILLIONS, EXCEPT PER SHARE DATA AND RATIOS)

SECOND
QUARTER
Over/(Under)
SIX
MONTHS
Over/(Under)

------- ------

REPORTED
BASIS 2001

2000 2000 2001 2000 2000 -------- -------- ----------- -------- -------- -----------

~~Revenue $ 6,871 $7,899 (13)% $ 15,124 $ 16,668 (9)% Noninterest Expense (excluding Merger and Restructuring Costs) 5,283 5,025 5 10,881 10,378 5 Merger and Restructuring Costs 478 50 NM 806 50 NM Provision for Loan Losses 525 328 60 972 670 45 Net Income (a) $ 378 $1,633 (77)% $ 1,577 $ 3,621 (56)% Net Income per Share: ------------------- Basic (a) $ 0.18 $ 0.87 (79)% $ 0.78 $ 1.92 (59)% Diluted (a) 0.18 0.83 (78) 0.76 1.84 (59) Cash Dividends Declared 0.34 0.32 6 0.68 0.64 6 Share Price at Period End 44.60 46.06 (3) Book Value at Period End 20.81 19.19 8 Common Shares Outstanding: ------------------------ Average Common Shares: Basic 1,978.4 1,853.1 7% 1,972.6 1,858.9 6% Diluted 2,033.6 1,939.2 5 2,033.0 1,942.3 5 Common~~

~~Shares at Period End 1,989.2 1,829.7 9 1,989.2 1,829.7 9 Performance Ratios: ------ ------------~~

~~Return on Average Total Assets (b) 0.21% 0.98% (77)bp 0.43% 1.10% (67)bp Return on Average Common Equity (b) 3.5 19.1 (1,560) 7.5 21.4 (1,390) Capital Ratios: ------ -------- Tier 1 Capital Ratio 8.7% 8.6% 10bp Total Capital Ratio 12.2 12.3 (10) Tier 1 Leverage 5.4 5.8 (40) ---- ------------ ------------ ------------ ------------ ------------ ------------ ------------ ------------ ---------~~

INCLUDING JPMORGAN PARTNERS (f) ---

~~OPERATING BASIS (c) Revenue $ 7,144 $8,282 (14)% $ 15,638 $ 17,305 (10)% Noninterest Expense 5,283 5,025 5 10,881 10,378 5 Credit Costs 798 570 40 1,486 1,166 27 Earnings 690 1,757 (61) 2,126 3,745 (43) Diluted Earnings per Share 0.33 0.89 (63) 1.03 1.90 (46) Return on Average Common Equity (b) 6.5% 20.6% (1,410)bp 10.1% 22.2% (1,210)bp Overhead Ratio (d) 74 61 1,300 70 60 1,000 CASH OPERATING BASIS: Cash Earnings $ 873 $1,849 (53)% $ 2,486 $ 3,930 (37)% Cash Diluted Earnings per Share 0.42 0.94 (55) 1.20 2.00 (40) Shareholder Value Added (e) (394) 814 NM (23) 1,881 NM Cash Return on Average Common Equity(b) 8.2% 21.7% (1,350)bp 11.9% 23.3% (1,140)bp Cash Overhead Ratio (d) 71 60 1,100 67 59 800~~

(a) Reported basis for the six months of 2001 includes the cumulative effect of a transition adjustment of $(25) million, net of taxes, and basic and diluted earnings per share have been reduced by $(0.01) in the first six months of 2001 due to the impact of the adoption of SFAS 133 relating to the accounting for derivative instruments and hedging activities. (b) Based on annualized amounts.

(c) Operating basis excludes the impact of credit card securitizations, merger and restructuring costs, and special items. See page 26 for a reconciliation of results on a reported and operating basis. (d) The overhead ratio is noninterest expense as a percentage of the total of net interest income and noninterest revenue (excluding merger and restructuring costs and special items). The cash overhead ratio also excludes the impact of amortization of goodwill and certain other intangibles. (e) SVA represents operating earnings excluding the amortization of goodwill and certain other intangibles minus preferred dividends and an explicit charge for capital. An integrated cost of capital was implemented during the second quarter of 2001. A 12% cost of capital has been used for all businesses except JPMP, which has a 15% cost of capital. The effective cost of equity capital used in the SVA framework for JPMorgan Chase overall is 12%. Prior periods have been restated to conform with current methodologies. (f) JPMP is JPMorgan Chase's private equity business. See pages 19 through 20 for its line of business results. bp - Denotes basis points; 100 bp equals 1%. NM - Not meaningful. -- -45- 46 Part I Item 2 (continued) J.P. MORGAN CHASE & CO. CONSOLIDATED AVERAGE BALANCE SHEET, INTEREST AND RATES (TAXABLE-EQUIVALENT INTEREST AND RATES; IN MILLIONS, EXCEPT RATES)

THREE MONTHS ENDED JUNE 30, 2001 Three Months Ended June 30, 2000 --------------- -------------------- --------------------- -------------- AVERAGE RATE Average Rate BALANCE INTEREST (ANNUALIZED) Balance Interest (Annualized) ------- -------- ----------- ------- -------- ---- -------- ~~ASSETS Deposits with Banks $ 9,535 $ 111 4.65% $ 8,956 $ 176 7.92% Federal Funds Sold and Securities Purchased under Resale Agreements 86,556 1,076 4.98 82,245 1,201 5.87 Securities and Trading Assets 194,736 2,864 5.90 (a) 173,870 2,855 6.60 (a) Securities Borrowed 38,006 347 3.66 35,421 528 6.00 Loans 217,447 4,090 7.55 205,419 4,121 8.06 --------- ------- --- ------ ------ Total Interest-Earning Assets 546,280 8,488 6.23% 505,911 8,881 7.06% Allowance for Loan Losses (3,708) (3,705) Cash and Due from Banks 21,499 16,579 Trading Assets - Derivative Receivables 77,794 74,943 Other Assets 93,903 73,610 ----- ---- --------- Total Assets $ 735,768 $ 667,338~~

~~LIABILITIES Interest-Bearing Deposits $ 215,987 $ 2,122 3.94% $ 213,124 $2,644 4.99% Federal Funds Purchased and Securities Sold under Repurchase Agreements 167,126 1,787 4.29 131,700 1,873 5.72~~

~~Commercial Paper 17,818 195 4.39 14,424 226 6.29 Other Borrowings (b) 63,038 950 6.04 57,939 1,048 7.28 Long-Term Debt 45,173 634 5.63 46,195 773 6.73 --- ------ ------ ------- -- ------- Total Interest-Bearing Liabilities 509,142 5,688 4.48 463,382 6,564 5.70 --------- ------ --------- ---- -- Noninterest-Bearing Deposits 60,073 52,700 Trading Liabilities - Derivative Payables 71,980 70,809 Other Liabilities 51,065 44,472 ----- ---- --------- Total Liabilities 692,260 631,363 --------- -- ------- PREFERRED STOCK OF SUBSIDIARY 550 550 --------- ------ --- STOCKHOLDERS' EQUITY Preferred Stock 1,239 1,621 Common Stockholders' Equity 41,719 33,804 ----- ---- --------- Total Stockholders' Equity 42,958 35,425 ----- ---- --------- Total Liabilities, Preferred Stock of Subsidiary and Stockholders' Equity $ 735,768 $ 667,338 ========= ========= INTEREST RATE SPREAD 1.75% 1.36% ==== ==== NET INTEREST INCOME AND NET YIELD ON INTEREST-EARNING ASSETS $ 2,800 2.06% $2,317 1.84% ====== ==== ====== ====~~

-- (a) For the three months ended June 30, 2001 and June 30, 2000, the annualized rate for available-for-sale securities based on historical cost was 5.63% and 6.05%, respectively, and the annualized rate for available-for-sale securities based on fair value was 5.71% and 6.32%, respectively. (b) Includes securities sold but not yet purchased and structured notes and trust preferred notes. --

J.P. MORGAN CHASE & CO. CONSOLIDATED AVERAGE BALANCE SHEET, INTEREST AND RATES (TAXABLE-EQUIVALENT INTEREST AND RATES; IN MILLIONS, EXCEPT RATES)

SIX MONTHS ENDED JUNE 30, 2001 Six Months Ended June 30, 2000 --- AVERAGE RATE Average Rate BALANCE

INTEREST (ANNUALIZED) Balance Interest (Annualized) ------- -------- ----------- ------- -------- ---- -------- ~~ASSETS Deposits with Banks $ 8,531 $ 250 5.90% $ 9,576 $ 388 8.15% Federal Funds Sold and Securities Purchased under Resale Agreements 84,706 2,272 5.41 78,732 2,291 5.85 Securities and Trading Assets 197,789 5,765 5.88 (a) 168,999 5,547 6.60 (a) Securities Borrowed 37,635 840 4.50 35,710 1,056 5.95 Loans 218,285 8,559 7.91 204,556 8,063 7.93 -------- ------- --- ------ ------ Total Interest-Earning Assets 546,946 17,686 6.52% 497,573 17,345 7.01% Allowance for Loan Losses (3,703) (3,702) Cash and Due from Banks 21,440 16,332 Trading Assets - Derivative Receivables 77,021 75,217 Other Assets 91,672 74,047 ----- ---- ---------- Total Assets $ 733,376 $ 659,467~~

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~~LIABILITIES Interest-Bearing Deposits $ 216,366 $ 4,758 4.43% $ 214,793 $5,151 4.82% Federal Funds Purchased and Securities Sold under Repurchase Agreements 159,940 3,923 4.95 125,462 3,439 5.51 Commercial Paper~~

~~17,890 460 5.18 16,527 497 6.05 Other Borrowings (b) 66,801 1,931 5.83 55,029 1,995 7.29 Long-Term Debt 46,303 1,378 6.00 45,639 1,508 6.64 -------- ------ - --------- ------~~

~~Total Interest-Bearing Liabilities 507,300 12,450 4.95 457,450 12,590 5.53 ------- -- -------- --------- - ----- Noninterest-Bearing Deposits~~

~~Bearing Deposits 57,656 52,519 Trading Liabilities - Derivative Payables 73,354 69,670 Other Liabilities 51,660 44,180 --------- --------- Total Liabilities 689,970 623,819 --------- --------- PREFERRED STOCK OF SUBSIDIARY 550 550 --------- --------- STOCKHOLDERS' EQUITY Preferred Stock 1,362 1,621 Common Stockholders' Equity 41,494 33,477 --------- --------- Total Stockholders' Equity 42,856 35,098 --------- --------- Total Liabilities, Preferred Stock of Subsidiary and Stockholders' Equity $ 733,376 $ 659,467 ========= ========= INTEREST RATE SPREAD 1.57% 1.48% ==== ==== NET INTEREST INCOME AND NET YIELD ON INTEREST-EARNING ASSETS $ 5,236 1.93% $4,755 1.92% ======= ==== ======= ====~~

-- (a) For the six months ended June 30, 2001 and June 30, 2000, the annualized rate for available-for-sale securities based on historical cost was 5.79% and 6.07%, respectively, and the annualized rate for available-for-sale securities based on fair value was 5.83% and 6.40%, respectively. (b) Includes securities sold but not yet purchased and structured notes and trust preferred notes. --

J.P. MORGAN CHASE & CO. QUARTERLY CONSOLIDATED STATEMENT OF INCOME (IN MILLIONS, EXCEPT PER SHARE DATA)

2001 2000 ------------------ ----------------------------------- SECOND First Fourth Third Second First QUARTER Quarter Quarter Quarter Quarter Quarter -------- -------- ------- -------- -------- -------

~~REVENUE Investment Banking Fees $ 929 $ 941 $ 1,051 $ 1,013 $ 1,107 $ 1,191 Trading Revenue 1,261 2,001 1,142 1,455 1,730 1,971 Fees and Commissions 2,388 2,065 2,387 2,427 2,218 2,197~~

Private Equity

~~Private Equity - Realized Gains (Losses) (46) 412 373 656 630 392 Private Equity - Unrealized Gains (Losses) (783) (285) (471) (676) (171) 282 Securities Gains (Losses) 67 455 118 90 24 (3) Other Revenue 274 246 1,482 415 67 325 -------- -------- -------- -------- -------- -------- TOTAL NONINTEREST REVENUE 4,090 5,835 6,082 5,380 5,605 6,355 -------- -------- -------- -------- -------- -------- Interest Income 8,469 9,180 9,922 9,423 8,858 8,440 Interest Expense 5,688 6,762 7,461 7,080 6,564 6,026 -------- -------- -------- -------- -------- -------- NET INTEREST INCOME 2,781 2,418 2,461 2,343 2,294 2,414 -------- -------- -------- -------- -------- -------- REVENUE BEFORE PROVISION FOR LOAN LOSSES 6,871 8,253 8,543 7,723 7,899 8,769 Provision for Loan Losses 525 447 409 298 328 342 -------- -------- -------- -------- -------- -------- TOTAL NET REVENUE 6,346 7,806 8,134 7,425 7,571 8,427 -------- -------- -------- -------- -------- -------- EXPENSE Compensation Expense 3,052 3,357 3,310 3,135 2,963 3,340 Occupancy Expense 327 348 351 338 297 308 Technology and Communications 674 654 668 632~~

~~574 580 Merger and Restructuring Costs 478 328 1,302 79 50 -- Amortization of Intangibles 183 177 186 157 92 93 Other Expense 1,047 1,062 1,227 1,011 1,099 1,032 -------- -------- -------- -------- -------- -------- TOTAL NONINTEREST EXPENSE 5,761 5,926 7,044 5,352 5,075 5,353 -------- -------- -------- -------- -------- -------- INCOME BEFORE INCOME TAX EXPENSE AND EFFECT OF ACCOUNTING CHANGE 585 1,880 1,090 2,073 2,496 3,074 Income Tax Expense 207 656 382 675 863 1,086 -------- -------- -------- -------- -------- -------- INCOME BEFORE EFFECT OF ACCOUNTING CHANGE $ 378 $ 1,224 $ 708 $ 1,398 $ 1,633 $ 1,988 Net Effect of Change in Accounting Principle -- (25) -- -- -- -- -------- -------- -------- -------- -------- -------- NET INCOME $ 378 $ 1,199 $ 708 $ 1,398 $ 1,633 $ 1,988~~

~~======== ======== ======== ======== ======== ======== NET INCOME APPLICABLE TO COMMON STOCK $ 359 $ 1,178 $ 687 $ 1,374 $ 1,607 $ 1,963~~

~~======== ======== ======== ======== ======== ======== NET INCOME PER SHARE (a) Basic $ 0.18 $ 0.60 $ 0.36 $ 0.73 $~~

~~0.87 $ 1.06~~

~~Diluted $ 0.18 $ 0.58 $ 0.34 $ 0.69 $ 0.83 $ 1.01~~

-- (a) Basic and diluted earnings per share have been reduced by $(0.01) in the first quarter of 2001 due to the impact of the adoption of SFAS 133 relating to the accounting for derivative instruments and hedging activities. -- -48- 49 Part I Item 2 (continued) J.P. MORGAN CHASE & CO. QUARTERLY CONSOLIDATED BALANCE SHEET (IN MILLIONS)

JUNE 30, March 31, Dec. 31, Sept. 30, June 30, March 31, 2001 2001 2000 2000 2000 2000 --------- --------- --------- --------- --------- --------- ~~ASSETS Cash and Due from Banks $ 24,219 $ 22,371 $ 23,972 $ 20,284 $ 20,859 $ 18,159 Deposits with Banks 11,903 7,979 8,333 8,669 8,768 8,190 Federal Funds Sold and Securities Purchased under Resale Agreements 61,308 71,147 69,474 69,413 69,421 70,048 Securities Borrowed 38,296 37,264 32,371 36,424 34,681 35,027 Trading Assets: Debt & Equity Instruments 139,135 138,270 139,249 140,992 115,730 124,225 Derivative Receivables 68,910 78,907 76,373 67,028 68,728 78,258 Securities 68,488 69,731 73,695 71,282 71,050 72,075 Loans (Net of Allowance for Loan Losses) 216,245 213,116 212,385 214,496 203,611 198,870 Goodwill and Other Intangibles 16,224 15,351 15,833 15,678 10,012 9,858 Private Equity Investments 9,855 10,877 11,428 11,502 12,102 11,742 Accrued Interest and Accounts Receivable 17,080 15,352 20,618 15,491 18,122 18,681 Premises and Equipment 7,186 7,085 7,087 6,863 6,584 6,460 Other Assets 33,853 26,174 24,530 29,375 22,700 24,453 --------- --------- --------- --------- --------- --------- TOTAL ASSETS $ 712,702 $ 713,624 $ 715,348 $ 707,497 $ 662,368 $ 676,046 LIABILITIES Deposits: Noninterest-Bearing $ 64,231 $ 59,686 $ 62,713 $ 54,903 $ 57,904 $ 55,554 Interest-Bearing 212,573 212,886 216,652 214,882 213,012 203,441 --------- --------- --------- --------- --------- --------- Total Deposits 276,804 272,572 279,365 269,785 270,916 258,995 Federal Funds Purchased and Securities Sold under Repurchase Agreements 155,062 145,703 131,738 145,210 125,237 139,520 Commercial Paper 19,985 16,281 24,851 19,462 13,354 15,031 Other Borrowed Funds 18,418 28,716 19,840 20,065 15,124 16,271 Trading Liabilities: Debt & Equity Instruments 53,571 52,501 52,157 58,972 52,506 54,633 Derivative Payables 62,373 73,312 76,517 65,253 65,531 72,117 Accounts Payable, Accrued Expenses and Other Liabilities, Including the Allowance for Credit Losses 38,157 33,575 40,754 37,225 34,298 33,820 Long-Term Debt 40,917 42,609 43,299 45,634 44,528 45,825 Guaranteed Preferred Beneficial Interests in the Firm's Junior Subordinated Deferrable Interest Debentures 4,439 4,439 3,939 3,939 3,689 3,688 --------- --------- --------- --------- --------- --------- TOTAL LIABILITIES 669,726 669,708 672,460 665,545 625,183 639,900 --------- --------- --------- --------- --------- --------- PREFERRED STOCK OF SUBSIDIARY 550 550 550 550 550 550 STOCKHOLDERS' EQUITY Preferred Stock 1,025 1,362 1,520 1,522 1,522 1,622 Common Stock 1,990 1,984 1,940 2,066 2,066 1,625 Capital Surplus 12,000 11,663 11,598 12,427 12,205 12,280 Retained Earnings 28,265 28,592 28,096 31,678 30,887 29,848 Accumulated Other Comprehensive Income (Loss) (834) (214) (241) (995) (1,281) (1,266) Treasury Stock, at Cost (20) (21) (575) (5,296) (8,764) (8,513) --------- --------- --------- --------- --------- --------- TOTAL STOCKHOLDERS' EQUITY 42,426 43,366 42,338 41,402 36,635 35,596 --------- --------- --------- --------- --------- --------- TOTAL LIABILITIES, PREFERRED STOCK OF SUBSIDIARY AND STOCKHOLDERS' EQUITY $ 712,702 $ 713,624 $ 715,348 $ 707,497 $ 662,368 $ 676,046~~

-49- 50 Part I Item 2 (continued) -- GLOSSARY OF TERMS -- The page numbers included after each definition represent the pages in this Form 10-Q where the term primarily is used. Basis Point Value ("BPV"): This measurement quantifies the change in the market value of JPMorgan Chase's assets and liabilities (that are not part of its trading activities) that would result from a one basis point change in interest rates. (Page 42) Cash Operating Earnings: Operating earnings excluding the impact of the amortization of certain other intangibles. (Pages 12-19, 21-25, 43 and 45) Cash Overhead Ratio: Noninterest expense, excluding amortization of certain other intangibles, as a percentage of the total of net interest income and noninterest revenue (excluding merger and restructuring costs and special items). (Pages 18-19, 21-23, 32 and 45) Chase USA: Chase Manhattan Bank USA, National Association. (Page 11) FASB: Financial Accounting Standards Board. (Page 44) Managed Credit Card Receivables or Managed Basis: JPMorgan Chase uses this terminology to refer to its credit card receivables on the balance sheet plus credit card receivables that have been securitized. (Pages 13, 16, 23, 34-35 and 38) Merger: The term refers to the December 31, 2000 merger of The Chase Manhattan Corporation and J.P. Morgan & Co. Incorporated. (Pages 7-8, 14, 16, 18, 26, 28, 32-33, 40 and 45) Net Yield on Interest-Earning Assets: The average rate for interest-earning assets less the average rate paid for all sources of funds. (Pages 46 and 47) Operating Basis or Operating Earnings: Reported results excluding the impact of credit card securitizations, merger and restructuring costs, and special items. (Pages 12-19, 21-27, 29, 31-33, 43 and 45) 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). (Pages 32 and 45) SFAS: Statement of Financial Accounting Standards. SFAS 107: "Disclosures about Fair Value of Financial Instruments." (Page 12) SFAS 115: "Accounting for Certain Investments in Debt and Equity Securities." (Page 7) SFAS 133: "Accounting for Derivative Instruments and Hedging Activities." (Pages 7, 9-10, 13, 45 and 57) SFAS 140: "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a replacement of FASB Statement No. 125." (Pages 8, 9 and 44) SFAS 141: "Business Combinations." (Page 44) SFAS 142: "Goodwill and Other Intangible Assets." (Page 44) Shareholder Value Added ("SVA"): Represents operating earnings excluding the amortization of goodwill and certain other intangibles (i.e., cash operating earnings) minus preferred dividends and an explicit charge for capital. (Pages 12-13, 17-19, 21-23 and 45) Special Items: The first six months of 2001 included $806 million (pre-tax) in merger and restructuring expenses and the cumulative effect of a transition adjustment of $(25) million (after-tax) related to the adoption of SFAS 133. Special items in the first half of 2000 include a $141 million loss resulting from the economic hedge of the purchase price of Flemings prior to its acquisition and $50 million of restructuring costs associated with previously announced initiatives. (Pages 12-16, 26, 32, 43 and 45) Stress Testing: Discloses market risk under plausible events in abnormal markets. (Pages 41 and 42) Value-at-Risk ("VAR"): A measure of the dollar amount of potential loss from adverse market moves in an everyday market environment. (Pages 40, 41 and 42) -50- 51 Item 3 Quantitative and Qualitative Disclosures about Market Risk For a discussion of the quantitative and qualitative disclosures about market risk, see the market risk management section of the MD&A on pages 40-42 of this Form 10-Q. PART II - OTHER INFORMATION Item 1 Legal Proceedings In June 1999, Sumitomo Corporation filed a lawsuit against The Chase Manhattan Bank in the United States District Court for the Southern District of New York. The complaint alleges that during the period from 1994 to 1996, the Bank assisted a Sumitomo employee in making copper trades by funding unauthorized loans to the Sumitomo employee. The complaint alleges that the Bank knew the employee did not have authority to enter into the transactions on behalf of Sumitomo. The complaint asserts claims under the Racketeer Influenced and Corrupt Organizations Act ("RICO") and New York common law and alleges damages of $532 million (subject to trebling under RICO), plus punitive damages. In August 1999, Sumitomo Corporation filed a separate action against J.P. Morgan & Co., Morgan Guaranty Trust Company of New York and a former Morgan employee (collectively, "Morgan") in the United States District Court for the Southern District of New York. The complaint in this action contains allegations, similar to the allegations in the complaint filed by Sumitomo against Chase, that during the period from 1993 to 1996, Morgan assisted a Sumitomo employee in making copper trades by funding unauthorized loans to the Sumitomo employee. The complaint alleges that Morgan knew the employee did not have authority to enter into the transactions on behalf of Sumitomo. The complaint asserts claims under RICO and New York common law and alleges damages of $735 million (subject to trebling under RICO), plus punitive damages. The separate actions against Chase and Morgan have been consolidated for discovery purposes. Chase Securities Inc. (now known as J.P. Morgan Securities Inc. ("JPMSI")) has been named as a defendant or third-party defendant in 14 actions that were filed in either the United States District Court for the Northern District of Oklahoma or Oklahoma state court or New York state court beginning in October 1999 arising out of the failure of Commercial Financial Services, Inc. ("CFS"). Plaintiffs in these actions are institutional investors who purchased over $1.6 billion in original face amount of asset-backed securities issued by CFS. The securities were backed by delinquent credit card receivables. In addition to JPMSI, the defendants in various of the actions are the founders and key executives of CFS, as well as its auditors, its outside counsel and the rating agencies that rated the securities. JPMSI is alleged to have been the investment banker to CFS and to have acted as an initial purchaser and as placement agent in connection with the issuance of certain of the securities. Plaintiffs allege that defendants either knew or were reckless in not knowing that the securities were sold to plaintiffs on the basis of misleading misrepresentations and omissions of material facts. The complaints against JPMSI assert claims under the Securities Exchange Act of 1934, the Oklahoma Securities Act, and under common law theories of fraud and negligent misrepresentation. In the actions against JPMSI, damages in the amount of approximately $1.2 billion allegedly suffered as a result of defendants' misrepresentations and omissions, plus punitive damages, are being claimed. The Securities and Exchange Commission ("SEC") has investigated the question of whether, in connection with the bond paying agency function within JPMorgan Chase's Institutional Trust Services group, there had been violations of its transfer agency recordkeeping or reporting regulations and whether JPMorgan Chase's disclosure regarding these issues had been adequate and timely. The conditions giving rise to the alleged violations have since been addressed, and JPMorgan Chase has made an offer of settlement to the SEC, which is under consideration. If accepted in its present form, the settlement will have no material adverse effect on the consolidated financial condition of JPMorgan Chase. -51- 52 PART II - OTHER INFORMATION (CONTINUED) Item 1 Legal Proceedings (continued) Beginning in May 2001, JPMC and certain of its securities subsidiaries (each referred to in this paragraph as "JPMC") have been named, along with numerous other firms in the securities industry, as defendants in a large number of putative class action lawsuits filed in the United States District Court for the Southern District of New York. These suits purport to challenge alleged improprieties in the allocation of stock in various public offerings, including some offerings for which a JPMC entity served as an underwriter. The suits allege violations of securities and antitrust laws arising from alleged material misstatements and omissions in registration statements and prospectuses for the initial public offerings and with respect to aftermarket transactions in the offered securities. The securities claims allege, among other things, misrepresentations concerning commissions paid to JPMC and aftermarket transactions by customers who received allocations of shares in the respective initial public offerings. The antitrust claims allege an illegal conspiracy to require customers, in exchange for initial public offering allocations, to pay undisclosed and excessive commissions and to make aftermarket purchases of the initial public offering securities at a price higher than the offering price, as a precondition to receiving allocation. JPMC has also received various subpoenas and informal requests from governmental and other agencies seeking information relating to initial public offering allocation practices. JPMC is cooperating with these agencies and has responded or is in the process of responding to these requests. In addition to the matters described above, JPMorgan Chase and its subsidiaries have been named from time to time as defendants in various legal actions and proceedings arising in connection with their respective businesses and have been involved from time to time in investigations and proceedings by governmental agencies. In view of the inherent difficulty of predicting the outcome of such matters, JPMorgan Chase cannot state what the eventual outcome of these pending matters will be. JPMorgan Chase is contesting the allegations made in each pending matter and believes, based on current knowledge and after consultation with counsel, that the outcome of such matters will not have a material adverse effect on the consolidated financial condition of JPMorgan Chase but may be material to JPMorgan Chase's operating results for any particular period, depending on the level of JPMorgan Chase's income for such period. Item 2 Sales of Unregistered Common Stock During the second quarter of 2001, shares of common stock of J.P. Morgan Chase & Co. were issued in a transaction exempt from registration under the Securities Act of 1933 pursuant to Section 4(2) thereof as follows: On April 2, 2001, 498 shares of common stock were issued to a retired director who had deferred receipt of such common stock pursuant to the Deferred Compensation Plan for Non-Employee Directors. -52- 53 PART II - OTHER INFORMATION (CONTINUED) Item 4 Submission of Matters to a Vote of Security Holders The following is a summary of matters submitted to vote at the Annual Meeting of Stockholders of JPMorgan Chase held on May 15, 2001. A total of 1,593,686,386 shares, or 80.4% of the 1,982,943,058 shares entitled to vote at the Annual Meeting, were represented at the meeting. (A) Election of Directors The following fifteen (15) directors were elected to hold office until the 2002 Annual Meeting or until their successors are elected and have qualified.

	Votes Received	Votes Withheld
~~Hans W. Becherer~~	~~1,580,957,106~~	~~12,729,280~~
~~Riley P. Bechtel~~	~~1,581,216,371~~	~~12,470,015~~
~~Frank A. Bennack Jr.~~	~~1,580,842,556~~	~~12,843,830~~
~~Lawrence A. Bossidy~~	~~1,580,919,066~~	~~12,767,320~~
~~M. Anthony Burns~~	~~1,581,287,828~~	~~12,398,558~~
~~H. Laurance Fuller~~	~~1,581,364,676~~	~~12,321,710~~
~~Ellen V. Futter~~	~~1,580,751,079~~	~~12,935,307~~
~~William H. Gray III~~	~~1,579,581,252~~	~~14,105,134~~
~~William B. Harrison, Jr.~~	~~1,581,261,404~~	~~12,424,982~~
~~Helene L. Kaplan~~	~~1,530,025,114~~	~~63,661,272~~
~~Lee R. Raymond~~	~~1,581,239,934~~	~~12,446,452~~
~~John R. Stafford~~	~~1,580,817,728~~	~~12,868,658~~
~~Lloyd D. Ward~~	~~1,581,136,747~~	~~12,549,639~~
~~Douglas A. Warner III~~	~~1,580,116,044~~	~~13,570,342~~
~~Marina v.N. Whitman~~	~~1,580,999,632~~	~~12,686,754~~

(B) (1) Ratifying Independent Accountants A proposal to ratify PricewaterhouseCoopers LLP as independent accountants was approved by 99.26% of the votes cast. The proposal received a "for" vote of 1,561,863,267 and an "against" vote of 11,602,254. The number of votes abstaining was 20,217,485. There were 3,380 broker non-votes. (2) Approval of Employee Stock Purchase Plan A proposal to approve the Firm's Employee Stock Purchase Plan was approved by 97.75% of the votes cast. The proposal received a "for" vote of 1,534,982,883 and an "against" vote of 35,273,770. The number of votes abstaining was 23,348,045. There were 81,688 broker non-votes. (3) Stockholder Proposal Re: Executive Compensation Disclosure A proposal by Evelyn Y. Davis requiring that management disclose in future proxy statements the names and titles of certain executive officers receiving annual compensation in excess of $250,000 was rejected by 93.83% of the votes cast. The vote "for" was 78,564,128, and the vote "against" was 1,194,448,616. The number of votes abstaining was 34,622,968, and there were 286,050,674 broker non-votes. -53- 54 Item 4 (4) Stockholder Proposal Re: Director Nomination Procedures A proposal by Richard A. Dee requesting that the Board of Directors adopt a policy requiring the Governance Committee to nominate two candidates for each directorship to be filled upon voting at the annual meetings was rejected by 95.43% of the votes cast. The vote "for" was 57,878,960, and the vote "against" was 1,208,455,330. The number of votes abstaining was 41,326,765, and there were 286,025,331 broker non-votes. (5) Stockholder Proposal Re: International Financial Stabilization A proposal by the Sisters of Charity of St. Elizabeth and other church groups that the Board of Directors develop a policy regarding short-term lending and exposure of other financial instruments to emerging market countries was rejected by 96.72% of the votes cast. The vote "for" was 39,302,185, and the vote "against" was 1,160,726,592. The number of votes abstaining was 107,595,216, and there were 286,062,393 broker non-votes. Item 6 Exhibits and Reports on Form 8-K (A)Exhibits: 11 - Computation of Earnings per Common Share 12(a) - Computation of Ratio of Earnings to Fixed Charges 12(b) - Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividend Requirements (B)Reports on Form 8-K: JPMorgan Chase filed three reports on Form 8-K during the quarter ended June 30, 2001, as follows: Form 8-K dated April 5, 2001: JPMorgan Chase disclosed a summary of the performance of the direct private equity investments of JPMorgan Partners. Form 8-K dated April 18, 2001: JPMorgan Chase announced first quarter 2001 results. Form 8-K dated June 5, 2001: JPMorgan Chase announced its business outlook at an investor presentation held on June 5, 2001. -54- 55 SIGNATURE Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. J.P. MORGAN CHASE & CO. ------------------------------ (Registrant) Date August 14, 2001 By /s/ Joseph L. Sclafani --------------- ------------------------------------ Joseph L. Sclafani Executive Vice President and Controller [Principal Accounting Officer] -55- 56 APPENDIX 1 Pursuant to Item 304 of Regulation S-T, the following is a description of the graphic image material included in the foregoing Management's Discussion and Analysis of Financial Condition and Results of Operations.

GRAPHIC NUMBER PAGE DESCRIPTION ------ ---- ----- ------ ~~1 41 Bar Graph entitled "Daily Market Risk-Related Revenues For Six Months Ending June 30, 2001" presenting the following information:~~

~~Millions of Dollars 0><10 10><20 20><30 30><40 40><50 50><60 ------------------- ------- ------ ------ ------ ------ ------ Number of trading days revenue was within the above prescribed positive range 9 12 13 16 14 13 60><70 70><80 80><90 90><100 100><110 over 110 ------ ------ ------ -------- -------- -------- 6 14 4 3 4 4~~

~~Millions of Dollars 0><(10) (10)><(20) (20)><(30) Over (30) ------------------- -------- --------- --------- --------- Number of trading days revenue was within the above prescribed negative range 6 4 1 3~~

~~Average Daily Revenue: $41 million 57 INDEX TO EXHIBITS SEQUENTIALLY NUMBERED EXHIBIT NO. EXHIBITS PAGE AT WHICH LOCATED ---------- -------- --------------- ------ 11 Computation of Earnings 57 per Common Share 12(a) Computation of Ratio of 58 Earnings to Fixed Charges 12(b) Computation of Ratio of 59 Earnings to Fixed Charges and Preferred Stock Dividend Requirements -56-~~