Issuer

J.P. Morgan Structured Products B.V.

(Incorporated with limited liability in The Netherlands)

Guarantor

JPMorgan Chase Bank, National Association

(a national banking association organized under the laws of United States of America)

Managers

J.P. Morgan Securities Ltd.
J.P. Morgan Securities (Asia Pacific) Limited

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This document includes particulars given in compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the Stock Exchange's Listing Rules) for the purpose of giving information with regard to the issuer, the guarantor and the structured products referred to in this document. The issuer and the guarantor accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this document misleading.

We, the issuer of our structured products, are publishing this base listing document in order to obtain a listing on the Stock Exchange of our warrants and our equity linked instruments (the ELIs). We will refer to the warrants and the ELIs as "structured products" in this document.

We will publish a supplemental listing document for each issue of structured products to set out the terms specific to that issue. If at that point the information in this base listing document (and any applicable addendum) needs to be updated, we will either include the updated information in the relevant supplemental listing document or produce a supplemental disclosure document or an addendum to this base listing document. You should read the relevant supplemental listing document and the supplemental disclosure document (if any) together with this base listing document (including any addendum) before deciding whether to buy our structured products. Neither the delivery of this base listing document nor any sale of any structured products shall under any circumstances create any implication that there has been no change in our affairs or the affairs of the guarantor or its affiliates since the date of this base listing document. You should ask the managers if any supplemental disclosure document or any addendum to this base listing document or any later base listing document has been issued. You must not assume that our supplemental disclosure document or any addendum contains the most recent information at any time after the date of such supplemental disclosure document or addendum. You should read the guarantor 's most recent consolidated financial statements for the year ended 31 December 2008 in this base listing document.

The structured products involve derivatives. Investors should not invest in the structured products unless they fully understand and are willing to assume the risks associated with them.

Investors are warned that the price of the structured products may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective purchasers should therefore ensure that they understand the nature of the structured products and carefully study the risk factors set out in this document and, where necessary, seek professional advice, before they invest in the structured products.

The structured products constitute general unsecured contractual obligations of the issuer and of no other person and if you purchase the structured products you are relying upon the creditworthiness of the issuer and the guarantor and have no rights under the structured products against (a) the company which has issued the underlying securities; (b) the trustee or the manager of the underlying trust; or (c) the index compiler of any underlying index.

The guarantee of the guarantor (i) is an unsecured and unsubordinated general obligation of the guarantor and not of any of its affiliates; (ii) is not a savings account or deposit of the guarantor or any bank or non-bank subsidiary of the guarantor; and (iii) will rank *pari passu* with all other unsecured and unsubordinated obligations of the guarantor, except obligations, including U.S. domestic deposits of the guarantor, that are subject to any priorities or preferences by law. The guarantee is not a deposit insured by the U.S. Federal Deposit Insurance Corporation, the U.S. Deposit Insurance Fund or any other governmental agency or instrumentality.

The issuer and the guarantor are part of a large global financial institution and have many financial products and contracts outstanding at any given time. When purchasing the structured products, you will be relying on the creditworthiness of the issuer and the guarantor and of no one else.

The distribution of this base listing document, any supplemental listing document, any supplemental disclosure document, any addendum and the offering, sale and delivery of structured products in certain jurisdictions may be restricted by law. You are required to inform yourselves about and to observe such restrictions. Please read Annex 3 "Purchase and Sale" in this base listing document.
The structured products have not been and will not be registered under the United States Securities Act of 1933, as amended (the Securities Act), and trading in the structured products has not been and will not be approved by the United States Commodity Futures Trading Commission under the United States Commodity Exchange Act. The structured products may not be offered or sold within the United States or to or for the account or benefit of U.S. Persons (as defined in Regulation S under the Securities Act).

Base Listing Document dated 22 May 2009

J.P.Morgan

IMPORTANT

If you are in doubt as to the contents of this base listing document, you should obtain independent professional advice.

Copies of this base listing document, the relevant supplemental listing document, the supplemental disclosure document (if any) (together with a Chinese translation of each of these documents) and other documents listed under the section "Where can I read copies of the Issuer's documentation?" under the section headed "More information about our structured products and our listing documents" in this base listing document may be inspected at the offices of J.P. Morgan Securities (Asia Pacific) Limited at 25/F, Chater House, 8 Connaught Road, Central, Hong Kong.

基本上市文件、有關補充上市文件及補充披露文件(如有)(及以上各份文件的中譯本)本連同本基本上市文件之「有關本公司結構性產品及上市文件的更多資料」一節內,「本人從何處可查閱發行人的文件?」一節所列之其餘文件,可於J.P. Morgan Securities (Asia Pacific) Limited於香港干諾道中8號遮打大廈25樓的辦事處供查閱。

We do not give you investment advice; you must decide for yourself, after reading the listing documents for the relevant structured products and, if necessary, seeking professional advice, whether our structured products meet your investment needs.

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SUMMARY OF OUR STRUCTURED PRODUCTS

The types of structured products that we may issue include, but are not limited to: cash-settled stock warrants, cash-settled foreign stock warrants, cash-settled warrants over single unit trust, basket warrants, index warrants and equity linked instruments. Each type of our structured products will be subject to a separate set of master terms and conditions (Conditions) either as set out in Annex 1 to this base listing document (for the structured products listed above) or as set out in the relevant supplemental listing document (for other types of structured products). For each issue of our structured products, we will publish a supplemental listing document setting out the specific terms. The specific terms set out in the relevant supplemental listing document supplement and amend the applicable set of Conditions to form the legally binding terms and conditions of that issue of structured products.

We describe below the main features of the different types of our structured products.

General features of our structured products:

Issuer:	J.P. Morgan Structured Products B.V.
Guarantor:	JPMorgan Chase Bank, National Association
Guarantor's current long-term debt ratings as of 20 May 2009:	AA- by Standard & Poor's AA- by Fitch, Inc. Aa1 by Moody's Investors Service
Rating of the structured products:	The structured products are not rated by any credit rating agencies.
Ranking of our structured products:	Upon exercise, our structured products will become our direct, unconditional, unsecured and unsubordinated obligations ranking equally with all our other direct, unconditional, unsecured and unsubordinated obligations.
Guarantee:	The obligations of the guarantor under the guarantee are direct, unconditional, unsecured and unsubordinated, subject to the terms of the guarantee. You can find the form of the guarantee in Annex 2.
Liquidity provider:	J.P. Morgan Broking (Hong Kong) Limited or such other entity appointed by us as may be specified in the relevant supplemental listing document. We will describe in each supplemental listing document whether and to what extent we are obligated to provide liquidity in our structured products.

Form:	In registered form subject to and with the benefit of a deed poll made by us and the guarantor. Each issue will be represented by a global certificate registered in the name of HKSCC Nominees Limited (or its successors) as holder and deposited within the Central Clearing and Settlement System (CCASS). We will not issue any definitive certificates for our structured products.
Use of proceeds:	We will use the proceeds from the issue of our structured products for our general working capital or any other purposes permitted under our memorandum and articles of association, including entering into hedging transactions with our affiliates.
Further issues:	We can issue further structured products to form a single series with an existing issue of our structured products.
Delisting of the shares/units underlying our structured products:	If the shares/units of the company/trust or the shares of any of the companies underlying a particular issue of our structured products are delisted from the relevant stock exchange, we may adjust the terms of that issue as further detailed in the relevant terms and conditions of our structured products.
Adjustments upon certain events affecting the company/trust or companies, the index underlying or such other asset underlying our structured products:	If certain events occur in connection with the company/trust or any of the companies underlying our structured products, or if certain events have occurred which materially modify the underlying index or such other underlying asset, we may make adjustments to the terms of that issue to account for the effect of such events. Please see the applicable set of Conditions of our structured products for further details. These events and the possible adjustments we may make are set out in detail in the applicable set of Conditions.
Governing law:	Our structured products are governed by Hong Kong law and the guarantee is governed by New York law.

SPECIFIC FEATURES OF OUR STRUCTURED PRODUCTS

Warrants:

Warrants are structured financial products, the value of which is derived from the price or value of another asset. The underlying asset may be a stock, units in funds or trusts, a basket of stocks and/or units in funds or trusts, an index, a basket of indices, currency, commodity or other asset or combination of such assets.

- Cash-settled stock/foreign stock warrants and cash-settled warrants over single unit trust:

The underlying asset of stock warrants is shares of a company and the underlying asset of warrants over single unit trust is units in a fund or a trust. The shares and units in the fund or trust may be listed in Hong Kong or overseas.

Generally, a physically-settled stock call warrant or a physically-settled call warrant over a single unit trust gives its holders the right, but not the obligation, to purchase from the issuer, at a predetermined exercise price, a specific number of shares issued by a company or a specific number of units issued by a fund or trust.

Generally, a physically-settled stock put warrant or a physically-settled put warrant over a single unit trust gives its holders the right, but not the obligation, to sell to the issuer, at a predetermined exercise price, a specific number of shares issued by a company or a specific number of units issued by a fund or trust.

Our cash-settled stock/foreign stock warrants and cash-settled warrants over single unit trust provide for cash settlement only, which means that physical delivery of the underlying shares or units will not be available as a method of settlement; instead, upon the exercise of a number of warrants with an aggregate entitlement of one share or unit, we will pay the warrantholder upon exercise a cash amount equal to the average price of the underlying share or unit in respect of the valuation dates less the exercise price (in the case of call warrants) or the exercise price less the average price of the underlying share or unit in respect of the valuation dates (in the case of put warrants) and in each case less any exercise expenses, so long as such amount is greater than zero.

- Basket warrants:

The underlying asset of basket warrants is a basket comprising shares of a number of companies.

Generally, a physically-settled basket call warrant gives its holders the right, but not the obligation, to purchase from the issuer, at a predetermined exercise price, the shares in the basket in a specified proportion.

Generally, a physically-settled basket put warrant gives its holders the right, but not the obligation, to sell to the issuer, at a predetermined exercise price, the shares in the basket in a specified proportion.

Our basket warrants provide for cash settlement only, which means that physical delivery of the underlying shares will not be available as a method of settlement; instead, we will pay the warrantholder upon exercise a cash amount equal to the sum of the weighted final prices of the underlying shares in a basket less the exercise price (in the case of call warrants) or the exercise price less the sum of the weighted final prices of the underlying shares (in the case of put warrants) and in each case less any exercise expenses, so long as such amount is greater than zero.

For our cash-settled stock/foreign stock warrants, cash-settled warrants over single unit trust and basket warrants, the final price of an underlying share or unit is determined by reference to the market closing price on each valuation date; please see the terms and conditions of our warrants for further details.

- Index warrants: The underlying asset of index warrants is an index published by an index sponsor.

  Our index call warrant gives its holders a right upon exercise to receive from us a cash amount equal to the excess (if any) of the closing level of an index on the date of exercise of the index call warrant over the predetermined strike level, times a predetermined amount and less any exercise expenses, converting such amount in the trading currency of the constituent stocks of the index into the settlement currency of our warrants if necessary.

  Our index put warrant gives its holders a right upon exercise to receive from us a cash amount equal to the excess (if any) of the predetermined strike level over the closing level of the index on the date of exercise of the index put warrant, times a predetermined amount and less any exercise expenses, converting such amount in the trading currency of the constituent stocks of the index into the settlement currency of our warrants if necessary.

  The closing level of the index on the date of exercise may be determined by reference to the official settlement price of an exchange traded contract relating to the index or some other means; please see the terms and conditions of our warrants for further details.

The supplemental listing document will set out, among others, the following terms specific to our warrants to supplement the applicable set of master terms and conditions in this base listing document:

Board lot Minimum number at which our warrants trade

Shares of the company Name of underlying share (for our cash-settled stock/foreign stock warrants only) and par value of underlying share (for our cash-settled stock warrants only)

Shares of the companies in the basket Names and par values of underlying shares in the basket (for our basket warrants only)

Trust	Name of the underlying trust or fund (for our warrants over single unit trust only)
Index	Name of the underlying index (for our index warrants only)
Index sponsor	Name of company that maintains the index and calculates and publishes the index levels (for our index warrants only)
Exercise price	Predetermined exercise price of the underlying share(s)/unit (for our cash-settled stock/foreign stock warrants, warrants over single unit trust and basket warrants only)
Strike level	Predetermined level of the underlying index (for our index warrants only)
Relevant exchange	The relevant exchange where the underlying share is listed (for our foreign stock warrants only)
Foreign currency	The relevant foreign currency in which the underlying share is denominated (for our foreign stock warrants only)
Exchange rate	The relevant exchange rate for conversion of the currency in which the underlying share is denominated to Hong Kong dollars for the calculation of the cash settlement amount (for our foreign stock warrants only)
Exercise amount	Number of our warrants, which is the unit reference we will use to calculate the amount we deliver to you in cash (the cash settlement amount). The exercise amount is usually one board lot
Expiry date/exercise date	Date on which the life of our warrants expires or on which our warrants are exercised
Entitlement	Number of shares/units to which a specified number of warrants relates (for our cash-settled stock/foreign stock warrants and warrants over single unit trust only)
Basket components	The companies in the basket, and the weighting of each company in the basket (for our basket warrants only)
Index currency amount	An amount denominated in the currency in which the constituent stocks of the index are traded, which is used in the calculation of the cash settlement amount payable upon the exercise of an exercise amount of our warrants (for our index warrants only)

American/European style	American style warrants can be exercised over a period beginning at 10:00 a.m. (Hong Kong time) on the dealing commencement date and ending at 10:00 a.m. (Hong Kong time) on the expiry date European style warrants can only be exercised at 10:00 a.m. (Hong Kong time) on the expiry date
Dealing commencement date	Listing date or date on which our warrants commence trading

Equity linked instruments (ELIs):

Our ELIs are written over the shares of a company specified in the supplemental listing document. We can issue three types of ELIs:

- Bull ELIs: When you purchase our bull ELIs, you will make an initial payment. At maturity, we will pay you a predetermined cash payment (the cash settlement amount) where the closing price of the shares of the company on the valuation date is at or above the strike level. If the closing price of the shares of the company on the valuation date is below the strike level, we will either deliver to you shares in the company (the physical settlement amount) or pay you a cash amount calculated by reference to the value of physical settlement amount.

- Bear ELIs: When you purchase our bear ELIs, you will make an initial payment. At maturity, we will pay you a predetermined cash payment (the cash settlement amount) where the closing price of the shares of the company on the valuation date is below the strike level. If the closing price of the shares of the company on the valuation date is at or above the strike level, we will pay you a cash amount being the cash settlement amount minus the bear option settlement amount.

- Range ELIs: When you purchase our range ELIs, you will make an initial payment. At maturity, we will pay you a predetermined cash payment (the cash settlement amount) where the closing price of the shares of the company on the valuation date is at or above the lower strike level and below the higher strike level. If the closing price of the shares of the company on the valuation date is at or above the higher strike level, we will pay you a cash amount being the cash settlement amount minus the range option settlement amount. If the closing price of the shares of the company on the valuation date is below the lower strike level, we will either deliver to you the physical settlement amount or pay you a cash amount calculated by reference to the value of physical settlement amount.

The supplemental listing document will set out the following terms specific to our ELIs to supplement the set of Conditions applicable to our ELIs in this base listing document:

Board lot	Unit in which our ELIs trade
Shares of the company	Name and par value of shares of the company underlying our ELIs

Share amount	Number of shares of the company in respect of one board lot
Maturity date	Date on which the ELIs mature
Valuation date	Date on which the closing price of the shares of the company will be used for determining the settlement amount (normally the maturity date)
Strike level	The predetermined level of the share price of the underlying shares (for our bull ELIs and bear ELIs only)
Higher strike level and lower strike level	The predetermined higher and lower strike level of the share price of the underlying shares (for our range ELIs only)
Settlement amount	The amount we deliver to you in cash (cash settlement amount) or by physical delivery of the underlying shares subject to a minimum of zero (physical settlement amount)
Dealing commencement date	Listing date or date on which our ELIs commence trading

MORE INFORMATION ABOUT OUR STRUCTURED PRODUCTS AND OUR LISTING DOCUMENTS

WHO IS RESPONSIBLE FOR THIS BASE LISTING DOCUMENT?

We and the guarantor accept full responsibility for the accuracy of the information contained in this base listing document.

We have included references to websites to guide you to sources of freely available information. The information on these websites does not form part of our base listing document. Neither we nor the guarantor accept any responsibility for the information on these websites. Such information has not been prepared for the purposes of our structured products.

Our base listing document is accurate at the date stated on the cover. You must not assume, however, that the information in this base listing document is accurate at any time after the date of this base listing document.

The managers and the liquidity provider are not responsible in any way for ensuring the accuracy of our listing documents.

IS THE ISSUER OR GUARANTOR REGULATED BY THE HONG KONG MONETARY AUTHORITY OR AN OVERSEAS REGULATORY AUTHORITY OR THE SECURITIES AND FUTURES COMMISSION OF HONG KONG (SFC)?

We are not regulated by any of the bodies referred to in Rule 15A.13(2) or (3) of the Stock Exchange's Listing Rules. The guarantor is a licensed bank regulated by the Hong Kong Monetary Authority. It is also a national banking association organised and subject to regulation under the laws of the United States of America, including the National Bank Act.

WHERE CAN I FIND MORE INFORMATION ABOUT THE ISSUER, THE GUARANTOR AND THE STRUCTURED PRODUCTS?

Information on our structured products is described in this base listing document and the relevant supplemental listing document.

If the information in this base listing document needs to be updated at the time we issue a supplemental listing document, we will put the updated information in the supplemental listing document or a supplemental disclosure document or a new addendum. Please read this base listing document together with the relevant supplemental listing document and, if applicable, the relevant supplemental disclosure document or the relevant addendum carefully before you decide whether to buy our structured products.

Additional information regarding the guarantor can be viewed on JPMorgan Chase & Co.'s investor relations website at http://investor.shareholder.com/jpmorganchase/. You are cautioned that this information will not have been prepared exclusively for the purposes of our structured products.

We have not authorised anyone to give you any information about our structured products other than the information in this base listing document, the relevant supplemental listing document and, if applicable, the relevant supplemental disclosure document and the relevant addendum.

WHEN WERE THE STRUCTURED PRODUCTS AUTHORISED?

The issue of our structured products was authorised by resolutions of our board of directors on 20 May 2009. The giving of the guarantee was authorised by resolutions of the board of directors of the guarantor on 17 January 2007, 21 February 2008 and 9 December 2008.

WHERE CAN I READ COPIES OF THE ISSUER'S DOCUMENTATION?

You can read copies of the documents set out below by going to the offices of J.P. Morgan Securities (Asia Pacific) Limited, 25/F, Chater House, 8 Connaught Road, Central, Hong Kong. These offices are open only during normal business hours and not on Saturdays, Sundays or public holidays.

These are the documents, copies of which may be inspected upon request while any of our structured products are in issue:

- our memorandum and articles of association;
- the guarantor's articles of association and by-laws;
- our 2008 annual report which contains our financial statements for the year ended 31 December 2008 (the Issuer's Audited Financial Statements 2008);
- the guarantor's consolidated financial statements comprising consolidated balance sheets at 31 December 2008 and 2007 and the related consolidated statements of income, changes in stockholder's equity and comprehensive income and cash flows for each of the three years ended 31 December 2008, and quarterly consolidated financial statements, as and when they become available;
- the guarantee dated 22 May 2009;
- the letter from our auditors, PricewaterhouseCoopers Accountants N.V., consenting to the reproduction of their report in this base listing document;
- the letter from the guarantor's auditors, PricewaterhouseCoopers LLP, consenting to the reproduction of their report in this base listing document;
- the Instrument (as amended or supplemented from time to time) pertaining to the issue of structured products; and
- this base listing document dated 22 May 2009 (including any supplemental disclosure document or addenda to this document) and the relevant supplemental listing document (together with a Chinese translation of each of these documents).

A reasonable fee will be charged if you want to take photocopies of any of the documents while they are on display.

TRANSFER OF STRUCTURED PRODUCTS

Settlement of transactions between members of the Stock Exchange on any business day must take place on or before the second business day thereafter. Securities executed on the Stock Exchange would normally be settled under the continuous net settlement system in CCASS. Dealings in the structured products will take place in relevant board lots in Hong Kong dollars. For further details on transfers of structured products and their exercise or settlement, see the terms and conditions of the relevant issue of structured products.

DO I HAVE TO PAY STAMP DUTY OR OTHER LEVIES ON THE STRUCTURED PRODUCTS?

No, there is no Hong Kong stamp duty on issue of our structured products or on any transfer of our cash settled structured products. The levy for the investor compensation fund is currently suspended.

However, the SFC charges a transaction levy at the rate of 0.004 per cent. on the value of the transaction of structured products and this amount is payable by each of the buyer and seller. Additionally, the Stock Exchange charges a trading fee on every purchase and sale of listed securities calculated at a rate of 0.005 per cent. of the amount of the transaction and is payable by each of the buyer and seller.

You should be aware that you may be required to pay stamp taxes or other documentary charges in accordance with the laws and practices of the country where the structured products are transferred. If you are in any doubt as to your tax position, you should consult your own independent tax advisers. You should also be aware that tax regulations and their application by the relevant taxation authorities change from time to time.

HOW DO I HOLD MY STRUCTURED PRODUCTS?

Our structured products will be issued in global registered form, represented by a global certificate registered in the name of HKSCC Nominees Limited (or its successors).

We have made all necessary arrangements to enable our structured products to be admitted for deposit, clearing and settlement in CCASS. We will not issue any definitive certificates for our structured products. Our structured products will be deposited within CCASS.

If you are a CCASS investor participant, you may hold your structured products in your account with CCASS. If you do not have a CCASS account, your broker or agent (as a CCASS participant) will arrange to hold your structured products for you in an account at CCASS. We or the guarantor will make all payments and/or deliveries on our structured products to CCASS: you will have to check your CCASS account or rely on your broker or agent to ensure that payments on your structured products are credited to your account with your broker or agent. Once we have made the relevant payment and/or delivery in this way to CCASS, we will have no further obligations for that payment and/or delivery, even if CCASS or your broker/agent fails to transmit to you your share of such payment or delivery or if it was transmitted late. Any notices we and/or the guarantor give in relation to our structured products will be given in the same way: you will have to rely on CCASS and/or your broker or agent to ensure that those notices reach you.

RISK FACTORS

You should carefully consider the following information together with the other information contained in this base listing document and in the applicable supplemental listing document before purchasing our structured products of any series.

This section highlights only some of the risks of investing in the structured products but their inclusion in this document does not mean these are the only significant or relevant risks of investing in our structured products.

Unless otherwise specified or the context otherwise requires, references to:

(a) "JPMorgan Chase" are to JPMorgan Chase & Co. and its consolidated subsidiaries; and

(b) "JPMorgan Chase Bank" are to JPMorgan Chase Bank, N.A. and its consolidated subsidiaries.

There are risks associated with investing in our structured products; our structured products are volatile instruments

Our structured products are structured financial instruments, their value may fall as rapidly as they may rise and you may sustain a total loss in your investment. Your investment in our structured products involves risks. Before investing in any of our structured products, you should consider whether our structured products are suitable for you in light of your own financial circumstances and investment objectives. Not all of these risks are described in this base listing document or a supplemental listing document. You should consider taking independent professional advice prior to making an investment in our structured products.

Structured products are complex and volatile instruments

Your investment in our structured products will be worthless if you are holding our structured products when they expire out-of-the-money – meaning that the average/closing price or closing level of the underlying asset in respect of the relevant valuation date(s), determined in accordance with the terms and conditions of our structured products, is greater (for our put warrants or bear ELIs) or less (for our call warrants or bull ELIs) than the exercise price or strike level of our structured products.

Our structured products are complex instruments and their values at any time prior to expiry are governed by a number of factors, including but not limited to the time left till expiry, the price or level of the underlying asset compared with the exercise price or strike level of our structured products, the volatility of price or level of the underlying asset, market interest rate movements, our and the guarantor's financial condition and the market's view of our and the guarantor's credit quality. The values of our structured products may rise or fall rapidly over a short time due to changes in one or more factors. The interplay of these different factors also means that the effect on the value of our structured products from the change in one factor may offset or accentuate the effect from the change in another factor. The value or level of the underlying assets (and some of the other relevant factors) can also be unpredictable: it may change suddenly and in large magnitude or not change at all. You may risk losing your entire investment if the price or level of the underlying assets do not move in your anticipated direction. You should also note that, assuming all other factors are held constant, the value of structured products will decline over time.

The cash settlement amount of our structured products if calculated at any time prior to expiry may typically be less than the market price of such structured products at that time. The difference will reflect,

among other things, a "time value" for the structured products which depends on a number of interrelated factors including those specified above.

Your ability to realise your investment in our structured products is dependent on the trading market for our structured products

Where our structured products are not exercisable prior to the expiry date, the only way you may be able to realise the value of your investment in our structured products is to dispose of them either in the on-exchange market or over-the-counter market. If you dispose of your investment in our structured products before expiry in this way, the amount you will receive will depend on the price you are able to obtain from the market for our structured products. That price may depend on the quantity of our structured products you are trying to sell. The market price of our structured products may not be equal to the value of our structured products, and changes in the price of our structured products may not correspond (in direction and/or magnitude) with changes in the value of our structured products.

The liquidity provider appointed for our structured products will upon request provide bid and/or offer prices for our structured products on the Stock Exchange and may (but is not obliged to) provide such prices at other times too, but under certain circumstances it may not provide bid and/or offer prices even if requested. You should refer to the section regarding liquidity provider in the relevant supplemental listing document for further details. The prices provided by our liquidity provider are influenced by, among other things, the supply and demand of our structured products for a particular series in the market, and may not correspond with the values of such structured products or changes in such values.

You should note that the prices available in the market for our structured products may also come from other participants in the market, although we cannot predict if and to what extent a secondary market may develop for our structured products or whether that market will be liquid or illiquid. The fact that a particular series of structured products is listed does not necessarily lead to greater liquidity. In addition, no assurance can be given that the listing of any particular series of our structured products will be maintained. If our structured products of a particular series cease to be listed, they may not be transacted through the Stock Exchange or at all, and they may even be terminated early. Off-exchange transactions may involve greater risks than on-exchange transactions. You may be unable to find any buyer for your holdings of our structured products on the Stock Exchange if the value of the structured products falls below HK$0.01.

Only the liquidity provider appointed for our structured products is obliged to provide bid and/or offer prices for our structured products (subject to the terms set out in the relevant supplemental listing document), and at times it may be the only source of bid and/or offer prices for our structured products.

The liquidity of any series of our structured products may also be affected by restrictions on offers and sales of our structured products in some jurisdictions including the restrictions described in Annex 3 "Purchase and Sale" to this base listing document.

If trading in the underlying asset is suspended, trading in our structured products may also be suspended for a similar period.

You must rely on our and the guarantor's creditworthiness; our obligations are not deposit liability or debt obligations

Our structured products are not secured on any assets. Our structured products represent our general contractual obligations and will rank equally with our other general unsecured obligations. The number of structured products outstanding at any given time may be substantial. When purchasing our structured products, you will be relying upon our and the guarantor's creditworthiness and of no one else. We do not intend to create upon ourselves a deposit liability or a debt obligation by issue of any structured products.

You should note that we are a non-banking subsidiary of J.P. Morgan International Finance Limited, which is a subsidiary of the guarantor, which is in turn a subsidiary of JPMorgan Chase & Co., a corporation incorporated under the laws of the State of Delaware in the United States of America. Our primary activity is the issuance of securitised derivatives, comprising notes, warrants and certificates including equity-linked, reverse convertible and market participation notes, with the proceeds of securities being used to enter into hedging arrangements with other JPMorgan Chase companies. Our ability to perform our obligations may therefore be affected by any inability or failure to perform obligations owed to us by other JPMorgan Chase companies.

Our structured products are not rated, you should not solely rely on the guarantor's ratings when investing in the structured products

When evaluating the guarantor's creditworthiness, you should not solely rely on the guarantor's credit ratings because:

- a credit rating is not a recommendation to buy, sell or hold the structured products;
- credit ratings of the guarantor may involve difficult-to-quantify factors such as market competition, the success or failure of new products and markets and managerial competence; and
- a high credit rating is not necessarily indicative of low risk. The guarantor's credit ratings as set out in this document are for reference only. Any downgrading of the guarantor's credit ratings could result in a reduction in the value of the structured products.

Rating agencies usually receive a fee from the entities that they rate.

You have no rights in the underlying assets and the market price for our structured products may fluctuate differently from that of the underlying assets

Our structured products are financial instruments issued by us and are separate from the underlying assets. You have no rights under our structured products against (i) any company, trust or fund which issues or comprises the underlying assets of the relevant issue of structured products or (ii) the trustee or the manager of any underlying asset that is a trust or a fund or (iii) the sponsor of any underlying asset that is an index. In addition, buying our structured products is not the same as buying the underlying assets or having a direct investment in the underlying assets. You will not be entitled to have voting rights, rights to receive dividends or distributions or any other rights under the underlying shares or units in the underlying fund or trust. As mentioned, there are many factors influencing the value and/or market price of structured products, which are leveraged instruments. For example, increases in the price or level of the underlying assets may not lead to an increase in the value and/or market price of a call warrant by a proportionate amount or even any increase at all; however, a decrease in the price or level of the underlying assets may lead to a greater than proportionate decrease in the value and/or market price of a call warrant. There is no assurance that a change in value and/or market price of our structured products will correspond in direction and/or magnitude with the change in price or level of the underlying assets. You should recognise the complexities of utilising our structured products to hedge against the market risk associated with investing in an underlying asset.

The issuer, the trustee, the manager or the sponsor of the underlying assets will have no involvement in the offer and sale of our structured products and no obligation to you as investors in our structured products. The decisions made by them on corporate actions, such as a merger or sale of assets, or adjustment of the method for calculation of an index may also have adverse impact on the value and/or market price of our structured products.

There could be conflicts of interest arising out of our other activities which may affect our structured products

We, the guarantor and its subsidiaries and affiliates may engage in transactions (whether for their proprietary accounts, including hedging, or trading for accounts under management or otherwise) involving, as well as provide investment banking and other services to, any company or to any trustee or manager of a trust or a fund underlying our structured products or their securities and may enter into transactions with the substantial shareholders of the underlying company. Those transactions may have a positive or negative impact on the price or level of the underlying asset and in turn the value and/or market price of our structured products. We, the guarantor and its subsidiaries and affiliates may have officers who serve as directors of any of the companies underlying our structured products. Our proprietary trading activities (which include hedging of our structured products) in the underlying securities or related structured products may affect the value and/or market price of the structured products. We or the guarantor may issue other competing financial products which may affect the value and/or market price of our structured products. You should also note that potential conflicts of interest may arise from the different roles played by us, the guarantor and its subsidiaries and affiliates in connection with our structured products and the economic interests in each role may be adverse to your interests in our structured products. We or the guarantor owe no duty to you to avoid such conflicts.

We may early terminate our structured products due to illegality, force majeure or extraordinary reasons

If we determine (in good faith) that our obligations under any structured products, or if we become aware that the guarantor's performance of its obligations under the guarantee, has become unlawful or impractical, we may (with necessary approvals from regulatory authorities) decide to terminate that issue of structured products early. If this happens, we or the guarantor will pay the holder of those structured products an amount determined by the agent in its sole and absolute discretion to be the fair market value of the structured products immediately prior to such termination less any unwinding cost or otherwise as specified in the relevant supplemental listing document. Such fair market value of the structured products could be substantially less than the amount you invested and can be as low as zero.

Risks associated with structured products linked to the value of foreign underlying assets

You should be aware that investments in structured products linked to the value of foreign underlying assets involve particular risks. For our foreign stock warrants and our warrants linked to an index comprising of stocks traded in equity securities markets of foreign countries, the liquidity and volatility of the relevant foreign equity securities market may be different from that of the Hong Kong equity securities market. Also, there may be less publicly available information about the underlying foreign companies than those available about Hong Kong listed companies and some of those information may or may not be available in English and/or Chinese. Foreign companies may also be subject to different accounting, auditing and financial reporting standards and requirements compared to those applicable to Hong Kong listed companies.

Prices and market value of foreign underlying assets may be subject to political, economic, financial and social factors which may differ favourably or unfavourably from those factors that apply to Hong Kong. Moreover, foreign economies may also differ favorably or unfavorably from the Hong Kong economy in important respects such as growth of gross national product, rate of inflation, capital reinvestment, resources and self-sufficiency.

Further, for our foreign stock warrants and our warrants linked to an index comprising of stocks traded in equity securities markets of foreign countries, the trading hours and closing times of the relevant stock exchange(s) may be different to those of the Stock Exchange and the relevant stock exchange(s) may be located in a different time zone compared with the Stock Exchange. The days on which the relevant stock exchange(s) are open for trading may also be different to those of the Stock Exchange. As a result, there may be certain periods of time during the trading hours of the Stock Exchange when the price/level of the foreign underlying asset are not available. In such circumstances, the liquidity provider may not be able to provide liquidity in the market of the structured products. However, to the extent possible, the liquidity provider may be able to provide liquidity for the structured products in such circumstances using the last available closing price/level of the foreign underlying asset from the relevant stock exchange(s), adjusted where necessary to reflect the fair market value of the foreign underlying asset. In addition, any delay or disruption in the display of the price/level of the foreign underlying asset may also result in a corresponding delay or unavailability of the prices of the structured products. The supplemental listing document for our foreign stock warrants or our warrants linked to an index comprising of stocks traded in equity securities markets of foreign countries will set out further details on the relevant stock exchange(s).

Risks associated with our warrants over single unit trust

For our warrants over single unit trust, neither we nor any of our affiliates have the ability to control or predict the actions of the trustee or the manager of the underlying fund or trust. Neither the trustee nor the manager of the underlying fund or trust (i) is involved in the offer of any warrant in any way, or (ii) has any obligation to consider the interest of the holders of any warrant in taking any corporate actions relating to the underlying fund or trust that might affect the value of any warrant. The trustee or the manager of the underlying fund or trust is responsible for making investment and other trading decisions with respect to the management of the underlying fund or trust consistent with its investment objectives and in compliance with the investment restrictions as set out in the constitutive documents of the underlying fund or trust. The manner in which the underlying fund or trust is managed and the timing of actions may have a significant impact on the performance of the units in the underlying fund or trust. Hence, the price which is used to calculate the performance of the units in the underlying fund or trust may also be subject to these risks.

You should note that our warrants over single unit trust reference the units of the underlying fund or trust and the cash settlement amount (if any) payable upon exercise of our warrants will be calculated using the official closing prices of the units in the underlying fund or trust on the Stock Exchange on the valuation dates. Further, our warrants do not reference any index tracked by the underlying fund or trust and changes in the level of such index may not lead to a corresponding change in the value and/or market price of our warrants over single unit trust.

Liquidation of underlying company or termination of underlying trust or fund

In the event of liquidation, dissolution, winding up or termination of the company that issues the underlying shares, or termination of a trust or fund that issues the underlying units or the appointment of a receiver or administrator or analogous person to the company, trust or fund, the relevant structured products shall lapse and we, as the issuer, shall pay an amount equal to our good faith estimate (made in our sole discretion) of the value of our structured products to the holders, which may be as low as zero.

Time lag between the time of exercise and the time of determination of the settlement amount may affect the settlement amount

When exercising your structured products, there may be a time lag between the time of exercise and the time of determination of the settlement amount. Such delay could be significantly longer in the case of a market disruption event, delisting of the company that issues the underlying shares, termination of the trust or fund that issues the underlying unit or other adjustment events. This may result in the settlement amount being zero.

We may adjust the terms and conditions of our structured products upon the occurrence of certain corporate events or extraordinary events affecting the underlying assets

We and/or the agent may determine that certain corporate events or extraordinary events affecting the underlying assets have occurred and may in our sole discretion make corresponding adjustments to the terms and conditions of our structured products, including adjustments to (i) the exercise or strike price of the structured products; (ii) the entitlement of the structured products; (iii) the composition of the underlying assets or (iv) any other terms of the structured products. Such events and/or adjustments (if any) may have adverse impact on the value and/or market price of our structured products.

However, we have no obligation to make an adjustment for every event that can affect the underlying asset. The value and/or market price of our structured products may be adversely affected by such events in the absence of an adjustment by us. If adjustments were made, we do not assure that such adjustments can negate any adverse impact of such events on the value and/or market price of our structured products.

We may modify the terms and conditions of the structured products

We may, without your consent, modify the terms and conditions applicable to the structured products if such modification is:

(i) not materially prejudicial to your interest;

(ii) of a formal, minor or technical nature;

(iii) made to correct an obvious error;

(iv) for compliance with law or regulations; or

(v) considered by us or our agent to be appropriate and is approved by the Stock Exchange.

Our determination of the occurrence of a market or settlement disruption event may affect the value and/or market price of our structured products

We and/or the agent may determine that a market or settlement disruption event has occurred. Such determination may affect the value and/or market price of our structured products, and may delay settlement in respect of our structured products.

If the agent determines that a market disruption event exists, the valuation of the underlying assets for the purpose of calculating the cash settlement amount of our structured products may be postponed. Under certain circumstances, we and/or the agent may determine the good faith estimate of the value or level of the underlying assets that would have prevailed on the relevant valuation date but for such market disruption event.

The implied volatility of our structured products may not reflect the actual volatility of the underlying asset

The market price of our structured products is determined among other factors by the supply and demand of the structured products. This price "implies" a level of volatility in the underlying asset in the sense that such level of volatility would give a theoretical value for the structured product which is equal to that price; but such level of volatility may not be equal to the actual level of volatility of the underlying asset in the past or future.

Investment in our structured products may involve exchange rate risks and interest rate risks

An investment in our structured products may involve exchange rate risks. For example, the underlying asset may be denominated in a currency other than that of our structured products, our structured products may be denominated in a currency other than the currency of your home jurisdiction and our structured products may settle in a currency other than the currency in which you wishes to receive funds. Changes in the exchange rate(s) between the currency of the underlying asset, the currency in which our structured products settle and/or the currency of your home jurisdiction may adversely affect the return of your investment in our structured products. We cannot assure that current exchange rates at the issue date of our structured products will be representative of the future exchange rates used in computing the value of our structured products. Fluctuations in exchange rates may therefore affect the value of our structured products.

An investment in our structured products may also involve interest rate risk as the intrinsic value of a structured product may be sensitive to fluctuations in interest rates. Fluctuations in the short term or long term interest rates of the currency in which our structured products are settled or the currency in which the underlying asset is denominated may affect the value and/or market price of our structured products.

Please consult your tax advisers if you are in any doubt of your tax position

You may be required to pay stamp taxes or other documentary charges in accordance with the laws and practices of the country where our structured products are transferred and such laws and practices may change from time to time. If you are in any doubt of your tax position, you should consult your own independent tax advisers.

Our structured products are issued in global registered form; you have to rely on your brokers to evidence title to your investment and to receive notices and the cash settlement amount

Our structured products are issued in global registered form and held on your behalf within a clearing system. This means that evidence of title to your interests, as well as the efficiency of ultimate delivery of the cash settlement amount or any physical settlement amount, will be governed by the CCASS Rules.

Our structured products in global registered form will be registered in the name of HKSCC Nominees Limited (or its successors), which shall be treated by us as the holder of our structured products for all purposes. This means that you will not receive definitive certificates and the register will record at all times that our structured products are being held by HKSCC Nominees Limited (or its successors). If you are a CCASS investor participant, you may hold your structured products in your account with CCASS. If you do not have a CCASS account, you will have to rely solely upon your brokers and the statements received from your brokers to evidence title to your investments. You will also have to rely on your brokers to effectively inform you of any notices, announcements and/or meetings issued or called by us (upon receipt by those brokers as CCASS participants of the same from CCASS and ultimately from us). The Stock Exchange's Listing Rules also provide that our obligations to deliver notices, announcements and/or meetings will be complied with by a posting on the Stock Exchange's website. Our obligations to

deliver any cash settlement amount or physical settlement amount to you will be duly performed by the delivery of any such amount to HKSCC Nominees Limited (or its successors) as the holder. You will therefore have to rely on CCASS and/or your brokers for the ultimate delivery of any cash settlement amount or physical settlement amount to you as the investor.

There may be limitations on the number of structured products exercisable for a particular series

We may specify for a particular series of structured products the maximum number of structured products exercisable (in the case of American style structured products) or the minimum number of structured products exercisable. You may not be able to exercise all the structured products that you may wish to exercise if the specified maximum number is exceeded, or you will have to sell your structured products or purchase additional structured products of the same series if the number of structured products you hold is fewer than the specified minimum number.

We and our guarantor do not give you any advice or credit analysis

Neither we nor the guarantor is responsible for the lawfulness of your acquisition of our structured products. We and the guarantor are not giving you any advice or credit analysis of the underlying assets. You shall be deemed to have made a representation to such effect for each purchase of our structured products of any series.

Risk factors relating to the guarantor

JPMorgan Chase Bank's results of operations have been, and may continue to be, adversely affected by U.S. and international financial market and economic conditions.

JPMorgan Chase Bank's businesses have been, and in the future will continue to be, materially affected by economic and market conditions, including factors such as the liquidity of the global financial markets; the level and volatility of debt and equity prices, interest rates and currency and commodities prices; investor sentiment; corporate or other scandals that reduce confidence in the financial markets; inflation; the availability and cost of capital and credit; the occurrence of natural disasters, acts of war or terrorism; and the degree to which U.S. or international economies are expanding or experiencing recessionary pressures. These factors can affect, among other things, the activity level of clients with respect to the size, number and timing of transactions involving JPMorgan Chase Bank's investment and commercial banking businesses, including JPMorgan Chase Bank's underwriting and advisory businesses; the realization of cash returns from JPMorgan Chase Bank's principal investments businesses; the volume of transactions that JPMorgan Chase Bank executes for its customers and, therefore, the revenue JPMorgan Chase Bank receives from commissions and spreads; the number or size of underwritings that JPMorgan Chase Bank manages on behalf of clients; and the willingness of financial sponsors or other investors to participate in loan syndications or underwritings managed by JPMorgan Chase Bank.

JPMorgan Chase Bank generally maintains large trading portfolios in the fixed income, currency, commodity and equity markets and may have from time to time significant investment positions, including positions in securities in markets that lack pricing transparency or liquidity. The revenue derived from mark-to-market values of JPMorgan Chase Bank's businesses are affected by many factors, including JPMorgan Chase Bank's credit standing; its success in proprietary positioning; volatility in interest rates and equity, debt and commodities markets; credit spreads and availability of liquidity in the capital markets; and other economic and business factors. JPMorgan Chase Bank anticipates that revenue relating to its trading and principal investment businesses will continue to experience volatility and there can be no assurance that such volatility relating to the above factors or other conditions that may affect pricing or JPMorgan Chase Bank's ability to realize returns from such investments could not materially adversely affect JPMorgan Chase Bank's earnings.

The fees that JPMorgan Chase Bank earns for managing third-party assets are also dependent upon general economic conditions. For example, a higher level of U.S. or non-U.S. interest rates or a downturn in trading markets could affect the valuations of the third-party assets that JPMorgan Chase Bank manages or holds in custody, which, in turn, could affect JPMorgan Chase Bank's revenue. Moreover, even in the absence of a market downturn, below-market or sub-par performance by JPMorgan Chase Bank's investment management businesses could result in outflows of assets under management and supervision and, therefore, reduce the fees that JPMorgan Chase Bank receives.

JPMorgan Chase Bank's consumer businesses are particularly affected by domestic economic conditions. Such conditions include U.S. interest rates; the rate of unemployment; housing prices; the level of consumer confidence; changes in consumer spending; and the number of personal bankruptcies, among others. The deterioration of these conditions can diminish demand for the products and services of JPMorgan Chase Bank's consumer businesses, or increase the cost to provide such products and services. In addition, adverse economic conditions, such as declines in home prices, could lead to an increase in mortgage and other loan delinquencies and higher net charge-offs, which can adversely affect JPMorgan Chase Bank's earnings.

During 2008, U.S. and global financial markets were extremely volatile and were materially and adversely affected by a significant lack of liquidity, loss of confidence in the financial sector, disruptions in the credit markets, reduced business activity, rising unemployment, declining home prices, and erosion of consumer confidence. These factors contributed to adversely affecting JPMorgan Chase Bank's business, financial condition and results of operations in 2008 and there is no assurance when such conditions will ameliorate.

If JPMorgan Chase Bank does not effectively manage its liquidity, its business could be negatively affected.

JPMorgan Chase Bank's liquidity is critical to its ability to operate its businesses, grow and be profitable. Some potential conditions that could negatively affect JPMorgan Chase Bank's liquidity include illiquid or volatile markets, diminished access to capital markets, unforeseen cash or capital requirements (including, among others, commitments that may be triggered to special purpose entities ("SPEs") or other entities), difficulty or inability to sell assets, unforeseen outflows of cash or collateral, and lack of market or customer confidence in JPMorgan Chase Bank or its prospects. These conditions may be caused by events over which JPMorgan Chase Bank has little or no control. The liquidity crisis experienced in 2008 increased JPMorgan Chase Bank's cost of funding and limited its access to some of its traditional sources of liquidity such as securitized debt offerings backed by mortgages, loans, credit card receivables and other assets. If current market conditions continue, JPMorgan Chase Bank's liquidity could be adversely affected.

The credit ratings of JPMorgan Chase Bank & Co., JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A. are important in order to maintain JPMorgan Chase Bank's liquidity. A reduction in their credit ratings could have an adverse effect on JPMorgan Chase Bank's access to liquidity sources, increase JPMorgan Chase Bank's cost of funds, trigger additional collateral or funding requirements, and decrease the number of investors and counterparties willing to lend to JPMorgan Chase Bank, thereby curtailing its business operations and reducing its profitability. Reduction in the ratings of certain SPEs or other entities to which JPMorgan Chase Bank has a funding or other commitment could also negatively affect its liquidity where such ratings changes lead, directly or indirectly, to JPMorgan Chase Bank being required to purchase assets or otherwise provide funding. Critical factors in maintaining high credit ratings include a stable and diverse earnings stream, strong capital ratios, strong credit quality and risk management controls, diverse funding sources, and disciplined liquidity monitoring procedures.

JPMorgan Chase Bank's cost of obtaining long-term unsecured funding is directly related to its credit spreads (the amount in excess of the interest rate of U.S. Treasury securities (or other benchmark securities) of the same maturity that JPMorgan Chase Bank needs to pay to its debt investors). Increases in JPMorgan Chase Bank's credit spreads can significantly increase the cost of this funding. Changes in credit spreads are continuous and market-driven, and influenced by market perceptions of JPMorgan Chase Bank's creditworthiness. As such, JPMorgan Chase Bank's credit spreads may be unpredictable and highly volatile.

As a holding company, JPMorgan Chase Bank relies on the earnings of its subsidiaries for its cash flow and consequent ability to pay dividends and satisfy its obligations. These payments by subsidiaries may take the form of dividends, loans or other payments. Several of JPMorgan Chase Bank's principal subsidiaries are subject to capital adequacy requirements or other regulatory or contractual restrictions on their ability to provide such payments. Limitations in the payments that JPMorgan Chase Bank receives from its subsidiaries could negatively affect its liquidity position.

The soundness of JPMorgan Chase Bank's customers, clients and counterparties, including other financial institutions, could adversely affect JPMorgan Chase Bank.

A number of JPMorgan Chase Bank's products expose it to credit risk, including loans, leases and lending commitments, derivatives, trading account assets and assets held-for-sale. As one of the nation's largest lenders, JPMorgan Chase Bank has exposures to many different products and counterparties, and the credit quality of its exposures can have a significant impact on its earnings. JPMorgan Chase Bank estimates and establishes reserves for credit risks and potential credit losses inherent in JPMorgan Chase Bank's credit exposure (including unfunded lending commitments). This process, which is critical to JPMorgan Chase Bank's financial results and condition, requires difficult, subjective and complex judgments, including forecasts of how these economic conditions might impair the ability of JPMorgan Chase Bank's borrowers to repay their loans. As is the case with any such assessments, there is always the chance that JPMorgan Chase Bank will fail to identify the proper factors or that JPMorgan Chase Bank will fail to accurately estimate the impact of factors that it identifies. Any such failure could result in increases in delinquencies and default rates.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. JPMorgan Chase Bank routinely executes transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Many of these transactions expose JPMorgan Chase Bank to credit risk in the event of default by the counterparty or client, which can be exacerbated during periods of market illiquidity, such as those experienced in 2008. During such periods, JPMorgan Chase Bank's credit risk also may be further increased when the collateral held by it cannot be realized upon or is liquidated at prices that are not sufficient to recover the full amount of the loan or derivative exposure due to JPMorgan Chase Bank. In addition, disputes with counterparties as to the valuation of collateral significantly increases in times of market stress and illiquidity. There is no assurance that any such losses would not materially and adversely affect JPMorgan Chase Bank's results of operations or earnings.

An example of the risks associated with JPMorgan Chase Bank's relationships with other financial institutions is the collapse of Lehman Brothers Holdings Inc. ("LBHI"). On September 15, 2008, LBHI filed a voluntary petition for relief under Chapter 11 of Title 11 of the U.S. Code (the "Bankruptcy Code") in the U.S. Bankruptcy Court for the Southern District of New York, and thereafter several of its subsidiaries also filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the court (LBHI and such subsidiaries collectively, "Lehman"). On September 19, 2008, a liquidation case under the U.S. Securities Investor Protection Act ("SIPA") was commenced in the United States District Court for the Southern District of New York for Lehman Brothers Inc. ("LBI"), LBHI's U.S. broker-dealer subsidiary, and the court now presides over the LBI SIPA liquidation case. JPMorgan Chase Bank was

LBI's clearing bank and is the largest secured creditor in the Lehman and LBI cases, according to Lehman's schedules. JPMorgan Chase Bank anticipates that claims may be asserted against it and/or its security interests, including by the LBHI Creditors Committee, the SIPA Trustee appointed in the LBI liquidation case, the principal acquiror of LBI's assets, and others in connection with Lehman and LBI cases. JPMorgan Chase Bank intends to defend itself against any such claims.

As a result of the current economic environment there is a greater likelihood that more of JPMorgan Chase Bank's customers or counterparties could become delinquent on their loans or other obligations to JPMorgan Chase Bank which, in turn, could result in a higher level of charge-offs and provision for credit losses, or requirements that JPMorgan Chase Bank purchase assets or provide other funding, any of which could adversely affect JPMorgan Chase Bank's financial condition. Moreover, a significant deterioration in the credit quality of one of JPMorgan Chase Bank's counterparties could lead to concerns about the credit quality of other counterparties in the same industry, thereby exacerbating JPMorgan Chase Bank's credit risk exposure, and increasing the losses, including mark-to-market losses, that JPMorgan Chase Bank could incur in its trading, clearing, and proprietary businesses.

Concentration of credit and market risk could increase the potential for significant losses.

JPMorgan Chase Bank has exposure to increased levels of risk when a number of customers are engaged in similar business activities or activities in the same geographic region, or when they have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. JPMorgan Chase Bank regularly monitors various segments of its portfolio exposures to assess potential concentration risks. JPMorgan Chase Bank's efforts to diversify or hedge its credit portfolio against concentration risks may not be successful and any concentration of credit risk could increase the potential for significant losses in its credit portfolio. In addition, disruptions in the liquidity or transparency of the financial markets may result in JPMorgan Chase Bank's inability to sell, syndicate or realize upon securities, loans or other instruments or positions held by JPMorgan Chase Bank, thereby leading to increased concentrations of such positions. These concentrations could expose JPMorgan Chase Bank to losses if the mark-to-market value of the securities, loans or other instruments or positions decline causing JPMorgan Chase Bank to take write downs. Moreover, the inability to reduce positions not only increases the market and credit risks associated with such positions, but also increases the level of risk-weighted assets on JPMorgan Chase Bank's balance sheet, thereby increasing its capital requirements and funding costs, all of which could adversely affect JPMorgan Chase Bank's businesses' operations and profitability.

JPMorgan Chase Bank's framework for managing risks may not be effective in mitigating risk and loss to it.

JPMorgan Chase Bank's risk management framework seeks to mitigate risk and loss to it. JPMorgan Chase Bank has established processes and procedures intended to identify, measure, monitor, report and analyze the types of risk to which JPMorgan Chase Bank is subject, including liquidity risk, credit risk, market risk, interest rate risk, operational risk, legal and fiduciary risk and reputational risk, among others. However, as with any risk management framework, there are inherent limitations to JPMorgan Chase Bank's risk management strategies as there may exist, or develop in the future, risks that JPMorgan Chase Bank has not appropriately anticipated or identified. If JPMorgan Chase Bank's risk management framework proves ineffective, it could suffer unexpected losses and could be materially adversely affected.

JPMorgan Chase Bank's risk management strategies may not be effective because in a difficult or less liquid market environment other market participants may be attempting to use the same or similar strategies to deal with the difficult market conditions. In such circumstances, it may be difficult for JPMorgan Chase Bank to reduce its risk positions due to the activity of such other market participants.

JPMorgan Chase Bank's derivatives businesses may expose it to unexpected market, credit and operational risks that could cause JPMorgan Chase Bank to suffer unexpected losses. Severe declines in asset values, unanticipated credit events, or unforeseen circumstances that may cause previously uncorrelated factors to become correlated may create losses resulting from risks not appropriately taken into account in the development, structuring or pricing of a derivative instrument. In addition, certain of JPMorgan Chase Bank's derivative transactions require the physical settlement by delivery of securities, commodities or obligations that JPMorgan Chase Bank does not own; if JPMorgan Chase Bank is not able to obtain such securities, commodities or obligations within the required timeframe for delivery, this could cause JPMorgan Chase Bank to forfeit payments otherwise due to it and could result in settlement delays, which could damage JPMorgan Chase Bank's reputation and ability to transact future business. In addition, many derivative transactions are not cleared and settled through a central clearinghouse or exchange, and they may not always be confirmed or settled by counterparties on a timely basis. In these situations, JPMorgan Chase Bank is subject to heightened credit and operational risk, and in the event of a default, JPMorgan Chase Bank may find the contract more difficult to enforce. Further, as new and more complex derivative products are created, disputes regarding the terms or the settlement procedures of the contracts could arise, which could force JPMorgan Chase Bank to incur unexpected costs, including transaction and legal costs, and impair JPMorgan Chase Bank's ability to manage effectively its risk exposure from these products.

Many of JPMorgan Chase Bank's hedging strategies and other risk management techniques have a basis in historic market behavior, and all such strategies and techniques are based to some degree on management's subjective judgment. For example, many models used by JPMorgan Chase Bank are based on assumptions regarding correlations among prices of various asset classes or other market indicators. In times of market stress, such as occurred during 2008, or in the event of other unforeseen circumstances, previously uncorrelated indicators may become correlated, or conversely, previously correlated indicators may make unrelated movements. These sudden market movements or unanticipated or unidentified market or economic movements have in some circumstances limited the effectiveness of JPMorgan Chase Bank's risk management strategies, causing it to incur losses. In addition, as JPMorgan Chase Bank's businesses grow and the markets in which they operate continue to evolve, JPMorgan Chase Bank's risk management framework may not always keep sufficient pace with those changes. For example, there is the risk that the credit and market risks associated with new products or new business strategies may not be appropriately identified, monitored or managed. There can be no assurance that JPMorgan Chase Bank's risk management framework, including its underlying assumptions or strategies, will at all times be accurate and effective.

JPMorgan Chase Bank's operations are subject to risk of loss from unfavorable economic, monetary, political, legal and other developments in the United States and around the world.

JPMorgan Chase Bank's businesses and earnings are affected by the fiscal and other policies that are adopted by various regulatory authorities of the United States, non-U.S. governments and international agencies.

The Board of Governors of the Federal Reserve System regulates the supply of money and credit in the United States. Its policies determine in large part the cost of funds for lending and investing and the return earned on those loans and investments. The market impact from such policies can also materially decrease the value of financial assets that JPMorgan Chase Bank holds, such as debt securities and mortgage servicing rights ("MSRs"). Federal Reserve policies also can adversely affect borrowers, potentially increasing the risk that they may fail to repay their loans or satisfy their obligations to JPMorgan Chase Bank. Changes in Federal Reserve policies are beyond JPMorgan Chase Bank's control and, consequently, the impact of these changes on JPMorgan Chase Bank's activities and results of operations is difficult to predict.

JPMorgan Chase Bank's businesses and revenue are also subject to the risks inherent in maintaining international operations and in investing and trading in securities of companies worldwide. These risks include, among others, risk of loss from the outbreak of hostilities or acts of terrorism and various unfavorable political, economic, legal or other developments, including social or political instability, changes in governmental policies or policies of central banks, expropriation, nationalization, confiscation of assets, price controls, capital controls, exchange controls, and changes in laws and regulations. Further, various countries in which JPMorgan Chase Bank operates or invests, or in which it may do so in the future, have in the past experienced severe economic disruptions, including extreme currency fluctuations, high inflation, or low or negative growth, among other negative conditions. Crime, corruption, war or military actions, acts of terrorism and a lack of an established legal and regulatory framework are additional challenges in some of these countries, particularly in the emerging markets. Revenue from international operations and trading in non-U.S. securities may be subject to negative fluctuations as a result of the above considerations. The impact of these fluctuations could be accentuated as some trading markets are smaller, less liquid and more volatile than larger markets. Also, any of the above-mentioned events or circumstances in one country can, and has in the past, affected JPMorgan Chase Bank's operations and investments in another country or countries. Any such unfavorable conditions or developments could have an adverse impact on JPMorgan Chase Bank's business and results of operations.

The emergence of a widespread health emergency or pandemic also could create economic or financial disruption that could negatively affect JPMorgan Chase Bank's revenue and operations or impair its ability to manage its businesses in certain parts of the world.

JPMorgan Chase Bank's power generation and commodities activities are subject to extensive regulation, potential catastrophic events and environmental risks and regulation that may expose it to significant cost and liability.

JPMorgan Chase Bank engages in power generation, and in connection with the commodities activities of its Investment Bank, JPMorgan Chase Bank engages in the storage, transportation, marketing or trading of several commodities, including metals, agricultural products, crude oil, oil products, natural gas, electric power, emission credits, coal, freight, and related products and indices. As a result of these activities, JPMorgan Chase Bank is subject to extensive and evolving energy, commodities, environmental, and other governmental laws and regulations. JPMorgan Chase Bank expects laws and regulations affecting its power generation and commodities activities to expand in scope and complexity. JPMorgan Chase Bank may incur substantial costs in complying with current or future laws and regulations and the failure to comply with these laws and regulations may result in substantial civil and criminal fines and penalties. In addition, liability may be incurred without regard to fault under certain environmental laws and regulations for remediation of contaminations. JPMorgan Chase Bank's power generation and commodities activities also further expose it to the risk of unforeseen and catastrophic events, including natural disasters, leaks, spills, explosions, release of toxic substances, fires, accidents on land and at sea, wars, and terrorist attacks that could result in personal injuries, loss of life, property damage, damage to JPMorgan Chase Bank's reputation and suspension of operations. In addition, JPMorgan Chase Bank's power generation activities are subject to disruptions, many of which are outside of JPMorgan Chase Bank's control, from the breakdown or failure of power generation equipment, transmission lines or other equipment or processes, and the contractual failure of performance by third-party suppliers or service providers, including the failure to obtain and deliver raw materials necessary for the operation of power generation facilities. JPMorgan Chase Bank attempts to mitigate its risks, but JPMorgan Chase Bank's actions may not prove adequate to address every contingency. In addition, insurance covering some of these risks may not be available, and the proceeds, if any, from insurance recovery may not be adequate to cover liabilities with respect to particular incidents. As a result, JPMorgan Chase Bank's financial condition and results of operations may be adversely affected by such events.

JPMorgan Chase Bank relies on its systems, employees and certain counterparties, and certain failures could materially adversely affect JPMorgan Chase Bank's operations.

JPMorgan Chase Bank's businesses are dependent on its ability to process, record and monitor a large number of increasingly complex transactions. If any of JPMorgan Chase Bank's financial, accounting, or other data processing systems fail or have other significant shortcomings, JPMorgan Chase Bank could be materially adversely affected. JPMorgan Chase Bank is similarly dependent on its employees. JPMorgan Chase Bank could be materially adversely affected if one of its employees causes a significant operational break-down or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates JPMorgan Chase Bank's operations or systems. Third parties with which JPMorgan Chase Bank does business could also be sources of operational risk to JPMorgan Chase Bank, including relating to breakdowns or failures of such parties' own systems or employees. Any of these occurrences could diminish JPMorgan Chase Bank's ability to operate one or more of its businesses, or result in potential liability to clients, reputational damage and regulatory intervention, any of which could materially adversely affect JPMorgan Chase Bank.

If personal, confidential or proprietary information of customers or clients in JPMorgan Chase Bank's possession were to be mishandled or misused, JPMorgan Chase Bank could suffer significant regulatory consequences, reputational damage and financial loss. Such mishandling or misuse could include, for example, if such information were erroneously provided to parties who are not permitted to have the information, either by fault of JPMorgan Chase Bank's systems, employees, or counterparties, or where such information is intercepted or otherwise inappropriately taken by third parties.

JPMorgan Chase Bank may be subject to disruptions of its operating systems arising from events that are wholly or partially beyond JPMorgan Chase Bank's control, which may include, for example, computer viruses or electrical or telecommunications outages, natural disasters, disease pandemics or other damage to property or physical assets, or events arising from local or larger scale politics, including terrorist acts. Such disruptions may give rise to losses in service to customers and loss or liability to JPMorgan Chase Bank.

In a firm as large and complex as JPMorgan Chase Bank, lapses or deficiencies in internal control over financial reporting may occur from time to time, and there is no assurance that significant deficiencies or material weaknesses in internal controls may not occur in the future. In addition, there is the risk that JPMorgan Chase Bank's controls and procedures as well as business continuity and data security systems prove to be inadequate. Any such failure could affect JPMorgan Chase Bank's operations and could materially adversely affect its results of operations by requiring JPMorgan Chase Bank to expend significant resources to correct the defect, as well as by exposing JPMorgan Chase Bank to litigation, regulatory fines or penalties or losses not covered by insurance.

JPMorgan Chase Bank operates within a highly regulated industry and its business and results are significantly affected by the laws and regulations to which JPMorgan Chase Bank is subject.

JPMorgan Chase Bank operates within a highly regulated industry. JPMorgan Chase Bank is subject to regulation under state and federal laws in the United States, as well as the applicable laws of each of the various other jurisdictions outside the United States in which JPMorgan Chase Bank does business. These laws and regulations affect the type and manner in which JPMorgan Chase Bank does business and may limit its ability to expand its product offerings, pursue acquisitions, or restrict the scope of operations and services provided.

Recent market and economic conditions have led to new legislation and numerous proposals for changes in the regulation of the financial services industry, including significant additional legislation and regulation in the United States. In response to such market and economic conditions, the U.S. government,

particularly the U.S. Department of the Treasury, the Board of Governors of the Federal Reserve System, the FDIC, and foreign governments, have taken a variety of extraordinary measures designed to restore confidence in the financial markets, increase liquidity and to strengthen financial institutions. For example, on October 3, 2008 and on February 17, 2009, the U.S. Emergency Economic Stabilization Act of 2008 (the "EESA") and the American Recovery and Reinvestment Act of 2009 (the "ARRA"), respectively, were signed into law. These laws are intended to provide fiscal stimulus and stability to the U.S. economy, by among other things, permitting the U.S. Treasury to make direct investments in financial institutions pursuant to the Capital Purchase Program. There can be no assurance, however, as to the actual impact that these laws and their implementing regulations, or any other governmental program, will have on the financial markets. The failure of the financial markets to stabilize and a continuation or worsening of current financial market and economic conditions could continue to materially and adversely affect JPMorgan Chase Bank's business, financial condition, results of operations, access to credit or the trading price of JPMorgan Chase Bank's common stock.

Participation in current or future government programs adopted in response to recent market events and economic conditions may subject JPMorgan Chase Bank to restrictions and additional oversight on the manner in which JPMorgan Chase Bank operates its business. JPMorgan Chase Bank is currently participating in the Capital Purchase Program, and under the terms of the program, as amended by the ARRA, the consent of the U.S. Treasury is required for JPMorgan Chase & Co. to, among other things, increase its common stock dividend from the amount of the last quarterly stock dividend declared by JPMorgan Chase & Co. prior to October 14, 2008 or, except in limited circumstances, repurchase its common stock or other preferred stock unless the Series K Preferred Stock that was issued to the U.S. Treasury under the Capital Purchase Program has been redeemed or the U.S. Treasury has transferred all of the Series K Preferred Stock to a third party. The ARRA also imposes restrictions on JPMorgan Chase Bank's ability to pay incentive compensation to certain of its employees. There can be no assurance that any additional restrictions imposed by reason of JPMorgan Chase Bank's participation in the Capital Purchase Program or other government programs will not have an adverse effect on JPMorgan Chase Bank's business, results of operations and financial condition.

New legislation and regulatory changes could cause business disruptions, result in significant loss of revenue, limit JPMorgan Chase Bank's ability to pursue business opportunities that JPMorgan Chase Bank might otherwise consider engaging in, impact the value of assets that JPMorgan Chase Bank holds, require it to change certain of its business practices, impose additional costs on JPMorgan Chase Bank or otherwise adversely affect its business. For example, on December 18, 2008, the Board of Governors of the Federal Reserve System adopted enhanced regulations for credit cards through amendments to Regulation Z, which implements the U.S. Truth-in-Lending Act, and also new regulations governing unfair or deceptive acts or practices under the U.S. Federal Trade Commission Act. These regulatory changes will require JPMorgan Chase Bank to invest significant management attention and resources to make the necessary disclosure and system changes, and could adversely affect JPMorgan Chase Bank's business.

Additional legislation and regulations may by enacted or promulgated in the future, and JPMorgan Chase Bank is unable to predict the form such legislation or regulation may take, or the degree to which JPMorgan Chase Bank would need to modify its businesses or operations to comply with such legislation or regulation. For example, proposed legislation has been introduced in Congress that would amend to the Bankruptcy Code to permit modifications of certain mortgages that are secured by a Chapter 13 debtor's principal residence. Proposed legislation has also been introduced in Congress that would, among other things, prescribe when interest can be charged on revolving credit card accounts, prescribe when and how interest rates can be increased, limit events of default that can result in interest rate increases on existing balances, restrict the imposition of certain fees, require a specified cutoff hour when payments must be credited to accounts, prescribe how payments must be allocated to outstanding balances on accounts and restrict the issuance of credit cards for persons under 21 years of age except in certain circumstances. There can be no assurance that if any such legislation were enacted that it would not have an adverse effect on JPMorgan Chase Bank's business, results of operations or financial condition.

If JPMorgan Chase Bank does not comply with the legislation and regulations that apply to its operations, JPMorgan Chase Bank may be subject to fines, penalties or material restrictions on its businesses in the jurisdiction where the violation occurred. In recent years, regulatory oversight and enforcement have increased substantially, imposing additional costs and increasing the potential risks associated with JPMorgan Chase Bank's operations. If this regulatory trend continues, it could adversely affect JPMorgan Chase Bank's operations and, in turn, its financial results. In addition, adverse publicity and damage to JPMorgan Chase Bank's reputation arising from the failure or perceived failure to comply with legal, regulatory or contractual requirements could affect JPMorgan Chase Bank's ability to attract and retain customers or to maintain access to capital markets, which could adversely affect JPMorgan Chase Bank's financial condition.

JPMorgan Chase Bank faces significant legal risks, both from regulatory investigations and proceedings and from private actions brought against it.

JPMorgan Chase Bank is named as a defendant or is otherwise involved in various legal proceedings, including class actions and other litigation or disputes with third parties, as well as investigations or proceedings brought by regulatory agencies. Actions brought against JPMorgan Chase Bank may result in judgments, settlements, fines, penalties or other results adverse to it, which could materially adversely affect JPMorgan Chase Bank's business, financial condition or results of operation, or cause JPMorgan Chase Bank serious reputational harm. As a participant in the financial services industry, it is likely that JPMorgan Chase Bank will continue to experience a high level of litigation and regulatory scrutiny and investigations related to its businesses and operations.

There is increasing competition in the financial services industry which may adversely affect JPMorgan Chase Bank's results of operations.

JPMorgan Chase Bank operates in a highly competitive environment and expects competitive conditions to continue to intensify as continued merger activity in the financial services industry produces larger, better-capitalized and more geographically diverse companies that are capable of offering a wider array of financial products and services at more competitive prices. Consolidations in the financial services industry increased substantially during 2008, as several major U.S. financial institutions merged, were forced to sell assets and, in some cases, failed.

JPMorgan Chase Bank also faces an increasing array of competitors. Competitors include other banks, brokerage firms, investment banking companies, merchant banks, hedge funds, insurance companies, mutual fund companies, credit card companies, mortgage banking companies, trust companies, securities processing companies, automobile financing companies, leasing companies, e-commerce and other Internet-based companies, and a variety of other financial services and advisory companies. Technological advances and the growth of e-commerce have made it possible for non-depository institutions to offer products and services that traditionally were banking products, and for financial institutions and other companies to provide electronic and Internet-based financial solutions, including electronic securities trading. JPMorgan Chase Bank's businesses generally compete on the basis of the quality and variety of JPMorgan Chase Bank's products and services, transaction execution, innovation, reputation and price. Ongoing or increased competition in any one or all of these areas may put downward pressure on prices for JPMorgan Chase Bank's products and services or may cause JPMorgan Chase Bank to lose market share. Increased competition also may require JPMorgan Chase Bank to make additional capital investment in its businesses in order to remain competitive. These investments may increase expense or may require JPMorgan Chase Bank to extend more of its capital on behalf of clients in order to execute larger, more competitive transactions. There can be no assurance that the significant and increasing competition in the financial services industry will not materially adversely affect JPMorgan Chase Bank's future results of operations.

JPMorgan Chase Bank's acquisitions and the integration of acquired businesses may not result in all of the benefits anticipated.

JPMorgan Chase Bank has in the past and may in the future seek to grow its business by acquiring other businesses. There can be no assurance that JPMorgan Chase Bank's acquisitions will have the anticipated positive results, including results relating to: the total cost of integration; the time required to complete the integration; the amount of longer-term cost savings; the overall performance of the combined entity; or an improved price for JPMorgan Chase Bank's common stock. Integration of an acquired business can be complex and costly, sometimes including combining relevant accounting and data processing systems and management controls, as well as managing relevant relationships with employees, clients, suppliers and other business partners. Integration efforts could divert management attention and resources, which could adversely affect JPMorgan Chase Bank's operations or results.

Given the continued market volatility and uncertainty, JPMorgan Chase Bank may continue to experience increased credit costs or need to take additional markdowns and allowances for loan losses on the assets and loans acquired in the merger by and among JPMorgan Chase Bank and The Bear Stearns Companies Inc. and in connection with the acquisition of Washington Mutual Bank's banking operations that could negatively affect JPMorgan Chase Bank's financial condition and results of operations in the future. There is no assurance that as JPMorgan Chase Bank's integration efforts continue in connection with these transactions, other unanticipated costs or losses will not be incurred.

Acquisitions may also result in business disruptions that cause JPMorgan Chase Bank to lose customers or cause customers to remove their accounts from JPMorgan Chase Bank and move their business to competing financial institutions. It is possible that the integration process related to acquisitions could result in the disruption of JPMorgan Chase Bank's ongoing businesses or inconsistencies in standards, controls, procedures and policies that could adversely affect JPMorgan Chase Bank's ability to maintain relationships with clients, customers, depositors and employees. The loss of key employees in connection with an acquisition could adversely affect JPMorgan Chase Bank's ability to successfully conduct its business.

Damage to JPMorgan Chase Bank's reputation could damage its businesses.

Maintaining a positive reputation is critical to JPMorgan Chase Bank's attracting and maintaining customers, investors and employees. Damage to JPMorgan Chase Bank's reputation can therefore cause significant harm to its business and prospects. Harm to JPMorgan Chase Bank's reputation can arise from numerous sources, including, among others, employee misconduct, litigation or regulatory outcomes, failing to deliver minimum standards of service and quality, compliance failures, unethical behavior, and the activities of customers and counterparties. Further, negative publicity regarding JPMorgan Chase Bank, whether or not true, may also result in harm to JPMorgan Chase Bank's prospects.

JPMorgan Chase Bank could suffer significant reputational harm if it fails to properly identify and manage potential conflicts of interest. Management of potential conflicts of interests has become increasingly complex as JPMorgan Chase Bank expands its business activities through more numerous transactions, obligations and interests with and among its clients. The failure to adequately address, or the perceived failure to adequately address, conflicts of interest could affect the willingness of clients to deal with JPMorgan Chase Bank, or give rise to litigation or enforcement actions. Therefore, there can be no assurance that conflicts of interest will not arise in the future that could cause material harm to JPMorgan Chase Bank.

JPMorgan Chase Bank's ability to attract and retain qualified employees is critical to the success of its business and failure to do so may materially adversely affect JPMorgan Chase Bank's performance.

JPMorgan Chase Bank's employees are its most important resource and, in many areas of the financial services industry, competition for qualified personnel is intense. The executive compensation restrictions currently, or that in the future may be, imposed on JPMorgan Chase Bank as a result of its participation in the Capital Purchase Program or other government programs, may adversely affect JPMorgan Chase Bank's ability to attract and retain qualified senior management and employees. If JPMorgan Chase Bank is unable to continue to retain and attract qualified employees, JPMorgan Chase Bank's performance, including its competitive position, could be materially adversely affected.

JPMorgan Chase Bank's financial statements are based in part on assumptions and estimates which, if wrong, could cause unexpected losses in the future.

Pursuant to accounting principles generally accepted in the United States, JPMorgan Chase Bank is required to use certain assumptions and estimates in preparing its financial statements, including in determining credit loss reserves, reserves related to litigations and the fair value of certain assets and liabilities, among other items. If assumptions or estimates underlying JPMorgan Chase Bank's financial statements are incorrect, JPMorgan Chase Bank may experience material losses.

For example, JPMorgan Chase Bank makes judgments in connection with its consolidation analysis of SPEs. If it is later determined that non-consolidated SPEs should be consolidated, this could negatively affect JPMorgan Chase Bank's Consolidated Balance Sheets, related funding requirements, capital ratios and, if the SPEs' assets include unrealized losses, could require JPMorgan Chase Bank to recognize those losses.

Certain of JPMorgan Chase Bank's financial instruments, including trading assets and liabilities, available-for-sale securities, certain loans, MSRs, structured notes and certain repurchase and resale agreements, among other items, require a determination of their fair value in order to prepare JPMorgan Chase Bank's financial statements. Where quoted market prices are not available, JPMorgan Chase Bank may make fair value determinations based on internally developed models or other means which ultimately rely to some degree on management judgment. Some of these and other assets and liabilities may have no direct observable price levels, making their valuation particularly subjective, being based on significant estimation and judgment. In addition, sudden illiquidity in markets or declines in prices of certain loans and securities may make it more difficult to value certain balance sheet items, which may lead to the possibility that such valuations will be subject to further change or adjustment and could lead to declines in JPMorgan Chase Bank's earnings.

JPMorgan Chase Bank is affected by risks affecting its parent company.

JPMorgan Chase Bank's parent company, JPMorgan Chase & Co., and other subsidiaries of JPMorgan Chase & Co. are also subject to each of the risks above, in addition to further risks. Risks that affect JPMorgan Chase can also affect JPMorgan Chase Bank as there is substantial overlap in the businesses of JPMorgan Chase Bank and JPMorgan Chase. Further, JPMorgan Chase Bank can be negatively affected by risks and other events affecting JPMorgan Chase even where JPMorgan Chase Bank is not directly affected. For example, where JPMorgan Chase's reputation is damaged, JPMorgan Chase Bank's reputation would likely also be damaged which could negatively affect JPMorgan Chase Bank.

TAXATION

We have based this summary of Hong Kong and The Netherlands tax on current law and practice. It is intended to give you an overview of what Hong Kong and The Netherlands tax you might have to pay if you hold our structured products. It is not complete and we are not giving you any tax advice. You should consult your own tax adviser about the tax consequences of investing in our structured products, particularly if you are subject to special tax rules (for example, if you are a bank, dealer, insurance company or a tax-exempt entity).

HONG KONG

Withholding Tax

We are not required under current law to make any withholding on account of Hong Kong tax from payments in respect of our structured products.

Capital Gains Tax

No capital gains tax is payable in Hong Kong on any capital gains arising from a sale or disposal of our structured products.

Profits Tax

Hong Kong profits tax may be chargeable on any gains arising from a sale or disposal of our structured products where the sale or disposal is or forms part of a trade, profession or business carried on in Hong Kong and the gains are of a Hong Kong source.

Stamp Duty

Our cash-settled structured products are not subject to Hong Kong stamp duty or bearer instrument duty either when issued or on any subsequent transfer. Hong Kong stamp duty is payable if Hong Kong stocks (as defined in the Stamp Duty Ordinance) are physically delivered at maturity of the ELIs.

The Netherlands Taxation

For the purpose of this summary it is assumed that no holder of a Security has or will have a substantial interest, or – in case the holder of a Security is an entity – a deemed substantial interest, in JPMSP or in a Dutch resident company, the shares of which are reference assets in respect of a Security to which physical delivery is applicable.

Generally speaking, an individual has a substantial interest in a company if (a) such individual, either alone or together with his partner, directly or indirectly has, or (b) certain relatives of such individual or his partner directly or indirectly have, (I) the ownership of, a right to acquire the ownership of, or certain rights over, shares representing 5 per cent. or more of either the total issued and outstanding capital of such company or the issued and outstanding capital of any class of shares of such company, or (II) the ownership of, or certain rights over, profit participating certificates (winstbewijzen) that relate to 5 per cent. or more of either the annual profit or the liquidation proceeds of such company.

Generally speaking, an entity has a substantial interest in a company if such entity, directly or indirectly has (I) the ownership of, a right to acquire the ownership of, or certain rights over, shares representing 5 per cent. or more of either the total issued and outstanding capital of such company or the

issued and outstanding capital of any class of shares of such company, or (II) the ownership of, or certain rights over, profit participating certificates (winstbewijzen) that relate to 5 per cent. or more of either the annual profit or the liquidation proceeds of such company. An entity has a deemed substantial interest in such company if such entity has disposed of or is deemed to have disposed of all or part of a substantial interest on a non-recognition basis.

For the purpose of this summary, the term entity means a corporation as well as any other person that is taxable as a corporation for Dutch corporate tax purposes.

Withholding Tax

All payments by JPMSP under the Securities can be made free of withholding or deduction of any taxes of whatsoever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein, unless the Securities qualify as debt that effectively functions as equity for tax purposes as meant in article 10, paragraph 1, sub d of the Corporate Tax Act 1969 (*Wet op de vennootschapsbelasting 1969*).

Taxes on Income and Capital Gains

A holder of a Security who derives income from a Security or who realises a gain on the disposal or redemption of a Security will not be subject to Dutch taxation on such income or capital gains unless:

(i) the holder is or is deemed to be resident in The Netherlands, or, where the holder is an individual, such holder has elected to be treated as a resident of The Netherlands; or

(ii) such income or gain is attributable to an enterprise or part thereof which is either effectively managed in The Netherlands or carried on through a permanent establishment (*vaste inrichting*) or a permanent representative (*vaste vertegenwoordiger*) in The Netherlands; or

(iii) the holder is an individual and such income or gain qualifies as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) in The Netherlands as defined in the Dutch Income Tax Act 2001 (*Wet inkomstenbelasting 2001*).

Gift and Inheritance Tax

Dutch gift, estate or inheritance taxes will not be levied on the occasion of the transfer of a Security by way of gift by, or on the death of, a holder, unless:

(i) the holder is or is deemed to be resident in The Netherlands for the purpose of the relevant provisions; or

(ii) the transfer is construed as an inheritance or as a gift made by, or on behalf of, a person who, at the time of the gift or death, is or is deemed to be resident in The Netherlands for the purpose of the relevant provisions; or

(iii) the Security is attributable to an enterprise or part thereof which is either effectively managed in The Netherlands or carried on through a permanent establishment or a permanent representative in The Netherlands.

Value Added Tax

No Dutch value added tax will arise in respect of payments in consideration for the issue of the Securities or in respect of payments made under the Securities, or in respect of a transfer of Securities.

Other Taxes and Duties

No registration tax, transfer tax, stamp duty or any other similar tax or duty will be payable in The Netherlands by a holder of a Security in respect of or in connection with the subscription, issue, placement, allotment, delivery or transfer of Securities.

Residence

A holder of a Security will not be, or deemed to be, resident in The Netherlands for tax purposes and, subject to the exceptions set out above, will not otherwise be subject to Dutch taxation, by reason only of acquiring, holding or disposing of a Security or the execution, performance, delivery and/or enforcement of a Security.

EU Council Directive on Taxation of Savings Income

In accordance with EC Council Directive 2003/48/EC on the taxation of savings income, The Netherlands will provide to the tax authorities of another Member State (and certain non-EU countries and associated territories specified in that directive) details of payments of interest or other similar income paid by a person within The Netherlands to, or collected by such a person for, an individual resident in such other state.

GENERAL INFORMATION ABOUT US

History, Development and Organisational Structure

J.P. Morgan Structured Products B.V. (JPMSP) was incorporated as a limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*) under the laws of The Netherlands in Amsterdam, The Netherlands on 6 November 2006 to exist for an unlimited duration. JPMSP was registered at the Chamber of Commerce of Amsterdam under registered number 34259454 and has its registered offices at Strawinskylaan 3105, Atrium 7th Floor, 1077 ZX Amsterdam, The Netherlands (telephone number +31 20 406 4444).

JPMSP is a wholly-owned subsidiary of J.P. Morgan International Finance Limited, which is in turn an indirect, wholly-owned subsidiary of JPMorgan Chase Bank, N.A. JPMorgan Chase Bank, N.A. is one of the principal bank subsidiaries of JPMorgan Chase & Co., a company incorporated in the State of Delaware in the United States of America.

Investment Policy

JPMSP may undertake independent investments in its sole discretion with the proceeds (net of third party costs) of an issuance of notes, warrants or certificates, subject to compliance with certain legal, tax and regulatory restrictions.

Principal Activities

JPMSP's business principally consists of the issuance of securitised derivatives comprising notes, warrants and certificates, including equity-linked, reverse convertible and market participation notes (the "**Securities**") and the subsequent hedging of those risk positions. All issuances which have been closed to date are subject to hedging arrangements. The proceeds of the sale of the securities are used for general corporate purposes, including the entry into hedging arrangements with other JPMorgan Chase & Co. group companies. JPMSP anticipates that the hedging arrangements will be sufficient to hedge itself against the market risk of its securities issuance activities. JPMSP also has receipts from and makes payments to other JPMorgan Chase & Co. group companies.

Principal Markets

During the financial year ended 31 December 2008, JPMSP issued securities in the Asia Pacific region, in Europe, the Middle East, Africa and a limited number in the United States of America.

Trend Information

JPMSP's primary objective in 2009 will be the continued development of securitised products to be offered and sold to retail, 'high net worth' and institutional investors principally outside of the United States of America, linked to a range of underlying reference assets including equity, credit, interest rates, commodities and so called "alternatives" such as funds and hedge funds.

Except as disclosed in this base listing document including the information incorporated by reference into this base listing document, there has been no material adverse change in the prospects of JPMSP since 31 December 2008.

Except as disclosed in this base listing document, including the information incorporated by reference into this base listing document, there has been no significant change in the financial or trading position of JPMSP since 31 December 2008.

Directors and Officers of JPMSP

The administrative, management and supervisory bodies of JPMSP comprise its Board of Directors. Set forth below is the name and position of JPMSP's Directors:

Name	Function	Business address
Jacob Cornelis Willem van Burg	Managing Director	Strawinskylaan 3105, Atrium 7th Floor, 1077 ZX Amsterdam, The Netherlands
Jakob Pieter Everwijn	Managing Director	Strawinskylaan 3105, Atrium 7th Floor, 1077 ZX Amsterdam, The Netherlands
Jozef Cornelis Petrus van Uffelen	Managing Director	Strawinskylaan 3105, Atrium 7th Floor, 1077 ZX Amsterdam, The Netherlands

The principal outside activities of Messrs. Van Burg, Everwijn and Van Uffelen are as employees of the firm Equity Trust Co. N.V., a trust company which was established in The Netherlands in 1970. All Directors hold office until removed.

Subject in the case of Messrs. Van Burg, Everwijn and Van Uffelen to their duties to Equity Trust Co. N.V., there are no actual or potential conflicts of interest between any duties owed to JPMSP by the Directors of JPMSP identified above and their private interests and/or outside duties.

Corporate Governance

JPMSP complies with established accepted principles of corporate governance in The Netherlands. The Board of Directors of JPMSP conducts itself in accordance with general principles of Dutch corporate law.

The Board of Directors has appointed a committee to authorise and transact issuances of Securities. No other committees made up for specific purposes or to perform specific functions have been appointed.

Financial Information concerning JPMSP

Historical financial information

JPMSP was incorporated on 6 November 2006. The JPMSP 2008 Audited Financial Statements are prepared and filed in accordance with the laws of The Netherlands.

JPMSP's Audited Financial Statements are included in this base listing document. PricewaterhouseCoopers Accountants N.V., who are members of the Royal Dutch Institute of Chartered Accountants (*Koninklijk Nederlands Instituut voor Registeraccountants*), have audited without qualification the JPMSP Audited Financial Statements. A copy of the auditor's report appear at pages 24-25 of the JPMSP 2008 Audited Financial Statements is also included in this base listing document. PricewaterhouseCoopers Accountants N.V. has no material interest in JPMSP.

The address of PricewaterhouseCoopers Accountants N.V. is: Thomas R. Malthusstraat 5, P.O. Box 90357, 1006 BJ Amsterdam, The Netherlands.

JPMSP produces unaudited interim financial statements in respect of the period ended 30 June in each year.

Selected Financial Information

The profit after tax of JPMSP for the financial year ending 31 December 2008 was U.S.$9,183,000 (U.S.$14,279,000 for the financial year ended 31 December 2007). As at 31 December 2008 the total shareholders' funds of JPMSP were U.S.$523,485,000 (U.S.$514,302,000 as at 31 December 2007). JPMSP's profit on ordinary activities before taxation for the year ended 31 December 2008 was U.S.$12,841,000 (U.S.$19,305,000 for the year ended 31 December 2007). JPMSP's total assets at 31 December 2008 were U.S.$17,701,353,000 (U.S.$1,505,070,000 as at 31 December 2007). JPMSP's total liabilities as at 31 December 2008 were U.S.$17,177,868,000 (U.S.$990,768,000 as at 31 December 2007).

Capital Structure

The authorised share capital of JPMSP is Euro 90,000, divided into 90,000 ordinary shares of Euro 1.00 each. At incorporation 18,000 ordinary shares were issued. By a notarial deed of share issuance dated 30 March 2007 an additional 2,000 ordinary shares were issued in consideration of U.S.$500,000,000. The total issued and paid up share capital therefore amounts to 20,000 ordinary shares. JPMSP does not hold any of its own shares.

Memorandum and Articles of Association

JPMSP's objects as set out in Article 3 of its Articles of Association are:

(a) to incorporate, to participate in any way whatsoever, to manage, to supervise, to operate and to promote enterprises, businesses and companies;

(b) to finance businesses and companies;

(c) to borrow, to lend and to raise funds, including the issue of bonds, promissory notes or other securities or evidence of indebtedness as well as to enter into agreements in connection with the aforementioned;

(d) to enter into swaps and any other derivative transactions whatsoever to hedge the company's exposure under any agreements, securities or other instruments whatsoever to which it is a party;

(e) to supply advice and to render services to enterprises and companies with which the company forms a group and to third parties;

(f) to render guarantees, to bind the company and to pledge its assets for obligations of the companies and enterprises with which it forms a group and on behalf of third parties;

(g) to obtain, alienate, manage and exploit registered property and items of property in general;

(h) to trade in currencies, securities and items of property in general;

(i) to develop and trade in patent, trade marks, licenses, know how and other intellectual and industrial property-rights;

(j) to perform any and all activity of industrial, financial or commercial nature;

as well as everything pertaining to the foregoing, relating thereto or conducive thereto, all in the widest sense of the word.

Net Turnover

The net turnover of JPMSP for the years ended 31 December 2008 and 31 December 2007 was U.S.$9,183,000 and U.S.$14,279,000 respectively.

Principal Establishments and Real Estate Owned

JPMSP does not own any principal establishments, which account for more than 10% (ten per cent.) of its revenues, nor does JPMSP own any real estate directly.

Dividends

JPMSP has not paid any dividends since its incorporation on 6 November 2006.

Legal and Arbitration Proceedings

JPMSP is not and has not been involved in any governmental, legal or arbitration proceedings relating to claims or amounts that are material during the 12 month period ending on the date of this base listing document which may have, or have had in the recent past, significant effects on the financial position or profitability of JPMSP nor, so far as JPMSP is aware, are any such governmental, legal or arbitration proceedings pending or threatened.

J.P. MORGAN STRUCTURED PRODUCTS B.V.
Amsterdam, the Netherlands

Annual report for the year ended 31 December 2008

J.P. MORGAN STRUCTURED PRODUCTS B.V.
Annual report for the year ended 31 December 2008

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J.P. MORGAN STRUCTURED PRODUCTS B.V.

Directors' report for the year ended 31 December 2008

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2008.

Principal activity

The Company's primary activity is the issuance of securitised derivatives comprising certificates, warrants and notes including equity linked, reverse convertible and market participation notes, and the subsequent hedging of those risk positions.

Review of business

During the year, the Company continued to issue securities. The proceeds of the sale of the securities were used to enter into certain economic hedging arrangements with other JPMorgan Chase & Co. (the Group) companies. The principal purpose of the hedging arrangements entered into between the Company and the relevant Group companies is to protect itself against various risks associated with the securities issuance activity so that the Company is not exposed to profit or loss volatility as a result of these risk positions.

As anticipated, during 2008, the Company substantially took over as the principal issuer of structured products for the JPMorgan Group where those products are to be sold via distributors in Europe, the Middle East and Asia. During the year, JPMorgan Chase & Co. also commenced issuance of such products, giving investors a choice of differently rated entities in relation to structured products issuance. As anticipated, certain issuances that would otherwise have been undertaken by the Company, were undertaken by JPMorgan Chase & Co., but the Company remained the majority issuer of such products.

On 16 March 2008, JPMorgan Chase & Co., the Company's ultimate parent undertaking, announced that it would acquire The Bear Stearns Companies Inc. and that the Boards of Directors of both companies had unanimously approved the transaction. The Federal Reserve, the Office of the Comptroller of the Currency (OCC), the shareholders and other federal agencies have given all necessary approvals. The acquisition was a stock-for stock exchange, with 0.21753 shares of JPMorgan Chase common stock exchanged for one share of Bear Stearns stock. The transaction was closed on 30 May 2008.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of JPMorgan Chase & Co. (the Group) and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are discussed within the Group's annual report which does not form part of this report.

Key performance indicators

The results are monitored against expectations of the business activities.

Results and dividends

The results for the year are set out on page 6 and show the Company's profit for the year after taxation is $9,183,000 (2007: $14,279,000).

The directors do not recommend payment of an ordinary dividend.

Financial risk management

The primary activity of the Company is the issuance and holding of securitised derivatives comprising certificates, warrants and notes including equity linked notes, reverse convertible notes and market participation notes, reported as financial liabilities designated at fair value through profit or loss.

The market, credit and liquidity risks resulting from the issuance of these instruments, are matched by simultaneously entering into equal and offsetting over the counter (OTC) transactions, reported as financial assets held for trading, with internal group companies so that all such risks are effectively hedged. Regular checks are made on open OTC transactions to ensure the continued effectiveness of the economic hedges in place.

To the extent that settlement-related timing differences between issuance and the OTC hedge may result in funding requirements, these are funded by the JPMorgan Chase group undertakings involved in the transaction.

Liquidity risk

Liquidity risk arises from the general funding needs of the Company's activities and in the management of its assets and liabilities. The Company's funding needs are provided by JPMorgan Chase Bank, N.A. or other Group companies whose liquidity management frameworks are intended to maximise liquidity access. To accomplish this, Group management uses a variety of liquidity risk measures that take into consideration market conditions, prevailing interest rates, liquidity needs and the desired maturity profile.

The Group's funding strategy is to ensure liquidity and diversity of funding sources to meet actual and contingent liabilities through both stable and adverse conditions. The Group holds sizeable amounts of marketable securities that are readily converted to cash, and provide a buffer for dramatic market conditions.

The Group's Asset-Liability Committee approves and oversees the execution of the Group's liquidity policy and contingency funding plan while Corporate Treasury formulates the Group's liquidity and contingency planning strategies and is responsible for measuring, monitoring, reporting and managing the Group's and the Company's liquidity risk profile.

Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Each business within the Group has its own independent credit risk management function, reporting to the Chief Risk Officer. These units are responsible for making credit decisions on behalf of the Company. They approve significant new transactions and product offerings and exercise on behalf of the directors, final authority over credit risk assessment. They are also responsible for monitoring the credit risk profile of the portfolio and reporting monthly to the Group's Operating Committee. The Board of Directors have final authority over credit risk assessment for the Company.

The Group has developed policies and practices that are designed to preserve the independence and integrity of the approval and decision making of extending credit and are intended to ensure credit risks are assessed accurately, approved properly, monitored regularly and managed actively at both the transaction and portfolio levels.

Market risk

Market risk represents the potential loss in value of portfolios and financial instruments caused by adverse movements in market variables such as interest and foreign exchange rates, credit spreads, and equity and commodity prices. Market Risk (MR) is a corporate risk governance function within the Group that is independent of the lines of business and identifies, measures, monitors and controls market risk. MR works in partnership with the business segments within the Group and the directors of the Company and seeks to facilitate efficient risk/return decisions, reduce volatility in operating performance and refine and monitor market risk policies and procedures.

Since no single measure can reflect all aspects of market risk and because of the complexity of the range of products traded or strategically managed within the Group, a combination of risk management and measurement tools are used to analyse the market risk as follows:

- Statistical risk measures
  - Value-at-Risk (VAR)
  - Risk identification for large exposures (RIFLE)

- Non-statistical risk measures
  - Economic value stress tests
  - Earnings-at-risk stress tests
  - Other measures of position size and sensitivity to market moves

The Group's VAR statistical measure gauges the potential loss from adverse market moves in an ordinary market environment. Through the Group's RIFLE system, risk managers identify worst-case losses that could arise from an unusual or specific event, such as a potential tax change, and estimate the probabilities of such a loss. This information is then communicated to the appropriate level of management, thereby permitting the Group and the directors of the Company to identify further earnings vulnerabilities. MR regularly reviews and updates risk limits, and the Group's Operating Committee reviews and approves risk limits at least twice a year.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events. To monitor and control operating risk, the Group and the Company maintain a system of comprehensive policies and a control framework designed to provide a sound and well-controlled operational environment.

Directors

The directors of the Company who served during the year and up to the date of signing the management report were as follows:

J.P. Everwijn
J.C.W. van Burg
J.C.P. van Uffelen
B.P. von Gunten (Resigned 1 February 2009)

Creditor payment policy

All invoices from suppliers are settled on the Company's behalf by an affiliated Group company, JPMorgan Chase Bank, N.A.

JPMorgan Chase Bank, N.A.'s policy is to pay invoices (including those in respect of the Company) upon presentation, except where other arrangements have been negotiated with the supplier. It is the policy of the Company to abide by the terms of payment, provided the supplier performs according to the terms of the contract.

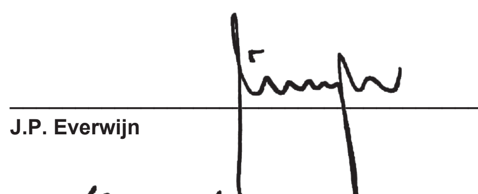
J.P. MORGAN STRUCTURED PRODUCTS B.V.
Directors' report for the year ended 31 December 2008 (continued)

Registered address
Strawinskylaan 3105, Floor 7
1077 ZX Amsterdam,
The Netherlands

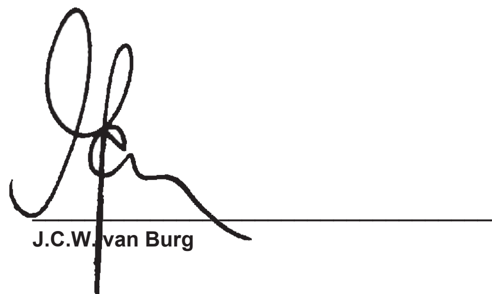
Independent auditors

The auditors, PricewaterhouseCoopers Accountants N.V., have indicated their willingness to continue in office. A resolution to reappoint PricewaterhouseCoopers Accountants N.V. as auditors to the Company will be proposed at the annual general meeting.

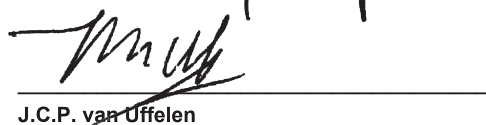
By order of the Board



J.P. Everwijn



J.C.W. van Burg



J.C.P. van Uffelen

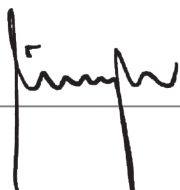
Date:30 March 2009

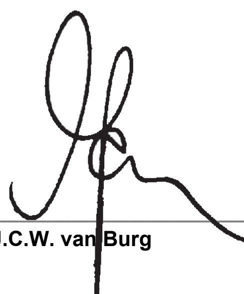
J.P. MORGAN STRUCTURED PRODUCTS B.V.

Balance sheet as at 31 December 2008

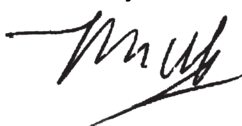
	Notes	2008 $'000	2007 $'000
Assets			
Current assets			
Financial assets held for trading	4	**17,002,231**	980,538
Trade and other receivables	5	**123,702**	560
Current tax asset		**3,991**	4,378
Cash and cash equivalents	6	**571,429**	519,594
Total assets		**17,701,353**	1,505,070
Liabilities			
Current liabilities			
Financial liabilities designated at fair value through profit or loss	7	**17,002,231**	980,538
Trade and other payables	8	**24,689**	10,153
Bank overdraft	6	**150,948**	77
Total liabilities		**17,177,868**	990,768
Equity			
Capital and reserves attributable to equity shareholders of the Company			
Share capital	9	**26**	26
Share premium reserve		**499,997**	499,997
Legal reserve		**2**	4
Retained earnings		**23,460**	14,275
Total equity		**523,485**	514,302
Total liabilities and equity		**17,701,353**	1,505,070

By the order of the Board





J.P. Everwijn **J.C.W. van Burg**



J.C.P. van Uffelen

Date: **30 March 2009**

The notes on pages 9 - 22 form an integral part of the financial statements.

J.P. MORGAN STRUCTURED PRODUCTS B.V.

Income statement for the year ended 31 December 2008

	Notes	**31 December 2008 $'000**	Restated 6 November 2006 to 31 December 2007 $'000
Trading profit	11	**-**	-
Fee and commission income	10	**4,652**	485
Fee and commission expense	10	**(2,016)**	(6)
Administrative expenses		**(2,430)**	(441)
Net foreign exchange gain/(loss)		**22**	(330)
Operating profit/(loss)	11	**228**	(292)
Interest and similar income	12	**12,613**	19,598
Interest expense	13	**-**	(1)
Profit before income tax		**12,841**	19,305
Income tax expense	14	**(3,658)**	(5,026)
Profit for the year attributable to equity shareholders of the Company		**9,183**	14,279

The profit for the year resulted from continuing operations.

The notes on pages 9 - 22 form an integral part of the financial statements.

J.P. MORGAN STRUCTURED PRODUCTS B.V.
Statement of changes in equity for the year ended 31 December 2008

	Share capital	Share premium reserve	Legal reserve	Retained earnings	Total equity
	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2008	26	499,997	4	14,275	514,302
Profit for the year	-	-	-	9,183	9,183
Transfer from legal reserve to retained earnings	-	-	(2)	2	-
Balance at 31 December 2008	**26**	**499,997**	**2**	**23,460**	**523,485**
Balance at 6 November 2006	26	-	-	-	26
Share premium on issue of ordinary shares	-	499,997	-	-	499,997
Profit for the period	-	-	-	14,279	14,279
Transfer from retained earnings to legal reserve	-	-	4	(4)	-
Balance at 31 December 2007	26	499,997	4	14,275	514,302

The notes on pages 9 - 22 form an integral part of the financial statements.

J.P. MORGAN STRUCTURED PRODUCTS B.V.

Cash flow statement for the year ended 31 December 2008

	Notes	**31 December 2008 $'000**	31 December 2007 $'000
Cash flow from operating activities			
Profit before income tax		**12,841**	19,305
Income tax paid		**(3,271)**	(9,739)
Interest income	12	**(12,613)**	(19,598)
Interest expense	13	**-**	1
Foreign exchange on operating activities		**(22)**	330
		(3,065)	(9,701)
Changes in working capital			
Financial assets held for trading		**(16,021,693)**	(980,538)
Trade and other receivables		**(123,142)**	(560)
Current tax asset		**-**	335
Financial liabilities designated at fair value through profit & loss		**16,021,693**	980,538
Trade and other payables		**14,536**	10,153
Net cash from operating activities		**(111,671)**	227
Cash flow from investing activities			
Interest income	12	**12,613**	19,598
Interest expense	13	**-**	(1)
Net cash used in investing activities		**12,613**	19,597
Cash flow from financing activities			
Proceeds from issuance of ordinary shares		**-**	26
Share premium on ordinary activities		**-**	499,997
Net cash from financing activities		**-**	500,023
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		**519,517**	-
Effect of realised exchange rate changes on cash and cash equivalents		**22**	(330)
Cash and cash equivalents at the end of the year	6	**420,481**	519,517

The notes on pages 9 - 22 form an integral part of the financial statements.

J.P. MORGAN STRUCTURED PRODUCTS B.V.

Notes to the financial statements for the year ended 31 December 2008

1. General information

J.P. Morgan Structured Products B.V. (the "Company") was incorporated on 6 November 2006 as a private company with limited liability under the laws of The Netherlands. These financial statements reflect the operations of the Company during the year from 1 January 2008 to 31 December 2008.

The Company's main activity is the issuance of securitised derivatives comprising certificates, warrants and notes including equity linked, reverse convertible and market participation notes, and the subsequent hedging of those risk positions.

These financial statements have been approved for issue by the Board of Directors on 30 March 2009.

2. Summary of significant accounting policies

2.1 Accounting convention

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied to all the years presented, unless otherwise stated.

The financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union. Where necessary, comparative figures have been amended to conform with change in presentation in the current year. The financial statements have been prepared under the historical cost convention, except that financial assets and financial liabilities held for trading are stated at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Standards, amendments and interpretations effective in 2008

Standards, amendments and interpretations to existing standards that are effective but not relevant for the Company's operations

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2008 but are not relevant to the Company's operations:

- IFRIC 14, IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction (effective 1 January 2008)
- IFRIC 11, IFRS 2 - Group and treasury share transactions (effective 1 March 2007)
- IFRIC 12, Service concession arrangements (effective 1 January 2008)

2 Summary of significant accounting policies (continued)

2.1 Accounting convention (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and not relevant for the Company's operations

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2009 but are not relevant to the Company's operations:

- Amendment to IAS 32, 'Financial instruments: Presentation', and IAS 1, 'Presentation of financial statements' (effective 1 January 2009)
- Amendment to IFRS 2, Share based payments (effective 1 January 2009)
- IFRS 3 (Revised), Business combinations (effective 1 July 2009)
- IAS 27 (Revised), Consolidated and separate financial statements (effective 1 July 2009)
- Revised IAS 1, Presentation of financial statements (effective 1 January 2009)
- Revised IAS 23, Borrowing costs (effective 1 January 2009)
- IFRS 3 (revised), 'Business combinations' (effective from 1 July 2009)
- IFRS 5 (amendment), 'Non-current assets held-for-sale and discontinued operations', (and consequential amendment to IFRS 1, 'First-time adoption') (effective from 1 July 2009).
- IAS 28 (amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation', and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009).
- IAS 36 (amendment), 'Impairment of assets', (effective from 1 January 2009).
- IAS 38 (amendment), 'Intangible assets', (effective from 1 January 2009).
- IAS 19 (amendment), 'Employee benefits', (effective from 1 January 2009)
- IAS 39 (amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009).
- IFRS 1 (amendment), 'First time adoption of IFRS', (effective from 1 January 2009).
- IAS 27, (amendment), 'Consolidated and separate financial statements', (effective from 1 January 2009).
- IFRIC 13, Customer loyalty programmes relating to IAS 18, Revenue (effective 1 July 2008)
- IAS 16 (amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from 1 January 2009).
- IAS 29 (amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009).
- IAS 31 (amendment), 'Interests in joint ventures', (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009).
- IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008).
- IFRIC 15, ‘Agreements for construction of real estates’ (effective from 1 January 2009)
- IAS 40 (Amendment), ‘Investment property’ (and consequential amendments to IAS 16) (effective from 01 January 2009)
- IAS 41 (Amendment), ‘Agriculture’ (effective from 01 January 2009)
- IAS 20 (Amendment), ‘Accounting for government grants and disclosure of government assistance’ (effective from 01 January 2009)
- IFRS 8, ‘Operating segments’ (effective from 01 January 2009)
- IFRIC 17, ‘Distributions of non-cash assets to owners’ (effective from 1 July 2009)
- IFRIC 18, ‘Transfer of assets from customers’ (effective from 1 July 2009)

2.2 Foreign currency translation

Monetary assets and liabilities in foreign currencies are translated into US dollars at rates of exchange ruling on the balance sheet date. Income and expense items denominated in foreign currencies are translated into US dollars at exchange rates prevailing at the date of the transactions. Any gains or losses arising on translation are taken directly to the profit and loss account.

Non-monetary items denominated in foreign currencies that are stated at historical cost are translated into US dollars at the date of the transaction.

2 Summary of significant accounting policies (continued)

2.3 Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in US Dollars, which is the Company's functional and presentation currency.

The exchange rates used are:

Year end exchange rate (USD/EUR)	1.41431	(2007: 1.47009)
Average rate for the year (USD/EUR)	1.47223	(2007: 1.37118)

2.4 Financial assets and financial liabilities

The Company classifies its financial assets and financial liabilities in the following categories: financial assets and financial liabilities held for trading; and financial assets and financial liabilities designated at fair value through profit or loss. The directors determine the classification of its investments at initial recognition.

The Company recognises a financial asset or a financial liability on its balance sheet when it becomes party to the contractual provisions of the instrument.

Financial assets and financial liabilities held for trading

The Company considers a financial asset or financial liability as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term, or forms part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or it is a derivative.

Financial assets and financial liabilities held for trading comprise equity derivatives. These instruments are initially recognised on trade date at fair value in the balance sheet with transaction costs being recorded in profit or loss and any gains or losses are taken directly to the profit and loss account. Subsequently, they are measured at fair value.

Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities that the Company designates on initial recognition as being at fair value through profit or loss are recognised at fair value, with transaction costs being recognised in profit or loss and are subsequently measured at fair value. Gains and losses on financial assets and financial liabilities that are designated at fair value through profit or loss are recognised in profit or loss as they arise. A financial instrument may only be designated at inception as held at fair value through profit or loss and cannot subsequently be changed.

Financial assets or financial liabilities are designated as at fair value through profit or loss only if such designation (a) eliminates or significantly reduces a measurement or recognition inconsistency; or (b) applies to a group of financial assets, financial liabilities or both that the Company manages and evaluates on a fair value basis; or (c) relates to an instrument that contains an embedded derivative which is not evidently closely related to the host contract.

Derecognition of financial assets and financial liabilities

Financial assets are derecognised when the right to receive cash flows from the assets has expired; or when the Company has transferred its contractual right to receive the cash flows of the financial assets, and either

- substantially all the risks and rewards of ownership have been transferred; or
- substantially all the risks and rewards have neither been retained nor transferred but control is not retained.

Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expires.

2 Summary of significant accounting policies (continued)

2.5 Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values are determined by reference to observable market prices where available and reliable. Fair values of financial assets and financial liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments where representative market prices for an instrument are not available or are unreliable because of poor liquidity, the fair value is derived from prices for its components using appropriate pricing or valuation techniques that are based on independently sourced market parameters. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist and valuation model.

2.6 Impairment

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or portfolio of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that that loss event has an adverse impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

2.7 Income and expense recognition

Interest income and expense are recognised on an accruals basis.

Fees and commissions are recognised when the underlying contract becomes legally binding or at the agreed due date if later, unless a fee is received relating to work to be completed in the future in which case it is recognised over the period in accordance with the effective interest rate method. Effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees receivable, that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

Profits and losses resulting from the revaluation of financial instruments are recognised as trading gains or losses within operating income on a trade date basis.

Expenses are recognised when the underlying contract becomes legally binding or at an agreed due date if later.

2.8 Cash and cash equivalents

Cash and cash equivalents in the cash flow statement represent cash in hand and balances with banks, other short term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown in Note 6.

2.9 Share capital

The share capital of the Company consists of ordinary shares, classified as equity.

2 Summary of significant accounting policies (continued)

2.10 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.11 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.12 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.13 Offsetting financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.14 Prior year restatements

Trading profit from financial assets held for trading and trading loss on financial liabilities designated at fair value through profit and loss net to zero as the company is perfectly hedged. This is now shown as 'Trading profit' on the income statement. Comparative figures have been restated to more accurately reflect the nature of the balances. Profit for the comparative period remains unchanged.

3. Critical accounting estimates and judgments

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In this regard, the Directors believe that the critical accounting policies where judgement is necessarily applied are those which relate to the valuation of financial instruments.

4. Financial assets held for trading

	2008	2007
	$'000	$'000
Financial assets held for trading	17,002,231	980,538

All financial assets held for trading were with other JPMorgan Chase Group undertakings.

There were no amounts within financial assets held for trading that were past due or impaired as at 31 December 2008 (2007: Nil).

Included within financial assets held for trading are financial instruments for which fair values are derived in whole or in part from appropriate pricing or valuation techniques that are not based on directly observable market transactions. The directors consider that the Company is perfectly hedged and that there would be no impact due to movement in the fair value of the financial assets held for trading to the results of the Company.

5. Trade and other receivables

	2008	2007
	$'000	$'000
Trade receivables	-	15
Amounts owed by group undertakings	123,702	545
	123,702	560

There were no amounts within trade and other receivables that were past due or impaired as at 31 December 2008 and as at 31 December 2007.

6. Cash and cash equivalents

	2008	2007
	$'000	$'000
Cash placed with group undertakings	542,710	519,567
Balances with third party	28,719	27
Cash and cash equivalents	**571,429**	**519,594**
Balances due to group undertakings	(143,331)	-
Balances due to third parties	(7,617)	(77)
	420,481	**519,517**

7. Financial liabilities designated at fair value through profit and loss

	2008	2007
	$'000	$'000
Financial liabilities designated at fair value through profit and loss	17,002,231	980,538

Included within financial liabilities designated at fair value through profit or loss are financial instruments for which fair values are derived in whole or in part from appropriate pricing or valuation techniques that are not based on directly observable market transactions. The directors consider that the Company is perfectly hedged and that there would be no impact due to movement in the fair value of the financial liabilities held for trading to the results of the Company.

The amount of change attributable to changes in credit risk in the fair value of the financial liabilities designated at fair value through profit or loss for 2008 is $105,800,000 (2007: $100,173). This amount is fully offset by an equal and opposite amount in financial assets held for trading. Refer note 4.

For financial liabilities designated at fair value through profit or loss there is no difference between the carrying value and the amount required to pay at maturity to the holder of the obligation.

8. Trade and other payables

	2008	2007
	$'000	$'000
Trade creditors	5,265	-
Amounts owed to group undertakings	19,424	10,153
	24,689	**10,153**

9. Share capital

	2008	2007
	'000	'000
Authorised share capital		
90,000 Ordinary shares of €1.00 each	€ 90	€ 90
Issued and fully paid share capital		
20,000 Ordinary shares of €1.00 each	$ 26	$ 26

In accordance with the requirements of Article 373 Book 2 of the Dutch Civil Code, the Company has transferred an amount of $2,000 to a legal reserve in respect of revaluation of Euro denominated share capital.

10. Fee and commission

All fee and commission income is receivable from other JPMorgan Chase group undertakings.

All fee and commission expense are paid by other JPMorgan Chase group undertakings and reimbursed by the Company.

11. Operating profit/(loss)

Trading profit comprises profit and losses resulting from the revaluation of financial instruments and interest income and interest expense from trading activities which are perfectly hedged.

Administrative expenses include charges for financial services, directors' fees and auditor's remuneration.

Auditor's remuneration for the audit of the Company's financial statements was $118,000 (2007: $120,000).

12. Interest and similar income

	2008	6 November 2006 to 31 December 2007
	$'000	$'000
Interest and similar income	12,613	19,598

All interest income is receivable from other JPMorgan Chase group undertakings.

13. Interest expense

	2008	6 November 2006 to 31 December 2007
	$'000	$'000
Interest expense	-	1

All interest expense is payable to other JPMorgan Chase group undertakings.

14. Current income tax

	2008	2007
(a) income tax expense:	$'000	$'000
Current tax	3,271	5,026
Adjustments in respect of prior periods	387	-
Tax on profit on ordinary activities	3,658	5,026
Profit for the year before tax	12,841	19,305
Tax calculated at applicable tax rates	3,271	5,026
Impact of:		
-Tax credit	-	-
- Adjustments in respect of prior periods	387	-
Income tax expense	3,658	5,026

15. Financial risk management

The primary activity of the Company is the issuance and holding of securitised derivatives comprising certificates, warrants and notes including equity linked notes, reverse convertible notes and market participation notes, reported as financial liabilities designated at fair value through profit or loss.

The market, credit and liquidity risks resulting from the issuance of these instruments, are matched by simultaneously entering into equal and offsetting over the counter (OTC) transactions, reported as financial assets held for trading, with internal group companies so that all such risks are effectively hedged. Regular checks are made on open OTC transactions to ensure the continued effectiveness of the economic hedges in place.

To the extent that settlement-related timing differences between issuance and the OTC hedge may result in funding requirements, these are funded by the JPMorgan Chase group undertakings involved in the transaction.

Market risk

Market risk represents the potential loss in value of portfolios and financial instruments caused by adverse movements in market variables such as interest and foreign exchange rates, credit spreads, and equity and commodity prices. Market Risk (MR) is a corporate risk governance function within the Group that is independent of the lines of business and identifies, measures, monitors and controls market risk. MR works in partnership with the business segments within the Group and the directors of the Company and seeks to facilitate efficient risk/return decisions, reduce volatility in operating performance and refine and monitor market risk policies and procedures.

Since no single measure can reflect all aspects of market risk and because of the complexity of the range of products traded or strategically managed within the Group, a combination of risk management and measurement tools are used to analyse the market risk as follows:

- Statistical risk measures
  - Value-at-Risk (VAR)
  - Risk identification for large exposures (RIFLE)

- Non-statistical risk measures
  - Economic value stress tests
  - Earnings-at-risk stress tests
  - Other measures of position size and sensitivity to market moves

The Group's VAR statistical measure gauges the potential loss from adverse market movements in an ordinary market environment. Through the Group's RIFLE system, risk managers identify worst-case losses that could arise from an unusual or specific event, such as a potential tax change, and estimate the probabilities of such a loss. This information is then communicated to the appropriate level of management, thereby permitting the Group and the directors to identify further earnings vulnerabilities. MR regularly reviews and updates risk limits, and the Group's Operating Committee reviews and approves risk limits at least twice a year.

Foreign exchange risk

Foreign exchange risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risk on the issued instruments is matched by entering into equal and offsetting over the counter (OTC) transactions with internal group companies in the same currency so that foreign exchange risk in the Company is effectively hedged. Foreign exchange risk arising from non trading activity is oncharged to group companies. As at 31 December 2008, any movements in Sterling or Euro against US dollar (the functional currency of the Company) would result in no change to the financial profit of the Company.

15. Financial risk management (continued)

Liquidity risk

Liquidity risk arises from the general funding needs of the Company's activities and in the management of its assets and liabilities. The Company's funding needs are provided by JPMorgan Chase Bank, N.A. or other Group companies whose liquidity management frameworks are intended to maximise liquidity access. To accomplish this, Group management uses a variety of liquidity risk measures that take into consideration market conditions, prevailing interest rates, liquidity needs and the desired maturity profile.

The Group's funding strategy is to ensure liquidity and diversity of funding sources to meet actual and contingent liabilities through both stable and adverse conditions. The Group holds sizeable amounts of marketable securities that are readily converted to cash, and provide a buffer for dramatic market conditions.

The Group's Asset-Liability Committee approves and oversees the execution of the Group's liquidity policy and contingency funding plan while Corporate Treasury formulates the Group's liquidity and contingency planning strategies and is responsible for measuring, monitoring, reporting and managing the Group's and the Company's liquidity risk profile.

The following table provides details on the contractual maturity of all liabilities:

		Restated
	2008 Less than 1 year	**2007 Less than 1 year**
	$'000	**$'000**
Financial liabilities designated at fair value through profit or loss	17,002,231	980,538
Bank Overdraft	150,948	77
Amounts owed to group undertakings	19,424	10,153

Included within the above assets, the balances held with other Group undertakings are $19,424 (2007: $10,153).

The above financial liabilities are presented based on the earliest contractual maturity. Fair value is considered to be the best representation of undiscounted cash flows for financial liabilities.

Bank Overdrafts have been added to the above table; 2007 figures have also been updated for comparability purposes.

15. Financial risk management (continued)

Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Each business within the Group has its own independent credit risk management function, reporting to the Chief Risk Officer. These units are responsible for making credit decisions on behalf of the Company. They approve significant new transactions and product offerings and exercise on behalf of the directors, final authority over credit risk assessment. They are also responsible for monitoring the credit risk profile of the portfolio and reporting monthly to the Group's Operating Committee.

The Group has developed policies and practices that are designed to preserve the independence and integrity of the approval and decision making of extending credit and are intended to ensure credit risks are assessed accurately, approved properly, monitored regularly and managed actively at both the transaction and portfolio levels.

The amounts in the table below show the maximum credit exposure of the Company:

	2008	Restated 2007
	$'000	$'000
Financial assets held for trading	17,002,231	980,538
Trade and other receivables	123,702	560
Cash and cash equivalents	420,481	519,517
	17,546,414	1,500,615

All financial assets held for trading were with other JPMorgan Chase group undertakings.

Cash and cash equivalents have been added to the above table; 2007 figures have been updated for comparability purposes.

Interest rate risk

Interest rate risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has a cash flow interest rate risk from cash and cash equivalents on the balance sheet. Interest rate risk on the issued instruments is matched by entering into equal and offsetting interest bearing over the counter (OTC) transactions with internal group companies so that the interest rate risk from these instruments is effectively hedged.

The following table shows the effect of change in interest rates by 50 basis points which is considered to be reasonably possible for the portfolio that is based in countries with a low volatility in interest rates.

	2008	2007
	$'000	$'000
50 basis points increase in local interest rates	**2,631**	**2,549**
50 basis points decrease in local interest rates	(2,631)	(2,549)

15. Financial risk management (continued)

Price risk

Price risk from the issued instruments is matched by entering into equal and offsetting over the counter (OTC) transactions with internal group companies so that any price risk is effectively hedged. As at 31 December 2008, any movement in indices or ratings would result in no change to the financial profit of the Company.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events. To monitor and control operating risk, the Group and the Company maintain a system of comprehensive policies and a control framework designed to provide a sound and well-controlled operational environment.

Fair value of financial assets and financial liabilities

For all financial assets and financial liabilities, carrying value is a reasonable approximation of fair value.

16. Managed capital

Total equity of $523,485,000 constitutes the managed capital of the Company which consists entirely of issued share capital, share premium reserve, legal reserve and retained earnings.

The directors are responsible for setting the objectives, policies and processes relating to the management of the Company's capital and maintain a set of policy documents to assist in discharging their responsibilities. The major risk categories considered by the Company are those pertaining to credit risk, market risk and operational risk.

The Company is not subject to any externally imposed capital requirements.

17. Related party transactions

Related parties comprise:

(a) Directors and shareholders of the Company and companies in which they have an ownership interest;

(b) Group undertakings of the Company.

The Company's parent undertaking is detailed in note 18. There were no transactions with the parent undertaking during the year.

Related party transactions, outstanding balances at year end, and income and expenses for the year, relating to normal business activities are as follows:

(i) Outstanding balances at period end

	Directors 2008 $'000	JPMorgan Chase group undertakings 2008 $'000	Directors 2007 $'000	JPMorgan Chase group undertakings 2007 $'000
Financial assets held for trading	-	17,002,231	-	980,538
Trade and other receivables	-	123,702	-	560
Cash and cash equivalents	-	571,429	-	519,594
Trade and other payables	-	(19,424)	-	(10,153)

(ii) Income and expenses

	Directors 2008 $'000	JPMorgan Chase group undertakings 2008 $'000	Directors 2007 $'000	JPMorgan Chase group undertakings 2007 $'000
Fees and commission income	-	4,652	-	485
Fees and commission expense	-	(2,016)	-	(6)
Administrative expenses	(2,180)	(250)	(165)	(5)

There was no remuneration paid to the directors of the Company.

Included within administration expenses was $2,180,000 (2007: $97,000) charged by Equity Trust Co. N.V., which share the following director with the Company:

J.C.W. van Burg

In 2007 $68,000 was paid to former director TMF Management B.V.

The Company had no employees, at any time during the year.

18. Parent undertaking

The Company's immediate parent undertaking is J.P. Morgan International Finance Limited which is incorporated in the state of Delaware in the United States of America.

The Company's ultimate parent undertaking and the parent undertaking of the largest group in which the results of the Company are consolidated, is JPMorgan Chase & Co., which is also incorporated in the state of Delaware in the United States of America.

The parent undertaking of the smallest group in which the Company's results are consolidated is J.P. Morgan Internal Finance Limited.

The largest and the smallest groups' consolidated financial statements can be obtained from:

The Company Secretary
125 London Wall
EC2Y 5AJ
London

Profit appropriation according to the Articles of Association

The articles of association of the Company require that the allocation of profits be determined in a general meeting of the shareholders. The Management Board may resolve to pay interim dividends up to an amount which does not exceed the amount of the distributable part of the net assets. Dividends shall be paid after adoption of the annual accounts from which it appears that payment of dividends is permissible.

Proposed appropriation of net results

Management propose to appropriate the current period profits to the retained earnings. No dividend was paid or proposed during the period.

PRICEWATERHOUSECOOPERS

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To the General Meeting of Shareholders of JP Morgan Structured Products B.V.

Auditor's report

Report on the financial statements

We have audited the accompanying financial statements 2008 of JP Morgan Structured Products B.V., Amsterdam as set out on pages 5 to 22 which comprise the balance sheet as at 31 December 2008, the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

The directors' responsibility

The directors of the company are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the directors' report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers is the trade name of among others the following companies: PricewaterhouseCoopers Accountants N.V. (Chamber of Commerce 34180285), PricewaterhouseCoopers Belastingadviseurs N.V. (Chamber of Commerce 34180284), PricewaterhouseCoopers Advisory N.V. (Chamber of Commerce 34180287) and PricewaterhouseCoopers B.V. (Chamber of Commerce 34180289). The services rendered by these companies are governed by General Terms & Conditions, which include provisions regarding our liability. These General Terms & Conditions are filed with the Amsterdam Chamber of Commerce and can also be viewed at www.pwc.com/nl

Reference: JdJ/e0107871

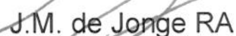
Opinion

In our opinion, the financial statements give a true and fair view of the financial position of JP Morgan Structured Products B.V. as at 31 December 2008, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5f of the Netherlands Civil Code, we report, to the extent of our competence, that the directors' report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, 30 March 2009
PricewaterhouseCoopers Accountants N.V.



J.M. de Jonge RA

INFORMATION RELATING TO THE GUARANTOR

History, Development and Organizational Structure

JPMorgan Chase Bank, N.A. is one of the principal bank subsidiaries of JPMorgan Chase & Co. JPMorgan Chase Bank offers a wide range of banking services to its customers both in the United States and internationally. Under the J.P. Morgan and Chase brands, JPMorgan Chase Bank serves millions of customers in the United States and many of the world's most prominent corporate, institutional and government clients. As of December 31, 2008, JPMorgan Chase Bank, N.A. had total assets of $1.7 trillion, total net loans of $645.2 billion, total deposits of $1.1 trillion and total stockholders' equity of $128.8 billion.

JPMorgan Chase Bank, N.A. was initially organized as a New York banking corporation on November 26, 1968, and converted into a national banking association on November 13, 2004. JPMorgan Chase Bank, N.A. is chartered and its business is subject to examination and regulation by the U.S. Office of the Comptroller of the Currency (the "OCC"), a bureau of the U.S. Department of the Treasury. JPMorgan Chase Bank, N.A. is a member of the U.S. Federal Reserve System and its deposits are insured by the U.S. Federal Deposit Insurance Corporation ("FDIC"). Its U.S. Federal Reserve Bank Identification Number is 852218.

The powers of JPMorgan Chase Bank, N.A. are set forth in the U.S. National Bank Act and include all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes.

The registered office of JPMorgan Chase Bank, N.A. is located at 1111 Polaris Parkway, Columbus, Ohio 43240, U.S.A. JPMorgan Chase Bank, N.A.'s principal place of business is located at 270 Park Avenue, New York, New York 10017-2070, U.S.A. and its telephone number is +1 212 270 6000. References in this base listing document to "JPMorgan Chase Bank" mean JPMorgan Chase Bank, N.A. and its consolidated subsidiaries; references to "JPMorgan Chase" mean JPMorgan Chase & Co. and its consolidated subsidiaries; and references to "the United States" or "U.S." mean the United States of America.

Principal Activities and Principal Markets

JPMorgan Chase Bank's activities are organized and integrated with the businesses of JPMorgan Chase into business segments for each line of business, as well as a Corporate segment. The wholesale businesses are the Investment Bank, Commercial Banking, Treasury & Securities Services and Asset Management, and the consumer businesses are Retail Financial Services and Card Services. A description of these lines of business, and the products and services they provide to their respective client bases, follows.

Investment Bank

J.P. Morgan is one of the world's leading investment banks, with deep client relationships and broad product capabilities. The Investment Bank's clients are corporations, financial institutions, governments and institutional investors. JPMorgan Chase Bank offers a full range of investment banking products and services in all major capital markets, including advising on corporate strategy and structure, capital raising in equity and debt markets, sophisticated risk management, market-making in cash securities and derivative instruments, prime brokerage and research. The Investment Bank also selectively commits JPMorgan Chase Bank's own capital to principal investing and trading activities.

Retail Financial Services

Retail Financial Services, which includes the Retail Banking and Consumer Lending reporting segments, serves consumers and businesses through personal service at bank branches and through ATMs, online banking and telephone banking as well as through auto dealerships and school financial aid offices. Customers can use more than 5,400 bank branches and 14,500 ATMs in the United States as well as online and mobile banking around the clock. More than 21,400 branch salespeople assist customers with checking and savings accounts, mortgages, home equity and business loans, and investments across the 23-state footprint from New York and Florida to California. Consumers also can obtain loans through more than 16,000 auto dealerships and 4,800 schools and universities throughout the United States.

Card Services

Chase Card Services, which includes both Chase Bank USA, N.A. and JPMorgan Chase Bank, N.A., is one of the largest credit card issuers in the United States. Chase has a market leadership position in building loyalty and rewards programs with many of the world's most respected brands and through its proprietary products, which include the Chase Freedom program. Through its merchant acquiring business, Chase Paymentech Solutions, Chase is one of the leading processors of MasterCard and Visa payments.

Commercial Banking

Commercial Banking serves more than 26,000 clients in the United States, including corporations, municipalities, financial institutions and not-for-profit entities with annual revenue generally ranging from $10 million to $2 billion, and nearly 30,000 real estate investors/owners. Delivering extensive industry knowledge, local expertise and dedicated service, Commercial Banking partners with JPMorgan Chase's other businesses to provide comprehensive solutions, including lending, treasury services, investment banking and asset management to meet its clients' U.S. domestic and international financial needs.

Treasury & Securities Services

Treasury & Securities Services is a global leader in transaction, investment and information services. Treasury & Securities Services is one of the world's largest cash management providers and a leading global custodian. Treasury Services provides cash management, trade, wholesale card and liquidity products and services to small and mid-sized companies, multinational corporations, financial institutions and government entities. Treasury Services partners with the Commercial Banking, Retail Financial Services and Asset Management businesses to serve clients firm-wide. As a result, certain Treasury Services revenue is included in other segments' results. Worldwide Securities Services holds, values, clears and services securities, cash and alternative investments for investors and broker-dealers, and manages depositary receipt programs globally.

Asset Management

Asset Management, with assets under supervision of $1.5 trillion as of December 31, 2008, is a global leader in investment and wealth management. Asset Management clients include institutions, retail investors and high-net-worth individuals in every major market throughout the world. Asset Management offers global investment management in equities, fixed income, real estate, hedge funds, private equity and liquidity, including money market instruments and bank deposits. Asset Management also provides trust and estate, banking and brokerage services to high-net-worth clients, and retirement services for corporations and individuals. The majority of Asset Management's client assets are in actively managed portfolios.

Executive Officers and Directors

Executive Officers

The following persons are the Executive Officers of JPMorgan Chase Bank, N.A. as at the date of this base listing document. The business address of each Executive Officer is 270 Park Avenue, New York, New York 10017-2070, U.S.A.

Name	Title
James Dimon	Chairman of the Board, President and Chief Executive Officer
Frank J. Bisignano	Chief Administrative Officer
Steven D. Black	Co-Chief Executive Officer, Investment Bank
Michael J. Cavanagh	Chief Financial Officer
Stephen M. Cutler	General Counsel
William M. Daley	Head, Corporate Responsibility
Ina R. Drew	Chief Investment Officer
Samuel Todd Maclin	Head, Commercial Banking
Jay Mandelbaum	Head, Strategy and Business Development
Heidi Miller	Chief Executive Officer, Treasury & Securities Services
Charles W. Scharf	Chief Executive Officer, Retail Financial Services
Gordon A. Smith	Chief Executive Officer, Card Services
James E. Staley	Chief Executive Officer, Asset Management
William T. Winters	Co-Chief Executive Officer, Investment Bank
Barry L. Zubrow	Chief Risk Officer

Directors

The following persons are the members of the Board of Directors of JPMorgan Chase Bank, N.A. as at the date of this base listing document. The business address of each Director is JPMorgan Chase Bank, N.A., 270 Park Avenue, New York, New York 10017-2070, U.S.A.

Name	**Principal Occupation**
James Dimon	Chairman of the Board, President and Chief Executive Officer
Frank J. Bisignano	Chief Administrative Officer
Steven D. Black	Co-Chief Executive Officer, Investment Bank
Michael J. Cavanagh	Chief Financial Officer
Charles W. Scharf	Chief Executive Officer, Retail Financial Services
James E. Staley	Chief Executive Officer, Asset Management

Conflicts of Interest

There are no material potential conflicts of interest between the duties to JPMorgan Chase Bank, N.A. of each of the Executive Officers and Directors named above and his/her private interests and/or other duties.

Financial Information

JPMorgan Chase Bank, N.A. prepares annual and quarterly consolidated financial statements in accordance with U.S. generally accepted accounting principles. In addition, where applicable, the accounting and financial reporting policies of JPMorgan Chase Bank, N.A. conform to the accounting and reporting guidelines prescribed by U.S. bank regulatory authorities. The audited Consolidated Financial Statements of JPMorgan Chase Bank, N.A. as at and for the years ended 31 December 2008 and 31 December 2007 comprising consolidated balance sheets at 31 December 2008 and 2007 and the related consolidated statements of income, changes in stockholder's equity and comprehensive income and cash flows for each of the three years ended 31 December 2008 are included in this base listing document. In addition, JPMorgan Chase Bank, N.A.'s annual and quarterly consolidated financial statements, as they become available, can be viewed on the Luxembourg Stock Exchange's website at www.bourse.lu.

JPMorgan Chase Bank, N.A. also files Consolidated Reports of Condition and Income ("Call Reports") with its primary federal regulator, the U.S. Office of the Comptroller of the Currency ("OCC"). These Call Reports are publicly available upon written request to the U.S. Federal Deposit Insurance Corporation ("FDIC") at 550 17th Street, N.W., Washington D.C. 20429, Attention: Disclosure Group, Room F-518. The FDIC has a website where the Call Reports can be viewed, at *http://www.fdic.gov*. The Call Reports are prepared in accordance with regulatory instructions issued by the U.S. Federal Financial Institutions Examinations Council and not U.S. generally accepted accounting principles. The Call Reports are supervisory and regulatory documents; they are not primarily accounting documents, do not conform with U.S. generally accepted accounting principles and do not provide a complete range of financial disclosure about JPMorgan Chase Bank. Nevertheless, the Call Reports do provide important information concerning the financial condition of JPMorgan Chase Bank. The Call Reports are not included or incorporated by reference in, and shall not be deemed to be part of, this base listing document.

Risk Management

Risk is an inherent part of JPMorgan Chase's business activities. JPMorgan Chase's risk management framework and governance structure are intended to provide comprehensive controls and ongoing management of the major risks inherent in its business activities. JPMorgan Chase's ability to properly identify, measure, monitor and report risk is critical to both its soundness and profitability.

- *Risk identification*: JPMorgan Chase's exposure to risk through its daily business dealings, including lending, trading and capital markets activities, is identified and aggregated through JPMorgan Chase's risk management infrastructure. In addition, individuals who manage risk positions, particularly those positions that are complex, are responsible for identifying and estimating potential losses that could arise from specific or unusual events, that may not be captured in other models, and those risks are communicated to senior management.

- *Risk measurement*: JPMorgan Chase measures risk using a variety of methodologies, including calculating probable loss, unexpected loss and value-at-risk, and by conducting stress tests and making comparisons to external benchmarks. Measurement models and related assumptions are routinely reviewed with the goal of ensuring that JPMorgan Chase's risk estimates are reasonable and reflect underlying positions.

- *Risk monitoring/control*: JPMorgan Chase's risk management policies and procedures incorporate risk mitigation strategies and include approval limits by customer, product, industry, country and business. These limits are monitored on a daily, weekly and monthly basis, as appropriate.

- *Risk reporting*: Risk reporting is executed on a line of business and consolidated basis. This information is reported to management on a daily, weekly and monthly basis, as appropriate. There are eight major risk types identified in the business activities of JPMorgan Chase: liquidity risk, credit risk, market risk, interest rate risk, private equity risk, operational risk, legal and fiduciary risk, and reputation risk.

Risk governance

JPMorgan Chase's risk governance structure starts with each line of business being responsible for managing its own risks. Each line of business works closely with Risk Management through its own risk committee and, in most cases, its own chief risk officer to manage risk. Each line of business risk committee is responsible for decisions regarding the business' risk strategy, policies and controls.

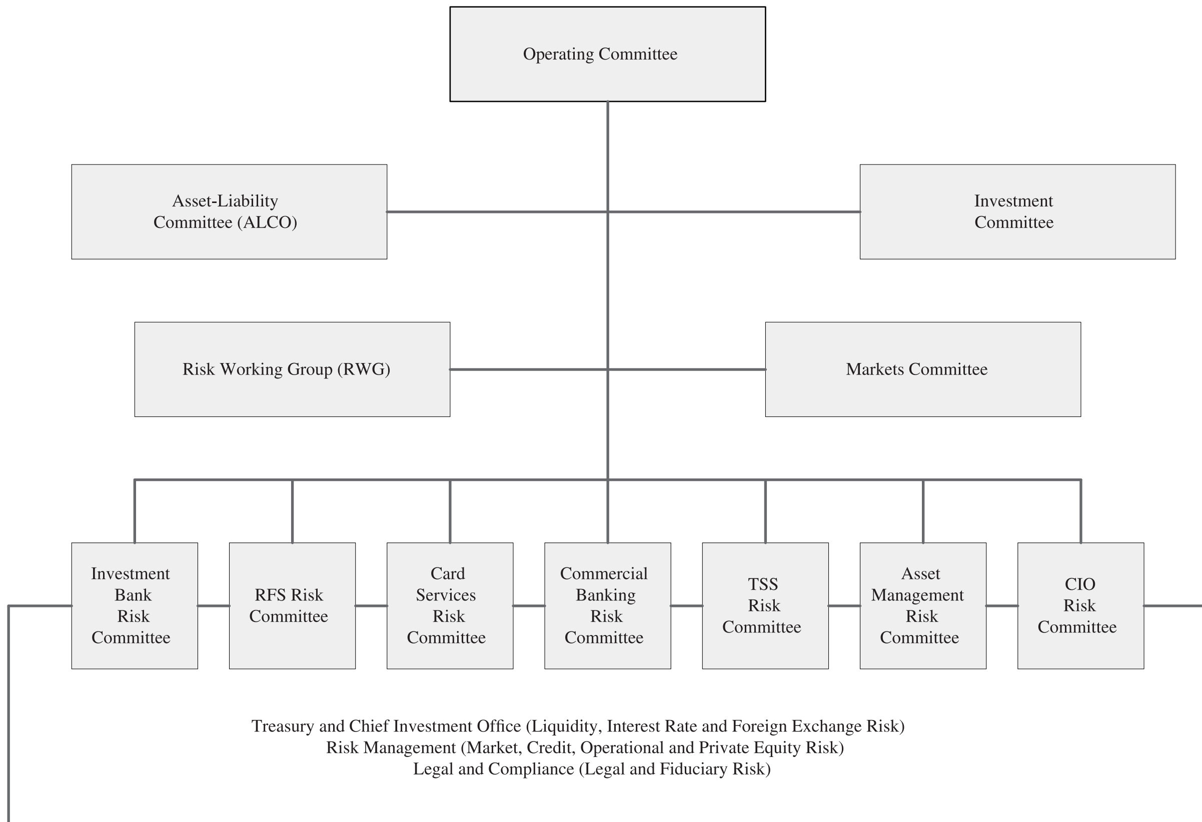
Overlaying the line of business risk management are four corporate functions with risk management-related responsibilities: Treasury, the Chief Investment Office, Legal and Compliance and Risk Management.

Risk Management is headed by JPMorgan Chase's Chief Risk Officer, who is a member of JPMorgan Chase's Operating Committee and who reports to the Chief Executive Officer and the Board of Directors, primarily through the Board's Risk Policy Committee. Risk Management is responsible for providing a firmwide function of risk management and controls. Within Risk Management are units responsible for credit risk, market risk, operational risk and private equity risk, as well as Risk Management Services and Risk Technology and Operations. Risk Management Services is responsible for risk policy and methodology, risk reporting and risk education; and Risk Technology and Operations is responsible for building the information technology infrastructure used to monitor and manage risk.

Treasury and the Chief Investment Office are responsible for measuring, monitoring, reporting and managing JPMorgan Chase's liquidity, interest rate and foreign exchange risk.

Legal and Compliance has oversight for legal and fiduciary risk.

In addition to the risk committees of the lines of business and the above-referenced corporate functions, JPMorgan Chase also has an Investment Committee, an Asset-Liability Committee and two other risk-related committees, namely, the Risk Working Group and the Markets Committee. The members of these committees are composed of senior management of JPMorgan Chase, including representatives of line of business, Risk Management, Finance and other senior executives. Members of these risk committees meet frequently to discuss a broad range of topics including, for example, current market conditions and other external events, current risk exposures and concentrations to ensure that the impact of current risk factors are considered broadly across JPMorgan Chase's businesses.



The Investment Committee oversees global merger and acquisition activities undertaken by JPMorgan Chase for its own account that fall outside the scope of JPMorgan Chase's private equity and other principal finance activities.

The Asset-Liability Committee is responsible for approving JPMorgan Chase's liquidity policy, including contingency funding planning and exposure to special purpose entities ("SPEs") (and any required liquidity support by JPMorgan Chase of such SPEs). The Asset-Liability Committee also oversees JPMorgan Chase's capital management and funds transfer pricing policy (through which lines of business "transfer" interest and foreign exchange risk to Treasury in the Corporate/Private Equity segment).

The Risk Working Group meets monthly to review issues such as risk policy, risk methodology, Basel II and regulatory issues and topics referred to it by any line of business risk committee. The Markets Committee, chaired by the Chief Risk Officer, meets at least weekly to review and determine appropriate courses of action with respect to significant risk matters, including but not limited to: limits; credit, market and operational risk; large, high risk transactions; and hedging strategies.

The Board of Directors exercises its oversight of risk management, principally through the Board's Risk Policy Committee and Audit Committee. The Risk Policy Committee oversees senior management risk-related responsibilities, including reviewing management policies and performance against these policies and related benchmarks. The Audit Committee is responsible for oversight of guidelines and policies that govern the process by which risk assessment and management is undertaken. In addition, the Audit Committee reviews with management the system of internal controls and financial reporting that is relied upon to provide reasonable assurance of compliance with JPMorgan Chase's operational risk management processes.

Litigation

The following summary of certain significant legal proceedings has been extracted from the Annual Report on Form 10-K of JPMorgan Chase & Co. for the year ended December 31, 2008 and the Quarterly Report on Form 10-Q of JPMorgan Chase & Co. for the quarter ended March 31, 2009, each filed with the U.S. Securities and Exchange Commission.

Bear Stearns Shareholder Litigation and Related Matters. Various shareholders of The Bear Stearns Companies Inc. ("Bear Stearns") have commenced purported class actions against Bear Stearns and certain of its former officers and/or directors on behalf of all persons who purchased or otherwise acquired common stock of Bear Stearns between December 14, 2006 and March 14, 2008 (the "Class Period"). The actions, originally commenced in several U.S. District Courts, allege that the defendants issued materially false and misleading statements regarding Bear Stearns' business and financial results and that, as a result of those false statements, Bear Stearns' common stock traded at artificially inflated prices during the Class Period. In connection with these allegations, the complaints assert claims for violations of Sections 10(b) and 20(a) of the U.S. Securities Exchange Act of 1934 (the "Securities Exchange Act"). Separately, several individual shareholders of Bear Stearns have commenced or threatened to commence arbitration proceedings and lawsuits asserting claims similar to those in the putative class actions.

In addition, Bear Stearns and certain of its former officers and/or directors have also been named as defendants in a number of putative class actions commenced in the U.S. District Court for the Southern District of New York purporting to represent the interests of participants in the Bear Stearns Employee Stock Ownership Plan ("ESOP") during the time period of December 2006 through the date of the complaints. These actions allege that defendants breached their fiduciary duties to plaintiffs and to the other participants and beneficiaries of the ESOP by (a) failing to prudently manage the ESOP's investment in Bear Stearns securities; (b) failing to communicate fully and accurately about the risks of the ESOP's investment in Bear Stearns stock; (c) failing to avoid or address alleged conflicts of interest; and (d) failing to monitor those who managed and administered the ESOP. In connection with these allegations, each plaintiff asserts claims for violations under various sections of the U.S. Employee Retirement Income Security Act ("ERISA") and seeks reimbursement to the ESOP for all losses, an unspecified amount of monetary damages and imposition of a consecutive trust.

Furthermore, former members of Bear Stearns' Board of Directors and certain of Bear Stearns' former executive officers have been named as defendants in two purported shareholder derivative suits, each of which was commenced in the U.S. District Court for the Southern District of New York. Bear Stearns was named as a nominal defendant in both actions. By court order dated February 14, 2008, the actions were consolidated. A consolidated amended complaint was filed on March 3, 2008, asserting claims for breach of fiduciary duty, violations of federal securities laws, waste of corporate assets and gross mismanagement, unjust enrichment, abuse of control and indemnification and contribution in connection with the losses sustained by Bear Stearns as a result of its purchases of sub-prime loans and certain repurchases of its own common stock. Certain individual defendants are also alleged to have sold their holdings of Bear Stearns common stock while in possession of material nonpublic information. The amended complaint seeks compensatory damages in an unspecified amount and an order directing Bear Stearns to improve its corporate governance procedures.

On August 18, 2008, the Judicial Panel on Multidistrict Litigation ("MDL Panel") issued a Transfer Order joining for pre-trial purposes before the U.S. District Court for the Southern District of New York all then-pending securities and ERISA actions, as well as any later-filed actions, making allegations concerning "whether Bear Stearns and certain of its current and former officers and directors knowingly made material misstatements or omissions concerning the company's financial health that misled investors and caused investor losses when the company's stock price fell in March 2008." The consolidated shareholders' derivative lawsuit was also the subject of the Transfer order. All such actions were assigned to District Judge Robert Sweet. By order dated January 5, 2009, District Judge Sweet ordered the various putative securities class actions to be consolidated, and ordered that the putative ERISA class actions be separately consolidated. The Court also appointed lead plaintiffs and lead plaintiffs' counsel in both consolidated actions and appointed lead plaintiffs' counsel in the consolidated shareholder derivative action. On February 27, 2009, plaintiffs in the securities and derivative actions filed their respective consolidated amended complaints. On April 24, 2009, the defendants moved to dismiss the securities and derivative actions. On April 20, 2009, plaintiffs in the ERISA action filed their consolidated amended complaint.

Bear Stearns Merger Litigation. Seven putative class actions (five that were commenced in New York and two that were commenced in Delaware) were consolidated in New York State Court in Manhattan under the caption *In re Bear Stearns Litigation*. Bear Stearns, as well as its former directors and certain of its former executive officers, were named as defendants. JPMorgan Chase was also named as a defendant. The actions, which were filed in the Supreme Court of the New York State Court, allege, among other things, that the individual defendants breached their fiduciary duties and obligations to Bear Stearns' shareholders by agreeing to the proposed merger with JPMorgan Chase. JPMorgan Chase was alleged to have aided and abetted the alleged breaches of fiduciary duty; breached its fiduciary duty as controlling shareholder/controlling entity; tortuously interfered with the Bear Stearns shareholders' voting rights; and was also alleged to have been unjustly enriched. Plaintiffs initially sought to enjoin the proposed merger and enjoin JPMorgan Chase from voting certain shares acquired by JPMorgan Chase in connection with the proposed merger. The plaintiffs subsequently informed the Court that they were withdrawing that motion but amended the consolidated complaint to pursue claims, which included a claim for an unspecified amount of compensatory damages. In December 2008, the court ruled in favor of JPMorgan Chase and other defendants on its and their motion for summary judgment. As a result, the case has been dismissed pending the plaintiff's appeal from the summary judgment ruling. Plaintiffs have filed a motion seeking attorneys' fees and expenses of approximately $11 million to compensate them for the benefit they allegedly conferred on Bear Stearns shareholders by bringing this lawsuit. JPMorgan Chase intends to oppose this motion.

Municipal Derivatives Investigation and Antitrust Litigation. The New York field office of the U.S. Department of Justice's Antitrust Division and the Philadelphia Office of the U.S. Securities and Exchange Commission (the "SEC") have been conducting parallel investigations of JPMorgan Chase and Bear Stearns for possible antitrust and securities violations in connection with the bidding or sale of guaranteed investment contracts and derivatives to municipal issuers. The principal focus of the investigations to date has been the period 2001 to 2005. A group of state attorney generals and the U.S. Office of the Comptroller of the Currency also opened investigations into the same underlying conduct. JPMorgan Chase has been cooperating with those investigations and has produced documents and other information.

On March 18, 2008, the Philadelphia Office of the SEC provided to J.P. Morgan Securities Inc. ("JPMorgan Securities") a Wells Notice that it intended to bring civil charges in connection with its investigations. JPMorgan Securities has responded to that Wells Notice. It also responded to a separate Wells Notice that that Office provided to Bear, Stearns & Co. Inc. on February 1, 2008.

On April 21, 2009, the SEC Staff advised JPMorgan Chase that the SEC had authorized the filing of an enforcement action against JPMorgan Chase, alleging violations of the federal securities laws and rules promulgated by the Municipal Securities Rulemaking Board, with respect to certain transactions executed in 2002 and 2003 with Jefferson County, Alabama. JPMorgan Chase has been engaged in discussions with the SEC Staff in an attempt to resolve the matter prior to litigation.

In addition, beginning in March 2008, purported class action lawsuits and individual actions have been filed against JPMorgan Chase and Bear Stearns, as well as numerous other providers and brokers involved in the market for a variety of financial instruments related to municipal bonds and referred to collectively by plaintiffs as "municipal derivatives" (the "Municipal Derivatives Actions"), for alleged antitrust violations in connection with the bidding or sale of "municipal derivatives." The MDL Panel ordered the antitrust actions relating to "municipal derivatives" coordinated for pretrial proceedings in the U.S. District Court for the Southern District of New York (the "MDL court"). On August 22, 2008, certain class plaintiffs filed a consolidated class action complaint alleging violations of Section 1 of the U.S. Sherman Antitrust Act (the "Sherman Act") based on the alleged conspiracy described above. On October 21, 2008, defendants filed a joint motion to dismiss the consolidated class action complaint. The MDL court declined to stay discovery pending disposition of the motions to dismiss. All pending individual and purported class actions are now consolidated in the MDL court. On April 30, 2009, the MDL court granted the defendants' joint motion to dismiss the consolidated class action complaint as to all defendants except Bank of America, Feld Winters Financial LLC and Municipal Government Investors Corp. Plaintiffs were granted leave to replead within twenty days only those claims based upon allegations pertaining to specific employees of the joint defendants and claims based upon fraudulent concealment. Plaintiffs may also seek leave from the court to replead all claims following further discovery from defendant Bank of America.

There are a number of other actions that are proceeding separately from the consolidated class action complaint. These include purported class actions under the Sherman Act and California state law as well as individual actions that state claims solely under California state law. In addition, there are several actions that have been noticed as a tag-along action to the MDL Panel and are awaiting transfer to the MDL court.

Bear Stearns Hedge Fund Matters. Bear Stearns, certain of its current or former subsidiaries, including Bear Stearns Asset Management, Inc. ("BSAM") and Bear Stearns & Co. Inc., and certain current or former employees have been named as defendants ("Bear Stearns defendants") in a number of actions relating to the Bear Stearns High Grade Structured Credit Strategies Master Fund, Ltd. (the "High Grade Fund") and the Bear Stearns High Grade Structured Credit Strategies Enhanced Leverage Master Fund, Ltd. (the "Enhanced Leverage Fund") (collectively, the "Funds"). BSAM served as investment manager for both of the Funds, which were organized such that there were U.S. and Cayman Islands "feeder funds" that invested substantially all their assets, directly or indirectly, in the Funds. The Funds are in liquidation.

The Joint Voluntary Liquidators of the Cayman Islands feeder funds have filed a complaint in the U.S. District Court for the Southern District of New York asserting claims for, among other things, fraud, breach of fiduciary duty, breach of contract, recklessness, gross negligence, negligence, and unjust enrichment. Also joining the Liquidators as plaintiffs are two purported investors in the U.S. feeder funds. In addition to individual claims, these two plaintiffs purport to assert derivative actions with the U.S. feeder funds as nominal defendants and seek damages of not less than $1.5 billion, unspecified punitive damages, costs, and fees. The Bear Stearns defendants filed motions to dismiss each of these civil actions. The Court has dismissed the Liquidators' fraud claims against the Bear Stearns defendants, and the claims by the two purported investors were voluntarily withdrawn in that action. The Court otherwise denied the Bear Stearns defendants' motion to dismiss the action, and the action is proceeding. One of the purported investor plaintiffs whose claims were withdrawn has commenced an action in New York State Supreme Court against the Bear Stearns defendants and others; the case is styled as a derivative action on behalf

of the High Grade Fund and seeks damages of no less than $1 billion plus declaratory relief. The claims asserted against some or all of the Bear Stearns defendants are breach of fiduciary duty and/or aiding and abetting breach of fiduciary duty, gross negligence and breach of contract. The Bear Stearns defendants have not yet responded to this complaint.

Two purported class action lawsuits were filed in the U.S. District Court for the Southern District of New York on behalf of purchasers of partnership interests in the High Grade and Enhanced Leverage U.S. feeder funds, respectively. In each such action, the plaintiff asserted claims for, among other things, breach of fiduciary duty. These class claims were voluntarily dismissed. The class action complaints also purported to assert derivative actions with the High Grade and Enhanced Leverage U.S. feeder funds as nominal defendants. The relief being sought by these plaintiffs is unspecified damages, costs and fees. The Court declined to dismiss the derivative claims, which are proceeding.

In addition, Bank of America and Banc of America Securities LLC (together "BofA") have filed a lawsuit in U.S. District Court for the Southern District of New York alleging breach of contract and fraud in connection with a May 2007 $4 billion dollar securitization, known as a "CDO-squared," for which BSAM served as collateral manager. This securitization was composed of certain collateralized debt obligation ("CDO") holdings that were purchased by BofA from the High Grade Fund and the Enhanced Leverage Fund. The Bear Stearns defendants have filed motions to dismiss this action. Finally, in connection with its investment and other transactions related to the Enhanced Leverage Fund, Barclays Bank brought an action asserting claims for, among other things, fraud, fraudulent concealment, breach of fiduciary duty, and negligent misrepresentation. On February 10, 2009, Barclays filed a notice of dismissal of that action against all defendants.

In addition, one or more Bear Stearns defendants have been named as parties in multiple FINRA arbitrations initiated by investors in the Funds. The relief being sought by the claimants in these matters is compensatory damages, unspecified punitive damages, costs and expenses.

BSAM and its affiliates have also been contacted by, and have received requests for information and documents from, various federal and state regulatory and law enforcement authorities as part of their investigations regarding the Funds, including the SEC, the U.S. Attorney's Office for the Eastern District of New York and the Securities Division of the Commonwealth of Massachusetts (the "Massachusetts Securities Division"). On November 14, 2007, the Massachusetts Securities Division filed an administrative complaint against BSAM alleging that BSAM violated multiple provisions of the Massachusetts Securities Act by failing to adequately disclose and/or manage conflicts of interest related to procedures for related party transactions. BSAM submitted an Offer of Settlement to resolve this matter that was accepted by the Massachusetts Securities Division, and then resolved through a Consent Order filed on November 13, 2008.

Enron Litigation. JPMorgan Chase and certain of its officers and directors are involved in a number of lawsuits arising out of its banking relationships with Enron Corp. and its subsidiaries ("Enron"). Several actions and other proceedings against JPMorgan Chase have been resolved, including adversary proceedings brought by Enron's bankruptcy estate. In addition, JPMorgan Chase resolved the lead class action litigation brought on behalf of the purchasers of Enron securities, captioned *Newby v. Enron Corp.*, for approximately $2.2 billion (pretax), which JPMorgan Chase funded on October 16, 2008. The *Newby* settlement does not resolve Enron-related actions filed separately by plaintiffs who opted out of the class action or by certain plaintiffs who are asserting claims not covered by that action. Some of these other actions have been dismissed or settled separately. The remaining Enron-related actions include three actions against JPMorgan Chase by plaintiffs who were bank lenders or claim to be successors-in-interest to bank lenders who participated in Enron credit facilities co-syndicated by JPMorgan Chase; individual actions by Enron investors, creditors and counterparties; and a third-party action brought by a defendant in an Enron-related case seeking apportionment of responsibility and contribution under Texas state law

against JPMorgan Chase and other defendants. Plaintiffs in the bank lender cases have moved for partial summary judgment, and JPMorgan Chase has moved for summary judgment and/or partial judgment on the pleadings. The three bank lender cases have been transferred to the U.S. District Court for the Southern District of New York. JPMorgan Chase recently agreed to settlements in principle to resolve the three bank lender cases, and is working with plaintiffs to document and finalize the settlements.

In March 2006, two plaintiffs filed complaints in New York Supreme Court against JPMorgan Chase alleging breach of contract, breach of implied duty of good faith and fair dealing and breach of fiduciary duty based upon JPMorgan Chase's role as Indenture Trustee in connection with two indenture agreements between JPMorgan Chase and Enron. JPMorgan Chase removed both actions to the U.S. District Court for the Southern District of New York. The federal court dismissed one of these cases and remanded the other to New York State court. JPMorgan Chase filed a motion to dismiss plaintiffs' amended complaint in State court on May 24, 2007, which was denied. JPMorgan Chase appealed, and on December 23, 2008, the Supreme Court, Appellate Division for the First Department reversed the trial court's order, dismissing plaintiffs' complaint. On March 31, 2009, the Court of Appeals granted plaintiffs' motion for leave to appeal this ruling.

In a purported, consolidated class action lawsuit by JPMorgan Chase stockholders alleging that JPMorgan Chase issued false and misleading press releases and other public documents relating to Enron in violation of Section 10(b) of the Securities Exchange Act and Rule 10b-5 thereunder, the U.S. District Court for the Southern District of New York dismissed the lawsuit in its entirety without prejudice in March 2005. Plaintiffs filed an amended complaint in May 2005. JPMorgan Chase moved to dismiss the amended complaint, which the Court granted with prejudice on March 28, 2007. Plaintiffs appealed the dismissal. On January 21, 2009, the U.S. Court of Appeals for the Second Circuit affirmed the trial court's dismissal of the action.

A putative class action on behalf of JPMorgan Chase employees who participated in JPMorgan Chase's 401(k) plan alleges claims under ERISA for alleged breaches of fiduciary duties and negligence by JPMorgan Chase, its directors and named officers. In August 2005, the U.S. District Court for the Southern District of New York denied plaintiffs' motion for class certification and ordered some of plaintiffs' claims dismissed. In September 2005, JPMorgan Chase moved for summary judgment seeking dismissal of this ERISA lawsuit in its entirety, and in September 2006, the Court granted summary judgment in part, and ordered plaintiffs to show cause as to why the remaining claims should not be dismissed. On December 27, 2006, the Court dismissed the case with prejudice. Plaintiffs appealed the dismissal. On December 24, 2008, the U.S. Court of Appeals for the Second Circuit reversed the trial court's dismissal and remanded the case back to the District Court for further proceedings. Plaintiffs filed a renewed motion for class certification on January 15, 2009, and, on April 16, 2009, JPMorgan Chase filed a motion for judgment on the pleadings.

IPO Allocation Litigation. Beginning in May 2001, JPMorgan Chase and certain of its securities subsidiaries were named, along with numerous other firms in the securities industry, as defendants in a large number of putative class action lawsuits filed in the U.S. District Court for the Southern District of New York alleging improprieties in the allocation of securities in various public offerings, including some offerings for which a JPMorgan Chase entity served as an underwriter. They also claim violations of securities laws arising from alleged material misstatements and omissions in registration statements and prospectuses for the initial public offerings ("IPOs") and alleged market manipulation with respect to aftermarket transactions in the offered securities. The securities lawsuits allege, among other things, misrepresentation and market manipulation of the aftermarket trading for these offerings by tying allocations of shares in IPOs to undisclosed excessive commissions paid to the underwriter defendants, including JPMorgan Securities, and to required aftermarket purchase transactions by customers who received allocations of shares in the respective IPOs, as well as allegations of misleading analyst reports. Bear, Stearns & Co., Inc. is named as a defendant in 95 of the pending IPO securities cases. Antitrust lawsuits based on similar allegations have been dismissed with prejudice.

The District Court denied a motion to dismiss in all material respects relating to the underwriter defendants and generally granted plaintiffs' motion for class certification in six "focus cases." The U.S. Court of Appeals for the Second Circuit reversed the District Court's order granting class certification, denied plaintiffs' applications for rehearing and rehearing en banc, and remanded. On August 14, 2007, plaintiffs amended their complaints in the six "focus cases" as well as their master allegations for all such cases to reflect new class-related allegations. On September 27, 2007, plaintiffs filed a new motion for class certification in the District Court, and on November 14, 2007, JPMorgan Securities and the other defendants moved to dismiss the amended complaints. Following a mediation, a settlement in principle was reached, subject to negotiation of definitive documentation and court approval. A settlement agreement has been entered into by all parties, subject to court approval. On April 2, 2009, Plaintiffs' Motion for Preliminary Approval of Settlement and related papers, including the Stipulation and Agreement of Settlement, were filed with the United States District Court for the Southern District of New York. The Motion for Preliminary Approval has not yet been decided by the Court. It has now been publicly reported by others that the aggregate total of the amounts agreed to be paid by or on behalf of all issuer and underwriter defendants, including Lehman Brothers, Inc., which is now in bankruptcy proceedings, totaled $610 million. JPMorgan Securities' share of the settlement will not have a material adverse effect on the consolidated financial condition of JPMorgan Chase.

JPMorgan Securities is also among numerous underwriting firms named as defendants in a number of complaints filed commencing October 3, 2007, in the U.S. District Court for the Western District of Washington under Section 16(b) of the Securities Exchange Act in connection with the IPO of securities for 23 issuers. Bear Stearns was named in complaints in connection with four issuers. On March 12, 2009, the Court granted without prejudice, the motion to dismiss filed by 30 of the issuer defendants in the 30 cases, on the ground that insufficient demand had been made upon the issuer to bring the litigation, and granted with prejudice the omnibus motion to dismiss filed by the underwriter defendants, including JPMorgan Securities, as to the remaining 24 cases on statute of limitations grounds. On April 10, 2009, Plaintiff filed Notices of Appeals to the United States Court of Appeals for the Ninth Circuit from the March 12, 2009 order dismissing all 54 cases.

Interchange Litigation. On June 22, 2005, a group of merchants filed a putative class action complaint in the U.S. District Court for the District of Connecticut. The complaint alleged that VISA, MasterCard, Chase Bank USA, N.A., and JPMorgan Chase, as well as certain other banks, and their respective bank holding companies, conspired to set the price of credit card interchange fees in violation of Section 1 of the Sherman Act. The complaint further alleged tying/bundling and exclusive dealing. Since the filing of the Connecticut complaint, other complaints were filed in different U.S. District Courts challenging the setting of interchange, as well as the card associations' respective rules. All cases have been consolidated in the Eastern District of New York for pretrial proceedings. An amended consolidated class action complaint was filed on April 24, 2006, that incorporated the interchange claims, described the alleged anticompetitive effects of card associations' rules and extended claims beyond credit to debit cards. Defendants filed a motion to dismiss all claims that predated January 1, 2004. On January 8, 2008, the Court granted the motion to dismiss these claims. On January 30, 2009, a second amended consolidated class action complaint was served. The basic theories of the complaint remain the same. Fact discovery has closed, and expert discovery in the case is ongoing. The plaintiffs have filed a motion seeking class certification, and the defendants have opposed that motion. The Court has not yet ruled on the class certification motion.

In addition to the consolidated class action complaint, plaintiffs filed supplemental complaints challenging the MasterCard and Visa IPOs. With respect to MasterCard, plaintiffs first filed a supplemental complaint in May 2006 alleging that the offering violated Section 7 of the U.S. Clayton Antitrust Act (the "Clayton Act") and Section 1 of the Sherman Act and that the offering was a fraudulent conveyance. Defendants filed a motion to dismiss both of those claims. After the issues were fully briefed, on November 25, 2008, the District Court dismissed the supplemental complaint with leave to replead. On January 30, 2009, the plaintiffs filed and served an amended supplemental complaint again challenging the MasterCard IPO, making antitrust claims similar to those that were set forth in the original supplemental complaint, as well as the fraudulent conveyance claim. With respect to the Visa IPO, on January 30, 2009, the plaintiffs filed a supplemental complaint challenging the Visa IPO on antitrust theories parallel to those articulated in the MasterCard IPO pleading. Motions to dismiss each of the foregoing pleadings have been filed.

Mortgage-Backed Securities Litigation. JPMorgan Securities, J.P. Morgan Acceptance Corp I ("JPMAC") and 32 trusts that issued Mortgage Pass-Through Certificates and Asset-Backed Pass-Through Certificates, for which JPMorgan Securities served as underwriter and JPMAC as depositor, as well as certain officers and/or directors of JPMAC, are defendants in a purported class action suit commenced on March 26, 2008, in State court in New York. The suit was subsequently removed by defendants to the U.S. District Court for the Eastern District of New York. Plaintiffs, two employee benefit plans, assert claims for violations of the federal securities laws alleging that the disclosures in the offering materials for the certificates issued by the 32 trusts contained material misstatements and omissions, particularly as to mortgage origination standards and the risk profile of the investment. The complaint seeks unspecified damages and rescission. Pursuant to a stipulation among the parties, plaintiffs are to serve an amended complaint by March 9, 2009.

A purported class action suit was commenced on August 20, 2008, against Bear, Stearns & Co. Inc. and certain of its subsidiaries and former employees in New York Supreme Court on behalf of purchasers of certificates issued in an offering of Mortgage Loan Pass-Through Certificates. JPMorgan Chase is also named as a defendant solely in its alleged capacity as successor-in-interest to Bear, Stearns & Co. Inc. Plaintiff also asserts claims for violations of the federal securities laws, claiming the offering materials for the certificates allegedly contained material misstatements and omissions with respect to, among other things, mortgage origination standards and the risk profile of the investment. Plaintiff seeks recovery of unspecified compensatory damages and rescission. The defendants have removed this action to the District Court for the Southern District of New York.

Two purported nationwide class actions alleging violations of the federal securities laws in connection with the sale of mortgage-backed securities have also been brought against Washington Mutual Bank and certain of its former subsidiaries by three employee retirement plans. The first case (the "State-Filed Action") was filed in the Superior Court of the State Washington, County of King on August 4, 2008, against Washington Mutual Bank; three former Washington Mutual Bank subsidiaries that are now subsidiaries of JPMorgan Chase Bank, N.A. (WaMu Asset Acceptance Corp., WaMu Capital Corp., Washington Mutual Mortgage Securities Corp.); and four former Washington Mutual Bank employees (some of whom are now JPMorgan Chase employees). The plaintiffs in this case allege that defendants made false and misleading statements and omissions relating to mortgage origination and underwriting standards in offering materials for Mortgage Pass-Through certificates, backed by pools of Washington Mutual Bank-originated, first-lien, prime mortgages. Plaintiffs also allege that defendants failed to disclose Washington Mutual Bank's alleged coercion of or collusion with appraisal vendors to inflate appraisal valuations and thus misrepresented the loan-to-value ratios of, and the adequacy of appraisals supporting, the loans in the pools. On January 28, 2009, the state court issued an order substituting the FDIC as defendant for Washington Mutual Bank. On January 29, 2009, the FDIC removed this action to the U.S. District Court for the Western District of Washington. The Court has granted the FDIC's motion to stay the State-Filed Action until no later than August 11, 2009.

The second case (the "Federal-Filed Action") filed on January 12, 2009, is pending in the U.S. District Court for the Western District of Washington in Seattle against Washington Mutual Bank, WaMu Asset Acceptance Corp., WaMu Capital Corp., the same individuals named in the State-Filed Action, and 19 securitization trusts. The plaintiff in the Federal-Filed Action makes similar allegations to the State-Filed Action, but does not specifically challenge defendants' appraisal practices. On February 10, 2009, the Court in the Federal-Filed Action ordered that the FDIC be substituted as defendant for Washington Mutual Bank. The Court has granted the FDIC's motion to dismiss it from the Federal-Filed Action without prejudice because plaintiffs failed to exhaust administrative remedies before filing their lawsuit. On February 19, 2009, the non-FDIC defendants moved in the Federal-Filed Action to consolidate that action with the State-Filed Action.

EMC Mortgage Corporation ("EMC"), a subsidiary of JPMorgan Chase, has been named as a defendant in an action commenced on November 5, 2008, in the U.S. District Court for the Southern District of New York, by Ambac Assurance Corp., a mono-line bond insurer that guaranteed payment on certain classes of mortgage-backed securities issued by EMC. This lawsuit involves four EMC securitizations. Plaintiff claims the loans that served as collateral for the four transactions had origination defects that purportedly violate certain representations and warranties given by EMC to plaintiff and that EMC has breached the relevant agreements between the parties by failing to repurchase allegedly defective mortgage loans. Plaintiff seeks unspecified damages and an order compelling EMC to repurchase individual loans that are allegedly in breach of EMC's representations and warranties.

A purported class action lawsuit was commenced in state court in New Mexico on February 27, 2009 against a number of financial institutions that served as depositors for 10 Thornburg MBS trusts or in other capacities, along with certain individuals, asserting claims for violations of the federal securities laws, claiming that the offering materials for the certificates issued by the trusts contained material misstatements and omissions. A Bear subsidiary was named as the depositor for two of the ten trusts at issue. Defendants have removed this action to United States District Court in New Mexico.

On March 11, 2009, a purported class action was filed in Supreme Court, New York County with respect to 12 MBS trusts as to which JPMorgan Chase subsidiaries were depositor and sponsor and seller, as well as underwriter. That action also asserts claims for violations of the securities laws. That action has been removed to the United States District Court for the Southern District of New York. Pursuant to a stipulation among the parties, the plaintiffs will file an amended complaint within 60 days of the appointment of a lead plaintiff.

On March 31, 2009, EMC was named as a defendant in an action commenced in the Southern District of New York by a monoline bond insurer, Syncora Guarantee, Inc. f/k/a XL Capital Assurance Corp. In connection with a single securitization, Plaintiff claims that loans that served as collateral for the securitization had origination defects that purportedly violated certain representations and warranties given by EMC as sponsor to plaintiff, and that EMC breached the relevant agreements between the parties by failing to repurchase allegedly defective mortgage loans. Plaintiff seeks unspecified damages and an order compelling EMC to repurchase individual loans that are allegedly in breach of EMC's representations and warranties.

In addition, JPMorgan Chase has been named as a defendant in its capacity as an underwriter for other issuers in other litigation involving mortgage-backed securities.

Auction-Rate Securities Investigations and Litigation. Beginning in March 2008, several regulatory authorities initiated investigations of a number of industry participants, including JPMorgan Chase, concerning possible state and federal securities law violations in connection with the sale of auction-rate securities. The market for many such securities had frozen and a significant number of auctions for those securities began to fail in February 2008. Multiple state and federal agencies, including the SEC, the U.S. Financial Industry Regulatory Authority ("FINRA"), the Attorney General of the State of New York, the State of Florida Office of Financial Regulation, on behalf of the North American Securities Administrators Association ("NASAA"), and the Massachusetts Attorney General, have either requested information from JPMorgan Chase or issued subpoenas to JPMorgan Chase regarding the activities of its affiliates with respect to auction-rate securities.

On August 13, 2008, JPMorgan Chase, on behalf of itself and affiliates, agreed to a settlement in principle with the New York Attorney General's Office which provided, among other things, that JPMorgan Chase would offer to purchase at par certain auction-rate securities purchased from JPMorgan Securities, Chase Investment Services Corp. and Bear, Stearns & Co. Inc. by individual investors, charities, and small- to medium-sized businesses with account values of up to $10 million no later than November 12, 2008. On August 14, 2008, JPMorgan Chase agreed to a substantively similar settlement in principle with the Office of Financial Regulation for the State of Florida and NASAA Task Force, which agreed to recommend approval of the settlement to all remaining states, Puerto Rico and the U.S. Virgin Islands. The agreements in principle provide for the payment of penalties totaling $25 million to New York and the other states.

JPMorgan Chase is currently in the process of negotiating final settlement documentation with the New York Attorney General's Office and the Office of Financial Regulation for the State of Florida. JPMorgan Chase has cooperated, and will continue to cooperate, with the ongoing SEC's investigation.

On October 17, 2008, following an investigation by FINRA into auction-rate securities practices of WaMu Investments Inc., a former Washington Mutual Bank subsidiary acquired by JPMorgan Chase in the Washington Mutual transaction, WaMu Investments, Inc. resolved the matter by submitting a Letter of Acceptance, Waiver and Consent to FINRA. Without admitting or denying the findings, WaMu Investments, Inc. consented to findings by FINRA that it violated certain NASD Rules relating to communications with the public and supervisory procedures and, among other things, agreed to offer to purchase at par auction-rate securities purchased by certain WaMu Investments, Inc. customers and to pay a fine of $250,000.

JPMorgan Chase is the subject of two putative securities class actions in the U.S. District Court for the Southern District of New York and a number of individual arbitrations and lawsuits relating to JPMorgan Chase's sales of auction-rate securities. Each complaint alleges that JPMorgan Chase marketed auction-rate securities as safe, liquid, short-term investments although it knew that auction-rate securities were long-dated debt instruments. The complaints also allege that JPMorgan Chase and other broker-dealers artificially supported the auction-rate securities market and that JPMorgan Chase knew that the market would become illiquid if the firms stopped supporting the auctions but did not disclose this fact to investors. Each of the named plaintiffs in these actions accepted JPMorgan Chase's buy-back offer as part of its settlement with the regulatory agencies and no longer owns any auction-rate securities. Judge Berman of the U.S. District Court for the Southern District of New York consolidated the two putative securities class actions and appointed lead plaintiffs and lead counsel involving the sale of auction-rate securities. One of the groups of plaintiffs previously seeking lead plaintiff status filed a motion for reconsideration of the Court's order, and on March 5, 2009, the Court denied that motion.

Additionally, JPMorgan Chase is the subject of two putative antitrust class actions in the U.S. District Court for the Southern District of New York, which actions allege that JPMorgan Chase, in collusion with numerous other financial institution defendants, entered into an unlawful conspiracy in violation of Section 1 of the Sherman Act. Specifically, the complaints allege that defendants acted collusively to maintain and stabilize the auction-rate securities market and similarly acted collusively in withdrawing their support for the auction-rate securities market in February 2008. A joint motion by JPMorgan Chase and the other defendants to dismiss both actions has been fully briefed and is pending before the Court.

City of Milan Litigation and Criminal Investigation. On January 23, 2009, the City of Milan, Italy (the "City") issued civil proceedings against (among others) JPMorgan Chase Bank, N.A. and J.P. Morgan Securities Limited ("JPMSL") in the District Court of Milan. The proceedings relate to (a) a bond issue by the City in June 2005 (the "Bond") and (b) an associated swap transaction, which was subsequently restructured on a number of occasions between 2005 and 2007 (the "Swap"). The City seeks damages and/or other remedies against JPMorgan Chase Bank, N.A. and JPMSL (among others) on the grounds of alleged "fraudulent and deceitful acts" and alleged breach of advisory obligations by JPMorgan Chase Bank, N.A. and JPMSL (among others) in connection with the Swap and the Bond, together with related swap transactions with other counterparties. On January 27, 2009, JPMorgan Chase Bank, N.A. received a notice from the Prosecutor at the Court of Milan placing it under investigation on the asserted grounds that it is liable for the acts of certain former and existing employees who were involved in the above transactions. On April 27, 2009, the Milan branch of JPMorgan Chase Bank, N.A. was served, in connection with the Prosecutor's investigation, with an attachment order over certain of JPMorgan Chase Bank, N.A.'s assets amounting to approximately Euro 92 million. The purpose of an attachment order is to freeze assets that could be subject to a confiscation order in the event the defendant is convicted. JPMorgan Chase Bank, N.A. intends to contest certain aspects of the attachment order.

Washington Mutual Litigations. On September 26, 2008, following JPMorgan Chase's acquisition from the FDIC of substantially all of the assets and specified liabilities of Washington Mutual Bank, Henderson Nevada ("Washington Mutual Bank"), Washington Mutual Bank's parent holding company, Washington Mutual, Inc. ("WMI") and its wholly-owned subsidiary, WMI Investment Corp. (together, the "Debtors") both commenced voluntary cases under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Case"). In the Bankruptcy Case, the Debtors have asserted rights and interests in certain assets. The assets in dispute include principally the following: (a) approximately $4 billion in Trust Securities contributed by WMI to Washington Mutual Bank; (b) the right to tax refunds arising from overpayments attributable to operations of Washington Mutual Bank and its subsidiaries; (c) the right to goodwill judgments that arise from pending and prior litigation; (d) ownership of assets of certain trusts supporting deferred compensation arrangements covering the former and current employees of Washington Mutual Bank and its subsidiaries; (e) ownership of and other rights in approximately $4 billion that WMI contends is a deposit account at a subsidiary of Washington Mutual Bank; and (f) ownership of and rights in various other contracts and other assets (collectively, the "Disputed Assets"). On December 30, 2008, the Debtors also submitted claims in the FDIC Receivership for, among other things, ownership of the Disputed Assets.

On January 23, 2009, the FDIC, as Receiver, disallowed the Debtors' claims. On March 20, 2009, the Debtors filed an action against the FDIC in the United States District Court for the District of Columbia (the "District Court Action"), challenging the FDIC's disallowance of the Debtors claims, claiming ownership of the Disputed Assets, and seeking money damages from the FDIC. JPMorgan Chase was not named as a party to the District Court Action. On March 24, 2009, JPMorgan Chase commenced an adversary proceeding in the Bankruptcy Case against the Debtors and (for interpleader purposes only) the FDIC seeking a declaratory judgment and other relief determining JPMorgan Chase's legal title to and beneficial interest in the Disputed Assets. The Debtors have until May 22, 2009 to answer, respond or otherwise move against JPMorgan Chase's complaint. In addition, on March 30, 2009, JPMorgan Chase

filed a motion to intervene in the District Court action to protect its interests in that proceeding. On April 30, 2009, the FDIC filed papers in support of JPMorgan Chase's intervention and the Debtors opposed that motion.

On April 27, 2009, the Debtors commenced a separate adversary proceeding in the Bankruptcy Case against JPMorgan Chase, seeking turnover of the same $4 billion in purported deposit funds and recovery for alleged unjust enrichment for failure to turnover the funds. On April 29, 2009, the Official Creditors Committee of Unsecured Creditors of WMI moved to intervene in this adversary proceeding. JPMorgan Chase has until May 27, 2009 to answer, respond to or otherwise move against the Debtor's complaint.

On May 1, 2009, the Debtors moved to take discovery from JPMorgan Chase purportedly related to a litigation filed in the 122nd State District Court of Galveston County, Texas (the "Texas Action"). JPMorgan Chase has until May 13, 2009 to oppose WMI's request for discovery. Plaintiffs in the Texas Action are certain holders of WMI common stock and the debt of WMI and Washington Mutual Bank who have sued JPMorgan Chase for unspecified damages arising primarily from JPMorgan Chase's acquisition of substantially all of the assets of Washington Mutual Bank from the FDIC at an allegedly too low price. The FDIC intervened in the Texas Action and had it removed to the United States District Court for the Southern District of Texas. On April 1, 2009, the FDIC moved to have the Texas Action dismissed or transferred to the United States District Court for the District of Columbia. On April 21, 2009, plaintiffs opposed the FDIC's motion and moved to have the Texas Action remanded to state court.

In addition to the various cases, proceedings and investigations discussed above, JPMorgan Chase & Co. and its subsidiaries are named as defendants or otherwise involved in a number of other legal actions and governmental proceedings arising in connection with their businesses. Additional actions, investigations or proceedings may be initiated from time to time in the future. In view of the inherent difficulty of predicting the outcome of legal matters, particularly where the claimants seek very large or indeterminate damages, or where the cases present novel legal theories, involve a large number of parties or are in early stages of discovery, JPMorgan Chase cannot state with confidence what the eventual outcome of these pending matters will be, what the timing of the ultimate resolution of these matters will be or what the eventual loss, fines, penalties or impact related to each pending matter may be. JPMorgan Chase believes, based upon its current knowledge, after consultation with counsel and after taking into account its current litigation reserves, that the outcome of the legal actions, proceedings and investigations currently pending against it should not have a material adverse effect on JPMorgan Chase's consolidated financial condition. However, in light of the uncertainties involved in such proceedings, actions and investigations, there is no assurance that the ultimate resolution of these matters will not significantly exceed the reserves currently accrued by JPMorgan Chase; as a result, the outcome of a particular matter may be material to JPMorgan Chase's operating results for a particular period, depending on, among other factors, the size of the loss or liability imposed and the level of JPMorgan Chase's income for that period.

Credit Ratings

The structured products to be offered by the Issuer and guaranteed by JPMorgan Chase Bank, N.A. will not be rated, unless otherwise specified in the supplemental listing document relating to such structured products. The following table, which is presented solely for the convenience of prospective purchasers of structured products of the Issuer, sets forth the credit ratings for JPMorgan Chase Bank, N.A.'s long-term debt as at the date of this base listing document. Credit ratings are determined by the rating agencies based upon information furnished to them by the relevant obligor as well as information obtained by the rating agencies from other sources. Credit ratings are not a recommendation to purchase, hold or sell any security, and may be changed, superseded or withdrawn at any time by any of the rating agencies. **Prospective purchasers should check the current credit ratings of JPMorgan Chase Bank, N.A. before purchasing any structured products of the Issuer.** Information concerning the current ratings of JPMorgan Chase Bank, N.A.'s debt can be obtained from the relevant rating agencies and can

also be viewed on JPMorgan Chase & Co.'s investor relations website at http://investor.shareholder.com/jpmorganchase/ratings.cfm. Neither the Issuer nor JPMorgan Chase Bank, N.A. undertakes to update the information set forth in the below table.

Rating agency	**Long-term Debt**
Fitch Ratings	AA-
Moody's Investors Service	Aa1
Standard & Poor's	AA-

Additional Information

Additional information concerning JPMorgan Chase Bank, N.A., including the Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K filed by JPMorgan Chase & Co. with the U.S. Securities and Exchange Commission, as they become available, can be viewed on the SEC's website at www.sec.gov. Those reports and additional information concerning JPMorgan Chase Bank, N.A. can also be viewed on JPMorgan Chase & Co.'s investor relations website at http://investor.shareholder.com/jpmorganchase/. No websites that are cited or referred to herein shall be deemed to form part of, or to be incorporated by reference in, this base listing document.

CONSOLIDATED FINANCIAL STATEMENTS

For the three years ended December 31, 2008

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION

(a wholly-owned subsidiary of JPMorgan Chase & Co.)

FOR THE THREE YEARS ENDED DECEMBER 31, 2008

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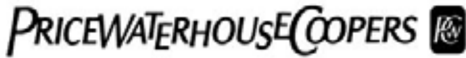

PRICEWATERHOUSECOOPERS LLP • 300 MADISON AVENUE • NEW YORK, NY 10017

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholder of JPMorgan Chase Bank, National Association:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in stockholder's equity and comprehensive income and cash flows present fairly, in all material respects, the financial position of JPMorgan Chase Bank, National Association and its subsidiaries (the "Bank") at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 5, Note 6, and Note 26 to the consolidated financial statements, effective January 1, 2007 the Bank adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurement," Statement of Financial Accounting Standards No. 159, "Fair Value Option for Financial Assets and Financial Liabilities," and FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes."

PricewaterhouseCoopers LLP

March 31, 2009

Consolidated statements of income

JPMorgan Chase Bank, National Association
(a wholly-owned subsidiary of JPMorgan Chase & Co.)

Year ended December 31, (in millions)	**2008**	2007	2006
Revenue			
Investment banking fees	**$ 2,675**	$ 3,468	$ 3,026
Principal transactions	**5,016**	7,691	9,277
Lending & deposit-related fees	**5,073**	3,877	3,415
Asset management, administration and commissions	**9,594**	9,776	7,833
Securities gains (losses)	**1,328**	50	(550)
Mortgage fees and related income	**3,557**	2,094	565
Credit card income	**3,569**	3,123	2,935
Other income	**2,417**	1,551	2,690
Noninterest revenue	**33,229**	31,630	29,191
Interest income	**57,437**	58,840	49,284
Interest expense	**25,920**	35,703	31,149
Net interest income	**31,517**	23,137	18,135
Total net revenue	**64,746**	54,767	47,326
Provision for credit losses	**16,238**	4,672	1,809
Noninterest expense			
Compensation expense	**17,122**	16,126	15,165
Occupancy expense	**2,659**	2,378	2,151
Technology, communications and equipment expense	**3,663**	3,361	3,231
Professional & outside services	**4,277**	3,620	3,030
Marketing	**631**	643	561
Other expense	**8,091**	6,997	6,805
Amortization of intangibles	**612**	679	695
Merger costs	**229**	194	271
Total noninterest expense	**37,284**	33,998	31,909
Income from continuing operations before income tax expense	**11,224**	16,097	13,608
Income tax expense	**2,711**	5,365	4,487
Income from continuing operations	**8,513**	10,732	9,121
Income from discontinued operations	**—**	—	798
Income before extraordinary gain	**8,513**	10,732	9,919
Extraordinary gain	**1,906**	—	—
Net income	**$10,419**	$ 10,732	$ 9,919

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

Consolidated balance sheets

JPMorgan Chase Bank, National Association
(a wholly-owned subsidiary of JPMorgan Chase & Co.)

December 31, (in millions, except share data)	**2008**	2007
Assets		
Cash and due from banks	**$ 25,502**	$ 38,696
Deposits with banks	**127,623**	11,751
Federal funds sold and securities purchased under resale agreements (included $19,865 and $18,063 at fair value at December 31, 2008 and 2007, respectively)	**199,716**	192,145
Securities borrowed (included $3,381 and zero at fair value at December 31, 2008 and 2007, respectively)	**42,658**	44,051
Trading assets (included assets pledged of $118,079 and $91,607 at December 31, 2008 and 2007, respectively)	**365,365**	390,459
Securities (included $199,710 and $82,467 at fair value at December 31, 2008 and 2007, respectively, and assets pledged of $26,376 and $10,094 at December 31, 2008 and 2007, respectively)	**199,744**	82,511
Loans (included $6,038 and $8,156 at fair value at December 31, 2008 and 2007, respectively)	**662,312**	461,662
Allowance for loan losses	**(17,153)**	(7,015)
Loans, net of allowance for loan losses	**645,159**	454,647
Accrued interest and accounts receivable	**44,345**	25,921
Premises and equipment	**9,161**	8,448
Goodwill	**27,371**	25,819
Other intangible assets:		
Mortgage servicing rights	**9,236**	8,632
Purchased credit card relationships	**128**	189
All other intangibles	**3,346**	3,342
Other assets (included $1,780 and $1,632 at fair value at December 31, 2008 and 2007, respectively)	**46,888**	32,277
Total assets	**$ 1,746,242**	$1,318,888
Liabilities		
Deposits (included $5,605 and $6,456 at fair value at December 31, 2008 and 2007, respectively)	**$ 1,055,765**	$ 772,087
Federal funds purchased and securities loaned or sold under repurchase agreements (included $2,968 and $5,768 at fair value at December 31, 2008 and 2007, respectively)	**180,716**	118,555
Other borrowed funds (included $2,714 and $10,326 at fair value at December 31, 2008 and 2007, respectively)	**94,953**	23,276
Trading liabilities	**142,409**	143,509
Accounts payable and other liabilities (including the allowance for lending-related commitments of $656 and $849 at December 31, 2008 and 2007, respectively, and zero and $25 at fair value at December 31, 2008 and 2007, respectively)	**67,014**	60,011
Beneficial interests issued by consolidated variable interest entities (included $1,364 and $2,727 at fair value at December 31, 2008 and 2007, respectively)	**4,156**	6,929
Long-term debt (included $34,924 and $56,932 at fair value at December 31, 2008 and 2007, respectively)	**71,862**	87,575
Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities	**600**	600
Total liabilities	**1,617,475**	1,212,542
Commitments and contingencies (see Note 29 on page 79 of these Consolidated Financial Statements)		
Stockholder's equity		
Preferred stock ($1 par value; authorized 15,000,000 shares at December 31, 2008 and 2007; issued 0 shares at December 31, 2008 and 2007, respectively)	**—**	—
Common stock ($12 par value; authorized 150,000,000 shares and 148,765,000 at December 31, 2008 and 2007; respectively, issued 148,761,243 shares at December 31, 2008 and 2007, respectively)	**1,785**	1,785
Capital surplus	**77,254**	62,439
Retained earnings	**52,309**	42,808
Accumulated other comprehensive income (loss)	**(2,581)**	(686)
Total stockholder's equity	**128,767**	106,346
Total liabilities and stockholder's equity	**$ 1,746,242**	$1,318,888

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

Consolidated statements of changes in stockholder's equity and comprehensive income

JPMorgan Chase Bank, National Association
(a wholly-owned subsidiary of JPMorgan Chase & Co.)

Year ended December 31, (in million)	**2008**	2007	2006
Common stock			
Balance at beginning and end of year	**$ 1,785**	$ 1,785	$ 1,785
Capital surplus			
Balance at beginning of year	**62,439**	60,431	59,504
Cash capital contribution from JPMorgan Chase	**14,485**	2,004	14
Adjustments to capital due to transactions with JPMorgan Chase	**330**	4	913
Balance at end of year	**77,254**	62,439	60,431
Retained earnings			
Balance at beginning of year	**42,808**	34,721	25,711
Cumulative effect of change in accounting principles	**—**	956	172
Balance at beginning of year, adjusted	**42,808**	35,677	25,883
Net income	**10,419**	10,732	9,919
Cash dividends paid to JPMorgan Chase	**(1,000)**	(3,500)	(1,000)
Net internal legal entity mergers	**82**	(101)	(81)
Balance at end of year	**52,309**	42,808	34,721
Accumulated other comprehensive income (loss)			
Balance at beginning of year	**(686)**	(927)	(650)
Cumulative effect of change in accounting principles	**—**	(1)	—
Balance at beginning of year, adjusted	**(686)**	(928)	(650)
Other comprehensive income (loss)	**(1,895)**	242	154
Adjustment to initially apply SFAS 158	**—**	—	(431)
Balance at end of year	**(2,581)**	(686)	(927)
Total stockholder's equity	**$ 128,767**	$ 106,346	$ 96,010
Comprehensive income			
Net income	**$ 10,419**	$ 10,732	$ 9,919
Other comprehensive income (loss)	**(1,895)**	242	154
Comprehensive income	**$ 8,524**	$ 10,974	$ 10,073

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

Consolidated statements of cash flows

JPMorgan Chase Bank, National Association
(a wholly-owned subsidiary of JPMorgan Chase & Co.)

Year ended December 31, (in millions)	**2008**	2007	2006
Operating activities			
Net income	**$ 10,419**	$ 10,732	$ 9,919
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Provision for credit losses	**16,238**	4,672	1,809
Depreciation and amortization	**2,482**	2,302	2,080
Amortization of intangibles	**612**	679	695
Deferred tax benefit	**(2,930)**	(113)	(1,555)
Investment securities (gains) losses	**(1,328)**	(50)	550
Gains on disposition of businesses	**(199)**	—	(1,123)
Originations and purchases of loans held-for-sale	**(34,749)**	(115,295)	(174,379)
Proceeds from sales, securitizations and paydowns of loans held-for-sale	**37,345**	106,148	170,562
Net change in:			
Trading assets	**(29,251)**	(104,271)	(55,089)
Securities borrowed	**1,504**	(1,267)	1,058
Accrued interest and accounts receivable	**(8,353)**	(3,473)	(8,385)
Other assets	**(44,437)**	(11,711)	2,944
Trading liabilities	**40,806**	21,223	(5,696)
Accounts payable and other liabilities	**(9,937)**	(1,944)	9,391
Other operating adjustments	**(5,288)**	4,729	762
Net cash used in operating activities	**(27,066)**	(87,639)	(46,457)
Investing activities			
Net change in:			
Deposits with banks	**(112,355)**	1,661	7,763
Federal funds sold and securities purchased under resale agreements	**(3,909)**	9,853	(24,837)
Held-to-maturity securities:			
Proceeds	**10**	14	19
Available-for-sale securities:			
Proceeds from maturities	**44,168**	29,985	23,509
Proceeds from sales	**94,703**	95,761	120,830
Purchases	**(242,086)**	(119,129)	(197,374)
Proceeds from sales and securitizations of loans held-for-investment	**16,230**	22,229	14,466
Other changes in loans, net	**(37,533)**	(70,775)	(52,342)
Net cash received (used) in business acquisitions or dispositions	**16,521**	444	(5,330)
Net purchases of asset-backed commercial paper guaranteed by the FRBB	**(130)**	—	—
All other investing activities, net	**(4,320)**	(6,355)	1,014
Net cash used in investing activities	**(228,701)**	(36,312)	(112,282)
Financing activities			
Net change in:			
Deposits	**192,117**	142,796	86,165
Federal funds purchased and securities loaned or sold under repurchase agreements	**57,415**	(38,812)	52,587
Other borrowed funds	**(9,055)**	8,269	4,561
Proceeds from the issuance of long-term debt and trust preferred capital debt securities	**23,120**	50,507	34,639
Repayments of long-term debt and trust preferred capital debt securities	**(34,246)**	(38,425)	(22,031)
Cash capital contribution from JPMorgan Chase	**14,485**	2,004	14
Cash dividends paid	**(1,000)**	(3,500)	(1,000)
All other financing activities, net	**51**	1,561	6,166
Net cash provided by financing activities	**242,887**	124,400	161,101
Effect of exchange rate changes on cash and due from banks	**(314)**	406	199
Net (decrease) increase in cash and due from banks	**(13,194)**	855	2,561
Cash and due from banks at the beginning of the year	**38,696**	37,841	35,280
Cash and due from banks at the end of the year	**$ 25,502**	$ 38,696	$ 37,841
Cash interest paid	**$ 29,023**	$ 34,433	$ 29,599
Cash income taxes paid[(a)]	**5,803**	5,381	4,088

Note: In 2008, the fair values of noncash assets acquired and liabilities assumed in the Washington Mutual transaction were $260.0 billion and $259.8 billion, respectively. In 2006, JPMorgan Chase Bank, N.A. exchanged selected corporate trust businesses for The Bank of New York's consumer, business banking and middle-market banking businesses. The fair values of the noncash assets exchanged were $2.12 billion.

(a) Includes $4.1 billion, $3.5 billion and $2.7 billion paid to JPMorgan Chase & Co. in 2008, 2007 and 2006, respectively.

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

Note 1 – Basis of presentation

JPMorgan Chase Bank, National Association ("JPMorgan Chase Bank, N.A.") is a wholly-owned bank subsidiary of JPMorgan Chase & Co. ("JPMorgan Chase"), which is a leading global financial services firm and one of the largest banking institutions in the United States of America ("U.S."), with operations in more than 60 countries. JPMorgan Chase Bank, N.A. offers a wide range of banking services to its customers both domestically in the U.S. and internationally, including investment banking, financial services for consumers and businesses, financial transactions processing and asset management. Under the J.P. Morgan and Chase brands, JPMorgan Chase Bank, N.A. serves millions of customers in the U.S. and many of the world's most prominent corporate, institutional and governmental clients.

JPMorgan Chase Bank, N.A. is chartered by the Office of the Comptroller of the Currency ("OCC"), a bureau of the United States Department of the Treasury. JPMorgan Chase Bank, N.A.'s main office is located in Columbus, Ohio, and it has branches in 23 states.

The accounting and financial reporting policies of JPMorgan Chase Bank, N.A. and its subsidiaries conform to accounting principles generally accepted in the United States of America ("U.S. GAAP"). Additionally, where applicable, the policies conform to the accounting and reporting guidelines prescribed by bank regulatory authorities.

Certain amounts in prior periods have been reclassified to conform to the current presentation.

Consolidation

The Consolidated Financial Statements include the accounts of JPMorgan Chase Bank, N.A. and other entities in which JPMorgan Chase Bank, N.A. has a controlling financial interest. All material intercompany balances and transactions have been eliminated.

The usual condition for a controlling financial interest is the ownership of a majority of the voting interests of the entity. However, a controlling financial interest also may be deemed to exist with respect to entities, such as special purpose entities ("SPEs"), through arrangements that do not involve controlling voting interests.

SPEs are an important part of the financial markets, providing market liquidity by facilitating investors' access to specific portfolios of assets and risks. For example, they are critical to the functioning of the mortgage- and asset-backed securities and commercial paper markets. SPEs may be organized as trusts, partnerships or corporations and are typically established for a single, discrete purpose. SPEs are not typically operating entities and usually have a limited life and no employees. The basic SPE structure involves a company selling assets to the SPE. The SPE funds the purchase of those assets by issuing securities to investors. The legal documents that govern the transaction specify how the cash earned on the assets must be allocated to the SPE's investors and other parties that have rights to those cash flows. SPEs are generally structured to insulate investors from claims on the SPE's assets by creditors of other entities, including the creditors of the seller of the assets.

There are two different accounting frameworks applicable to SPEs: The qualifying SPE ("QSPE") framework under Statement of Financial Accounting Standards ("SFAS") 140 and the variable interest entity ("VIE") framework under FASB Interpretation No. ("FIN") 46R. The applicable framework depends on the nature of the entity and JPMorgan Chase Bank, N.A.'s relation to that entity. The QSPE framework is applicable when an entity transfers (sells) financial assets to an SPE meeting certain criteria defined in SFAS 140. These criteria are designed to ensure that the activities of the entity are essentially predetermined at the inception of the vehicle and that the transferor of the financial assets cannot exercise control over the entity and the assets therein. Entities meeting these criteria are not consolidated by the transferor or other counterparties as long as they do not have the unilateral ability to liquidate or to cause the entity to no longer meet the QSPE criteria. JPMorgan Chase Bank, N.A. primarily follows the QSPE model for securitizations of its residential and commercial mortgages, and credit card, automobile and student loans. For further details, see Note 17 on pages 47–56 of these Consolidated Financial Statements.

When an SPE does not meet the QSPE criteria, consolidation is assessed pursuant to FIN 46R. Under FIN 46R, a VIE is defined as an entity that: (1) lacks enough equity investment at risk to permit the entity to finance its activities without additional subordinated financial support from other parties; (2) has equity owners that lack the right to make significant decisions affecting the entity's operations; and/or (3) has equity owners that do not have an obligation to absorb the entity's losses or the right to receive the entity's returns.

FIN 46R requires a variable interest holder (i.e., a counterparty to a VIE) to consolidate the VIE if that party will absorb a majority of the expected losses of the VIE, receive the majority of the expected residual returns of the VIE, or both. This party is considered the primary beneficiary. In making this determination, JPMorgan Chase Bank, N.A. thoroughly evaluates the VIE's design, capital structure and relationships among the variable interest holders. When the primary beneficiary cannot be identified through a qualitative analysis, JPMorgan Chase Bank, N.A. performs a quantitative analysis, which computes and allocates expected losses or residual returns to variable interest holders. The allocation of expected cash flows in this analysis is based upon the relative rights and preferences of each variable interest holder in the VIE's capital structure. JPMorgan Chase Bank, N.A. reconsiders whether it is the primary beneficiary of a VIE when certain events occur as required by FIN 46R. For further details, see Note 18 on pages 56–66 of these Consolidated Financial Statements.

All retained interests and significant transactions between JPMorgan Chase Bank, N.A., QSPEs and nonconsolidated VIEs are reflected on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets and in the Notes to consolidated financial statements.

Investments in companies that are considered to be voting-interest entities under FIN 46R in which JPMorgan Chase Bank, N.A. has significant influence over operating and financing decisions are either accounted for in accordance with the equity method of accounting or at fair value if elected under SFAS 159 ("Fair Value Option"). These investments are generally included in other assets, with income or loss included in other income.

Assets held for clients in an agency or fiduciary capacity by JPMorgan Chase Bank, N.A. are not assets of JPMorgan Chase Bank, N.A. and are not included in the Consolidated Balance Sheets.

Use of estimates in the preparation of consolidated financial statements

The preparation of Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expense, and disclosures of contingent assets and liabilities. Actual results could be different from these estimates.

Foreign currency translation

JPMorgan Chase Bank, N.A. revalues assets, liabilities, revenue and expense denominated in non-U.S. currencies into U.S. dollars using applicable exchange rates.

Gains and losses relating to translating functional currency financial statements for U.S. reporting are included in other comprehensive income (loss) within stockholder's equity. Gains and losses relating to nonfunctional currency transactions, including non-U.S. operations where the functional currency is the U.S. dollar, are reported in the Consolidated Statements of Income.

Foreclosed property

JPMorgan Chase Bank, N.A. acquires property from borrowers through loan restructurings, workouts, and foreclosures. Property acquired may include real property (e.g., land, buildings, and fixtures) and personal property (e.g., aircraft, railcars, and ships). Acquired property is valued at fair value less costs to sell at acquisition. Each quarter the fair value of the acquired property is reviewed and adjusted, if necessary. Any adjustments to fair value in the first 90 days are generally credited/charged to the allowance for loan losses and thereafter to other expense.

Statements of cash flows

For JPMorgan Chase Bank, N.A.'s Consolidated Statements of Cash Flows, cash is defined as those amounts included in cash and due from banks.

Significant accounting policies

The following table identifies JPMorgan Chase Bank, N.A.'s other significant accounting policies and the Note and page where a detailed description of each policy can be found.

Policy	Note	Page
Fair value measurement	Note 5	Page 13
Fair value option	Note 6	Page 25
Principal transactions activities	Note 7	Page 27
Other noninterest revenue	Note 8	Page 28
Pension and other postretirement employee benefit plans	Note 10	Page 30
Employee stock-based incentives	Note 11	Page 34
Noninterest expense	Note 12	Page 37
Securities	Note 13	Page 38
Securities financing activities	Note 14	Page 42
Loans	Note 15	Page 42
Allowance for credit losses	Note 16	Page 46
Loan securitizations	Note 17	Page 47
Variable interest entities	Note 18	Page 56
Goodwill and other intangible assets	Note 19	Page 66
Premises and equipment	Note 20	Page 69
Other borrowed funds	Note 22	Page 70
Income taxes	Note 26	Page 75
Commitments and contingencies	Note 29	Page 79
Accounting for derivative instruments and hedging activities	Note 30	Page 80
Off-balance sheet lending-related financial instruments and guarantees	Note 31	Page 83

Note 2 – Accounting and reporting developments

Derivatives netting – amendment of FASB Interpretation No. 39

In April 2007, the FASB issued FSP FIN 39-1, which permits offsetting of cash collateral receivables or payables with net derivative positions under certain circumstances. JPMorgan Chase Bank, N.A. adopted FSP FIN 39-1 effective January 1, 2008. The FSP did not have a material impact on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets.

Fair value measurements – written loan commitments

In November 2007, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") 109, which revises and rescinds portions of SAB 105. Specifically, SAB 109 states that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The provisions of SAB 109 are applicable to written loan commitments issued or modified beginning on January 1, 2008. JPMorgan Chase Bank, N.A. adopted SAB 109 on January 1, 2008. The adoption of this pronouncement did not have a material impact on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets or financial performance.

Business combinations/noncontrolling interests in consolidated financial statements

In December 2007, the FASB issued SFAS 141R and SFAS 160, which amend the accounting and reporting of business combinations, as well as noncontrolling (i.e., minority) interests. For JPMorgan Chase Bank, N.A., SFAS 141R is effective for business combinations that close on or after January 1, 2009. SFAS 160 is effective for JPMorgan Chase Bank, N.A. for fiscal years beginning on or after December 15, 2008.

SFAS 141R will generally only impact the accounting for future business combinations and will impact certain aspects of business combination accounting, such as transaction costs and certain merger-related restructuring reserves, as well as the accounting for partial acquisitions where control is obtained by JPMorgan Chase Bank, N.A. One exception to the prospective application of SFAS 141R relates to accounting for income taxes associated with business combinations that closed prior to January 1, 2009. Once the purchase accounting measurement period closes for these acquisitions, any further adjustments to income taxes recorded as part of these business combinations will impact income tax expense. Previously, further adjustments were predominately recorded as adjustments to goodwill. JPMorgan Chase Bank, N.A. will continue to evaluate the impact that SFAS 141R will have on its consolidated financial statements.

SFAS 160 requires that noncontrolling interests be accounted for and presented as equity, rather than as a liability or mezzanine equity. Changes to how the income statement is presented will also result. SFAS 160 presentation and disclosure requirements are to be applied retrospectively. The adoption of this pronouncement is not expected to have a material impact on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets, financial performance or ratios.

Accounting for transfers of financial assets and repurchase financing transactions

In February 2008, the FASB issued FSP Financial Accounting Standard ("FAS") 140-3, which requires an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously with, or in contemplation of, the initial transfer to be evaluated together as a linked transaction under SFAS 140, unless certain criteria are met. JPMorgan Chase Bank, N.A. adopted FSP FAS 140-3 on January 1, 2009, for new transactions entered into after the date of adoption. The adoption of FSP FAS 140-3 is not expected to have a material impact on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets or financial performance.

Disclosures about derivative instruments and hedging activities – FASB Statement No. 161

In March 2008, the FASB issued SFAS 161, which amends the disclosure requirements of SFAS 133. SFAS 161 requires increased disclosures about derivative instruments and hedging activities and their effects on an entity's financial position, financial performance and cash flows. SFAS 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. SFAS 161 will only affect JPMorgan Chase Bank, N.A.'s disclosures of derivative instruments and related hedging activities, and not its Consolidated Balance Sheets, Consolidated Statements of Income or Consolidated Statements of Cash Flows.

Disclosures about credit derivatives and certain guarantees

In September 2008, the FASB issued FSP FAS 133-1 and FIN 45-4. The FSP requires enhanced disclosures about credit derivatives and guarantees to address the potential adverse effects of changes in credit risk on the financial position, financial performance and cash flows of the sellers of these instruments. The FSP is effective for reporting periods ending after November 15, 2008, with earlier application permitted. The disclosures required by this FSP are incorporated within these Consolidated Financial Statements. FSP FAS 133-1 and FIN 45-4 will only affect JPMorgan Chase Bank, N.A.'s disclosures of credit derivatives and guarantees and not its Consolidated Balance Sheets, Consolidated Statements of Income or Consolidated Statements of Cash Flows.

Determining whether an instrument (or embedded feature) is indexed to an entity's own stock

In September 2008, the EITF issued EITF 07-5, which establishes a two-step process for evaluating whether equity-linked financial instruments and embedded features are indexed to a company's own stock for purposes of determining whether the derivative scope exception in SFAS 133 should be applied. EITF 07-5 is effective for fiscal years beginning after December 2008. The adoption of this EITF is not expected to have a material impact on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets or financial performance.

Determining the fair value of an asset when the market for that asset is not active

In October 2008, the FASB issued FSP FAS 157-3, which clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial instrument when the market for that financial asset is not active. The FSP was effective upon issuance, including prior periods for which financial statements have not been issued. The application of this FSP did not have an impact on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets or financial performance.

Disclosure about transfers of financial assets and interests in VIEs

On December 11, 2008, the FASB issued FSP FAS 140-4 and FIN 46(R)-8, which requires additional disclosures relating to transfers of financial assets and interests in securitization entities and other variable interest entities. The purpose of this FSP is to require improved disclosure by public enterprises prior to the effective dates of the proposed amendments to SFAS 140 and FIN 46(R). The effective date for the FSP will be for reporting periods (interim and annual) beginning with the first reporting period that ends after December 15, 2008. The disclosures required by this FSP are incorporated in these Consolidated Financial Statements. FSP SFAS 140-4 and FIN 46(R)-8 will only affect JPMorgan Chase Bank, N.A.'s disclosure of transfers of financial assets and interests in securitization entities and other variable interest entities and not its Consolidated Balance Sheets, Consolidated Statements of Income or Consolidated Statements of Cash Flows.

Employers' disclosures about postretirement benefit plan assets

In December 2008, the FASB issued FSP FAS 132(R)-1, which requires more detailed disclosures about employers' plan assets, including investment strategies, major categories of plan assets, concentrations of risk within plan assets, and valuation techniques used to measure the fair value of plan assets. This FSP is effective for fiscal years ending after December 15, 2009. JPMorgan Chase Bank, N.A. intends to adopt these additional disclosure requirements on the effective date.

Amendments to the impairment guidance of EITF Issue No. 99-20

In January 2009, the FASB issued FSP EITF 99-20-1, which amends the impairment guidance in EITF 99-20 to make the securities impairment model in EITF 99-20 more consistent with the securities impairment model in SFAS 115. FSP EITF 99-20-1 removes the requirement that a holder's best estimate of cash flows be based exclusively upon those that a market participant would use and allows for reasonable judgment to be applied in considering whether an adverse change in cash flows has occurred based on all available information relevant to the collectibility of the securities. FSP EITF 99-20-1 is effective for interim and annual periods ending after December 15, 2008, and therefore JPMorgan Chase Bank, N.A. has applied FSP EITF 99-20-1 as of December 31, 2008. The adoption of this FSP did not have a material impact on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets or financial performance.

Note 3 – Business changes and developments

JPMorgan Chase capital contribution

During the third quarter of 2008, JPMorgan Chase made a $14.4 billion capital contribution to JPMorgan Chase Bank, N.A. The funds were used for general banking purposes.

Acquisition of the banking operations of Washington Mutual Bank

On September 25, 2008, JPMorgan Chase Bank, N.A. acquired the banking operations of Washington Mutual Bank ("Washington Mutual") from the Federal Deposit Insurance Corporation ("FDIC") for $1.9 billion. The acquisition expands JPMorgan Chase Bank, N.A.'s consumer branch network into several states, including California, Florida and Washington, among others. The acquisition also extends the reach of JPMorgan Chase Bank, N.A.'s business banking, commercial banking, credit card, consumer lending and wealth management businesses. The acquisition was accounted for under the purchase method of accounting in accordance with SFAS 141.

The $1.9 billion purchase price was allocated to the Washington Mutual assets acquired and liabilities assumed using preliminary allocated values as of September 25, 2008, which resulted in negative goodwill. The initial allocation of the purchase price was presented on a preliminary basis at September 30, 2008, due to the short time period between the closing of the transaction (which occurred simultaneously with its announcement on September 25, 2008) and the end of the third quarter. In accordance with SFAS 141, noncurrent nonfinancial assets that are not held-for-sale, such as the premises and equipment and other intangibles, acquired in the Washington Mutual transaction were written down against the negative goodwill. The negative goodwill that remained after writing down the nonfinancial assets was recognized as an extraordinary gain. As a result of the refinement of the purchase price allocation during the fourth quarter of 2008, the initial extraordinary gain of $581 million was increased $1.3 billion to $1.9 billion. The computation of the purchase price and the allocation of the purchase price to the net assets acquired in the Washington Mutual transaction – based upon their respective values as of September 25, 2008, and the resulting negative goodwill – are presented below. The allocation of the purchase price may be modified through September 25, 2009, as more information is obtained about the fair value of assets acquired and liabilities assumed.

(in millions)		
Purchase price		
Purchase price		$ 1,938
Direct acquisition costs		3
Total purchase price		1,941
Net assets acquired		
Washington Mutual's net assets before fair value adjustments	$ 38,766	
Washington Mutual's goodwill and other intangible assets	(7,566)	
Subtotal	31,200	
Adjustments to reflect assets acquired at fair value:		
Securities	(20)	
Trading assets	(591)	
Loans	(31,018)	
Allowance for loan losses	8,216	
Premises and equipment	680	
Accrued interest and accounts receivable	(295)	
Other assets	4,125	
Adjustments to reflect liabilities assumed at fair value:		
Deposits	(683)	
Other borrowed funds	68	
Accounts payable and other liabilities	(900)	
Long-term debt	1,127	
Fair value of net assets acquired		11,909
Negative goodwill before allocation to nonfinancial assets		(9,968)
Negative goodwill allocated to nonfinancial assets[a]		8,062
Negative goodwill resulting from the acquisition[b]		$ (1,906)

(a) The acquisition was accounted for as a purchase business combination in accordance with SFAS 141. SFAS 141 requires the assets (including identifiable intangible assets) and liabilities (including executory contracts and other commitments) of an acquired business as of the effective date of the acquisition to be recorded at their respective fair values and consolidated with those of JPMorgan Chase Bank, N.A. The fair value of the net assets of Washington Mutual's banking operations exceeded the $1.9 billion purchase price, resulting in negative goodwill. In accordance with SFAS 141, noncurrent, nonfinancial assets not held-for-sale, such as premises and equipment and other intangibles, were written down against the negative goodwill. The negative goodwill that remained after writing down transaction related core deposit intangibles of approximately $4.9 billion and premises and equipment of approximately $3.2 billion was recognized as an extraordinary gain of $1.9 billion.

(b) The extraordinary gain was recorded in JPMorgan Chase Bank, N.A.'s Consolidated Financial Statements.

The following condensed statement of net assets acquired reflects the value assigned to the Washington Mutual net assets as of September 25, 2008.

(in millions)	September 25, 2008
Assets	
Cash and due from banks	**$ 3,680**
Deposits with banks	**3,517**
Federal funds sold and securities purchased under resale agreements	**1,700**
Trading assets	**5,691**
Securities	**17,220**
Loans (net of allowance for loan losses)	**206,436**
Accrued interest and accounts receivable	**3,201**
Mortgage servicing rights	**5,874**
All other assets	**16,330**
Total assets	**$ 263,649**
Liabilities	
Deposits	**$ 159,869**
Federal funds purchased and securities loaned or sold under repurchase agreements	**4,549**
Other borrowed funds	**81,622**
Trading liabilities	**585**
Accounts payable and other liabilities	**6,523**
Long-term debt	**6,654**
Total liabilities	**259,802**
Washington Mutual net assets acquired	**$ 3,847**

Unaudited pro forma condensed combined financial information reflecting the Washington Mutual transaction

The following unaudited pro forma condensed combined financial information presents the financial performance of JPMorgan Chase Bank, N.A. as they may have appeared if the Washington Mutual transaction had been completed on January 1, 2008, and January 1, 2007.

Year ended December 31, (in millions)	2008	2007
Total net revenue	**$ 73,833**	$ 69,899
Income before extraordinary gain	**243**	12,982
Net income	**2,149**	12,982

The unaudited pro forma combined financial information is presented for illustrative purposes only and does not indicate the financial results of the combined company had the companies actually been combined as of January 1, 2008, or as of January 1, 2007, nor is it indicative of the results of operations in future periods. Included in the unaudited pro forma combined financial information for the years ended December 31, 2008 and 2007, were pro forma adjustments to reflect Washington Mutual's banking operations, considering the purchase accounting, valuation and accounting conformity adjustments related to the transaction. For the Washington Mutual transaction, the amortization of purchase accounting adjustments to report interest-earning assets acquired and interest-bearing liabilities assumed at current interest rates is reflected in all periods presented. Valuation adjustments and the adjustment to conform allowance methodologies in the Washington Mutual transaction are reflected in the results for the years ended December 31, 2008 and 2007.

Other business events

Termination of Chase Paymentech Solutions joint venture

The dissolution of Chase Paymentech Solutions joint venture, a global payments and merchant acquiring joint venture between JPMorgan Chase Bank, N.A. and First Data Corporation, was completed on November 1, 2008. JPMorgan Chase Bank, N.A. retained approximately 51% of the business and will operate the business under the name Chase Paymentech Solutions. The dissolution of Chase Paymentech Solutions joint venture was accounted for as a step acquisition in accordance with SFAS 141, and JPMorgan Chase Bank, N.A. recognized an after-tax gain of $627 million in the fourth quarter of 2008 as a result of the dissolution. The gain represents the amount by which the fair value of the net assets acquired (predominantly intangible assets and goodwill) exceeded JPMorgan Chase Bank, N.A.'s book basis in the net assets transferred to First Data Corporation. Upon dissolution, JPMorgan Chase Bank, N.A. began to consolidate the retained Chase Paymentech Solutions business.

Sale of Washington Mutual's credit card assets to Chase Bank, USA, N.A.

On October 3, 2008, JPMorgan Chase Bank, N.A. sold net credit card-related assets acquired, in the Washington Mutual transaction, to Chase Bank USA, N.A. for $14.7 billion in cash. The sale included $15.0 billion and $251 million of credit card-related assets and liabilities, respectively.

Merger with The Bear Stearns Companies Inc.

Effective May 30, 2008, BSC Merger Corporation, a wholly-owned subsidiary of JPMorgan Chase, merged with The Bear Stearns Companies Inc. ("Bear Stearns") pursuant to the Agreement and Plan of Merger, dated as of March 16, 2008, as amended March 24, 2008, and Bear Stearns became a wholly-owned subsidiary of JPMorgan Chase (the "Merger"). The Merger provides JPMorgan Chase with a leading global prime brokerage platform; strengthens the equities and asset management businesses; enhances capabilities in mortgage origination, securitization and servicing; and expands the platform of the energy business. The Merger was accounted for under the purchase method of accounting, which requires that the assets and liabilities of Bear Stearns be fair valued. The total purchase price to complete the Merger was $1.5 billion. Additional information regarding the Merger is provided in Note 2 on pages 125–127 of JPMorgan Chase's Annual Report on Form 10-K for the year ended December 31, 2008.

Following the Merger, JPMorgan Chase Bank, N.A. acquired in a cash transaction, four wholly-owned subsidiaries of Bear Stearns that engage in various derivative and mortgage lending activities, which are permissible activities for national banks and their operating subsidiaries. JPMorgan Chase Bank, N.A. accounted for the acquisition of the four Bear Stearns subsidiaries in accordance with SFAS 141, and the results of operations of the Bear Stearns subsidiaries were reported in JPMorgan Chase Bank, N.A.'s results beginning in the third quarter of 2008.

In connection with the transactions described in the preceding paragraph, JPMorgan Chase agreed to indemnify JPMorgan Chase Bank,

N.A. for specified losses and related expenditures related to any loan assets owned or held by the Bear Stearns subsidiaries on July 1, 2008, or derivatives entered into, owned or held by the Bear Stearns' subsidiaries on July 1, 2008, or to be transferred to JPMorgan Chase Bank, N.A., and any losses, judgments, costs or expenses incurred by JPMorgan Chase Bank, N.A. arising out of any conduct or breach of any covenant or agreement by or on behalf of the Bear Stearns subsidiaries. These indemnities are effective until June 30, 2013.

JPMorgan Chase made a capital contribution of $4.6 billion, an amount equal to the estimated additional amount of capital required to ensure that JPMorgan Chase Bank, N.A.'s regulatory capital ratios (i.e., Tier 1; total capital and leverage) do not decline from the levels for the quarter ended June 30, 2008, as a result of the aforementioned indemnified transactions. To the extent that any capital contribution by JPMorgan Chase exceeds the actual regulatory capital impact of these transactions, JPMorgan Chase Bank, N.A. will pay JPMorgan Chase the difference.

Acquisition of the consumer, business banking and middle-market banking businesses of The Bank of New York in exchange for selected corporate trust businesses, including trustee, paying agent, loan agency and document management services

On October 1, 2006, JPMorgan Chase Bank, N.A. completed the acquisition of The Bank of New York Company, Inc.'s ("The Bank of New York") consumer, business and middle-market banking businesses in exchange for selected corporate trust businesses plus a cash payment of $150 million. The transaction also included a contingent payment payable to The Bank of New York; the amount due of $25 million was paid in 2008. The acquisition added 339 branches and more than 400 ATMs, and it significantly strengthened JPMorgan Chase Bank, N.A.'s retail business distribution network in the New York tri-state area. The Bank of New York businesses acquired were valued at a premium of $2.3 billion; JPMorgan Chase Bank, N.A.'s corporate trust businesses that were transferred (i.e., trustee, paying agent, loan agency and document management services) were valued at a premium of $1.7 billion. This transaction included the acquisition of approximately $7.7 billion in loans net of allowance for loan losses and $12.9 billion in deposits from The Bank of New York. JPMorgan Chase Bank, N.A. also recognized core deposit intangibles of $485 million, which are being amortized using an accelerated method over a 10-year period. JPMorgan Chase Bank, N.A. recorded an after-tax gain of $647 million on this transaction in the fourth quarter of 2006. For additional discussion related to the transaction, see Note 4 on page 13 of these Consolidated Financial Statements.

Collegiate Funding Services

On March 1, 2006, JPMorgan Chase Bank, N.A. acquired, for approximately $663 million, Collegiate Funding Services, a leader in student loan servicing and consolidation. This acquisition included $6.0 billion of student loans.

Other internal transfers of legal entities under common control

On July 30, 2007, JPMorgan Chase Bank, N.A. sold its wholly-owned subsidiary, J.P. Morgan Partners (23A Manager), Inc., a venture capital subsidiary, to JPMorgan Chase for $514 million in cash. At the time of the transfer J.P. Morgan Partners (23A Manager) had approximately $725 million of assets, primarily consisting of $388 million of deposits with banks and $218 million of private equity investments.

On October 20, 2006, JPMorgan Chase contributed its wholly-owned banking subsidiary, Banc One Trust Company, National Association ("BOTC"), to JPMorgan Chase Bank, N.A. At the time of the transfer BOTC had approximately $1.3 billion of assets, primarily consisting of $665 million of goodwill and $469 million of loans.

On March 20, 2006, JPMorgan Chase sold its wholly-owned subsidiary, DNT Asset Trust ("DNT"), to JPMorgan Chase Bank, N.A., for $4.2 billion in cash. DNT's principal activities are trust, fiduciary and custody activities, and investments in real estate investment trusts. At the time of the transfer DNT had approximately $5.0 billion of assets, primarily consisting of $4.1 billion of intercompany loans.

In addition to the above transfers, in 2008, 2007 and 2006 JPMorgan Chase transferred various other wholly-owned subsidiaries to JPMorgan Chase Bank, N.A. In 2008, the total assets for these subsidiaries were $280 million, which were largely loans and federal funds sold. In 2007, the total assets for these subsidiaries were $12 million, which were deposits with banks. In 2006, the total assets for these subsidiaries were $111 million, which were largely loans and goodwill.

In 2007 and 2006, JPMorgan Chase Bank, N.A. transferred various wholly-owned subsidiaries to JPMorgan Chase. The total assets for these subsidiaries were $67 million and $77 million in 2007 and 2006, respectively. In 2007, these assets were predominantly goodwill and deposits with banks and in 2006, these assets were largely loans. There were no wholly-owned subsidiaries transferred from JPMorgan Chase Bank, N.A. to JPMorgan Chase in 2008.

The internal transfers of the above legal entities were accounted for at historical cost in accordance with SFAS 141. However, all of the transfers were reflected in the Consolidated Financial Statements prospectively, and not as of the beginning of all periods presented, because the impact of these transfers was not material to JPMorgan Chase Bank, N.A's Consolidated Financial Statements for any of the years ended December 31, 2008, 2007 or 2006.

Note 4 – Discontinued operations

On October 1, 2006, JPMorgan Chase Bank, N.A. completed the acquisition of The Bank of New York's consumer, small-business and middle-market banking businesses in exchange for selected corporate trust businesses. Refer to Note 3 on pages 10–12 of these Consolidated Financial Statements for additional information.

In anticipation of the close of the transaction on October 1, 2006, effective with the second quarter of 2006, the results of operations of these corporate trust businesses were reported as discontinued operations. Condensed financial information of the selected corporate trust businesses follows.

Selected income statements data[(a)]

Year ended December 31, (in millions)	2006
Other noninterest revenue	$ 310
Net interest income	264
Gain on sale of discontinued operations	1,122
Total net revenue	1,696
Noninterest expense	324
Income from discontinued operations before income taxes	1,372
Income tax expense	574
Income from discontinued operations	$ 798

(a) There was no income from discontinued operations during 2008 or 2007.

The following is a summary of the assets and liabilities associated with the selected corporate trust businesses related to The Bank of New York transaction that closed on October 1, 2006.

Selected balance sheet data

(in millions)	October 1, 2006
Goodwill and other intangibles	$ 305
Other assets	547
Total assets	$ 852
Deposits	$ 24,011
Other liabilities	547
Total liabilities	$ 24,558

JPMorgan Chase Bank, N.A. provides certain transitional services to The Bank of New York for a defined period of time after the closing date. The Bank of New York compensates JPMorgan Chase Bank, N.A. for these transitional services.

Note 5 – Fair value measurement

In September 2006, the FASB issued SFAS 157 ("Fair Value Measurements"), which was effective for fiscal years beginning after November 15, 2007, with early adoption permitted. JPMorgan Chase Bank, N.A. chose early adoption for SFAS 157 effective January 1, 2007. SFAS 157:

- Defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value;
- Establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date;
- Nullifies the guidance in EITF 02-3, which required the deferral of profit at inception of a transaction involving a derivative financial instrument in the absence of observable data supporting the valuation technique;
- Eliminates large position discounts for financial instruments quoted in active markets and requires consideration of JPMorgan Chase Bank, N.A.'s creditworthiness when valuing liabilities; and
- Expands disclosures about instruments measured at fair value.

JPMorgan Chase Bank, N.A. also chose early adoption for SFAS 159 effective January 1, 2007. SFAS 159 provides an option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments and written loan commitments not previously recorded at fair value. JPMorgan Chase Bank, N.A. elected fair value accounting for certain assets and liabilities not previously carried at fair value. For more information, see Note 6 on pages 25–27 of these Consolidated Financial Statements.

The following is a description of JPMorgan Chase Bank, N.A.'s valuation methodologies for assets and liabilities measured at fair value.

JPMorgan Chase Bank, N.A. has an established and well-documented process for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon internally developed models that primarily use, as inputs, market-based or independently sourced market parameters, including but not limited to yield curves, interest rates, volatilities, equity or debt prices, foreign exchange rates and credit curves. In addition to market information, models also incorporate transaction details, such as maturity of the instrument. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments include amounts to reflect counterparty credit quality, JPMorgan Chase Bank, N.A.'s creditworthiness, constraints on liquidity and unobservable parameters. Valuation adjustments are applied consistently over time.

- Credit valuation adjustments ("CVA") are necessary when the market price (or parameter) is not indicative of the credit quality of the counterparty. As few classes of derivative contracts are listed on an exchange, the majority of derivative positions are valued using internally developed models that use as their basis observable market parameters. Market practice is to quote parameters equivalent to an "AA" credit rating whereby all counterparties are assumed to have the same credit quality. Therefore, an adjustment is necessary to reflect the credit quality of each derivative counterparty to arrive at fair value. The adjustment also takes into account contractual factors designed to reduce JPMorgan Chase Bank, N.A.'s credit exposure to each counterparty, such as collateral and legal rights of offset.

- Debit valuation adjustments ("DVA") are necessary to reflect the credit quality of JPMorgan Chase Bank, N.A. in the valuation of liabilities measured at fair value. This adjustment was incorporated into JPMorgan Chase Bank, N.A.'s valuations commencing January 1, 2007, in accordance with SFAS 157. The methodology to determine the adjustment is consistent with CVA and incorporates JPMorgan Chase Bank, N.A.'s credit spread as observed through the credit default swap market.
- Liquidity valuation adjustments are necessary when JPMorgan Chase Bank, N.A. may not be able to observe a recent market price for a financial instrument that trades in inactive (or less active) markets or to reflect the cost of exiting larger-than-normal market-size risk positions (liquidity adjustments are not taken for positions classified within level 1 of the fair value hierarchy). JPMorgan Chase Bank, N.A. tries to ascertain the amount of uncertainty in the initial valuation based upon the degree of liquidity of the market in which the financial instrument trades and makes liquidity adjustments to the carrying value of the financial instrument. JPMorgan Chase Bank, N.A. measures the liquidity adjustment based upon the following factors: (1) the amount of time since the last relevant pricing point; (2) whether there was an actual trade or relevant external quote; and (3) the volatility of the principal risk component of the financial instrument. Costs to exit larger-than-normal market-size risk positions are determined based upon the size of the adverse market move that is likely to occur during the period required to bring a position down to a nonconcentrated level.
- Unobservable parameter valuation adjustments are necessary when positions are valued using internally developed models that use as their basis unobservable parameters – that is, parameters that must be estimated and are, therefore, subject to management judgment. These positions are normally traded less actively. Examples include certain credit products where parameters such as correlation and recovery rates are unobservable. Unobservable parameter valuation adjustments are applied to mitigate the possibility of error and revision in the estimate of the market price provided by the model.

JPMorgan Chase Bank, N.A. has numerous controls in place intended to ensure that its fair valuations are appropriate. An independent model review group reviews JPMorgan Chase Bank, N.A.'s valuation models and approves them for use for specific products. All valuation models within JPMorgan Chase Bank, N.A. are subject to this review process. A price verification group, independent from the risk-taking function, ensures observable market prices and market-based parameters are used for valuation wherever possible. For those products with material parameter risk for which observable market levels do not exist, an independent review of the assumptions made on pricing is performed. Additional review includes deconstruction of the model valuations for certain structured instruments into their components, and benchmarking valuations, where possible, to similar products; validating valuation estimates through actual cash settlement; and detailed review and explanation of recorded gains and losses, which are analyzed daily and over time. Valuation adjustments, which are also determined by the independent price verification group, are based upon established policies and are applied consistently over time. Any changes to the valuation methodology are reviewed by management to confirm the changes are justified. As markets and products develop and the pricing for certain products becomes more or less transparent, JPMorgan Chase Bank, N.A. continues to refine its valuation methodologies. During 2008, no material changes were made to JPMorgan Chase Bank, N.A.'s valuation models.

The methods described above to estimate fair value may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while JPMorgan Chase Bank, N.A. believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Valuation Hierarchy

SFAS 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows.

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement. For a level 3 analysis, see page 22 of this Note.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

Assets

Securities purchased under resale agreements ("resale agreements")

To estimate the fair value of resale agreements, cash flows are evaluated taking into consideration any derivative features of the resale agreement and are then discounted using the appropriate market rates for the applicable maturity. As the inputs into the valuation are primarily based upon readily observable pricing information, such resale agreements are generally classified within level 2 of the valuation hierarchy.

Loans and unfunded lending-related commitments

The majority of JPMorgan Chase Bank, N.A.'s loans and lending-related commitments are not carried at fair value on a recurring basis on the Consolidated Balance Sheets, nor are they actively traded. The fair value of such loans and lending-related commitments is included in the disclosures required by SFAS 107 on pages 23–24 of this Note. Loans carried at fair value on a recurring and nonrecurring basis are included in the applicable tables that follow.

Wholesale

The fair value of loans and lending-related commitments is calculated using observable market information, including pricing from actual market transactions or broker quotations where available. Where pricing information is not available for the specific loan, the valuation is generally based upon quoted market prices of similar instruments, such as loans and bonds. These comparable instruments share characteristics that typically include industry, rating, capital structure, seniority, and consideration of counterparty credit risk. In addition, general market conditions, including prevailing market spreads for credit and liquidity risk, are also considered in the valuation process.

For certain loans that are expected to be securitized, such as commercial and residential mortgages, fair value is estimated based upon observable pricing of asset-backed securities ("ABS") with similar collateral and incorporates adjustments (i.e., reductions) to these prices to account for securitization uncertainties including portfolio composition, market conditions and liquidity to arrive at the whole loan price. When data from recent market transactions is available it is incorporated as appropriate. If particular loans are not expected to be securitized they are marked for individual sale taking into consideration potential liquidation proceeds and property repossession/liquidation information, as appropriate.

JPMorgan Chase Bank, N.A.'s loans carried at fair value and reported in trading assets are largely classified within level 3 due to the lack of observable pricing. Loans carried at fair value and reported in loans including leveraged lending funded loans, high-yield bridge financing and purchased nonperforming loans held in the investment banking business are classified within level 2 or 3 of the valuation hierarchy depending on the level of liquidity and activity in the markets for a particular product.

Consumer

Fair values for consumer installment loans (including automobile financings and consumer real estate not expected to be securitized), for which market rates for comparable loans are readily available, are based upon discounted cash flows adjusted for prepayment assumptions. The discount rates used for consumer installment loans are based on current market rates for new originations of comparable loans. Fair value for credit card receivables is based upon discounted expected cash flows. The discount rates used for credit card receivables incorporate only the effects of interest rate changes, since the expected cash flows already reflect an adjustment for credit risk. Consumer installment loans and credit card receivables that are not carried on the balance sheet at fair value are not classified within the fair value hierarchy.

Securities

Where quoted prices for identical securities are available in an active market, securities are classified in level 1 of the valuation hierarchy. Level 1 securities include highly liquid government bonds, mortgage products for which there are quoted prices in active markets (such as U.S. government agency or U.S. government-sponsored enterprise pass-through mortgage-backed securities) and exchange-traded equities.

If quoted market prices are not available for the specific security, JPMorgan Chase Bank, N.A. may estimate the value of such instruments using a combination of observed transaction prices, independent pricing services and relevant broker quotes. Consideration is given to the nature of the quotes (e.g., indicative or firm) and the relationship of recently evidenced market activity to the prices provided from independent pricing services. JPMorgan Chase Bank, N.A. may also use pricing models or discounted cash flows. In cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within level 3 of the valuation hierarchy.

For certain collateralized mortgage and debt obligations, asset-backed securities and high-yield debt securities, the determination of fair value may require benchmarking to similar instruments or analyzing default and recovery rates. For "cash" collateralized debt obligations ("CDOs"), external price information is not available. Therefore, cash CDOs are valued using market-standard models, such as Intex, to model the specific collateral composition and cash flow structure of each deal; key inputs to the model are market spread data for each credit rating, collateral type and other relevant contractual features. Asset-backed securities are valued based on external prices or market spread data, using current market assumptions on prepayments and defaults. For those asset-backed securities where the external price data is not observable or the limited available data is opaque, the collateral performance is monitored and the value of the security is assessed. To benchmark its valuations, JPMorgan Chase Bank, N.A. looks to transactions for similar instruments and utilizes independent pricing provided by third-party vendors, broker quotes and relevant market indices such as the ABX index, as applicable. While none of those sources are solely indicative of fair value, they serve as directional indicators for the appropriateness of JPMorgan Chase Bank, N.A.'s estimates. The majority of collateralized mortgage and debt obligations, high-yield debt securities and asset-backed securities are currently classified in level 3 of the valuation hierarchy.

Commodities

Commodities inventory is carried at the lower of cost or fair value. The fair value for commodities inventory is determined primarily using pricing and data derived from the markets on which the underlying commodities are traded. Market prices may be adjusted for liquidity. JPMorgan Chase Bank, N.A. also has positions in commodity-based derivatives that can be traded on an exchange or over-the-counter. The pricing inputs to these derivatives include forward curves of underlying commodities, basis curves, volatilities, correlations, and occasionally other model parameters. The valuation of these derivatives is based upon calibrating to market transactions, as well as to

independent pricing information from sources such as brokers and dealer consensus pricing services. Where inputs are unobservable, they are benchmarked to observable market data based upon historic and implied correlations, then adjusted for uncertainty where appropriate. The majority of commodities inventory and commodities-based derivatives are classified within level 2 of the valuation hierarchy.

Derivatives

Exchange-traded derivatives valued using quoted prices are classified within level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the majority of JPMorgan Chase Bank, N.A.'s derivative positions are valued using internally developed models that use as their basis readily observable market parameters – that is, parameters that are actively quoted and can be validated to external sources, including industry pricing services. Depending on the types and contractual terms of derivatives, fair value can be modeled using a series of techniques, such as the Black-Scholes option pricing model, simulation models or a combination of various models, which are consistently applied. Where derivative products have been established for some time, JPMorgan Chase Bank, N.A. uses models that are widely accepted in the financial services industry. These models reflect the contractual terms of the derivatives, including the period to maturity, and market-based parameters such as interest rates, volatility, and the credit quality of the counterparty. Further, many of these models do not contain a high level of subjectivity, as the methodologies used in the models do not require significant judgment, and inputs to the model are readily observable from actively quoted markets, as is the case for "plain vanilla" interest rate swaps and option contracts and credit default swaps ("CDS"). Such instruments are generally classified within level 2 of the valuation hierarchy.

Derivatives that are valued based upon models with significant unobservable market parameters and that are normally traded less actively, have trade activity that is one way, and/or are traded in less-developed markets are classified within level 3 of the valuation hierarchy. Level 3 derivatives, for example, include credit default swaps referenced to mortgage-backed securities, certain types of CDO transactions, options on baskets of single-name stocks, and callable exotic interest rate options. Such derivatives are primarily used for risk management purposes.

For certain derivative products, such as credit default swaps referenced to mortgage-backed securities, the value is based on the underlying mortgage risk. As these instruments are not actively quoted, the estimate of fair value considers the valuation of the underlying collateral (mortgage loans). Inputs to the valuation will include available information on similar underlying loans or securities in the cash market. The prepayments and loss assumptions on the underlying loans or securities are estimated using a combination of historical data, prices on market transactions, and other prepayment and default scenarios and analysis. Relevant observable market indices such as the ABX or CMBX, are considered, as well as any relevant transaction activity.

Other complex products, such as those sensitive to correlation between two or more underlyings, also fall within level 3 of the hierarchy. Such instruments include complex credit derivative products which are illiquid and non-standard in nature, including CDOs and CDO-squared. A CDO is a debt security collateralized by a variety of debt obligations, including bonds and loans of different maturities and credit qualities. The repackaging of such securities and loans within a CDO results in the creation of tranches, which are instruments with differing risk profiles. In a CDO-squared, the instrument is a CDO where the underlying debt instruments are also CDOs. For CDO-squared transactions, while inputs such as CDS spreads and recovery rates may be observable, the correlation between the underlying debt instruments is unobservable. The correlation levels are not only modeled on a portfolio basis but are also calibrated at a transaction level to liquid benchmark tranches. For all complex credit derivative products, actual transactions, where available, are used to regularly recalibrate all unobservable parameters.

Correlation sensitivity is also material to the overall valuation of options on baskets of single-name stocks; the valuation of these baskets is typically not observable due to their non-standardized structuring. Correlation for products such as these are typically estimated based on an observable basket of stocks and then adjusted to reflect the differences between the underlying equities.

For callable exotic interest rate options, while most of the assumptions in the valuation can be observed in active markets (e.g. interest rates and volatility), the callable option transaction flow is essentially one-way, and as such, price observability is limited. As pricing information is limited, assumptions are based upon the dynamics of the underlying markets (e.g. the interest rate markets) including the range and possible outcomes of the applicable inputs. In addition, the models used are calibrated, as relevant, to liquid benchmarks and valuation is tested against monthly independent pricing services and actual transactions.

Mortgage servicing rights and certain retained interests in securitizations

Mortgage servicing rights ("MSRs") and certain retained interests from securitization activities do not trade in an active, open market with readily observable prices. While sales of MSRs do occur, the precise terms and conditions typically are not readily available. Accordingly, JPMorgan Chase Bank, N.A. estimates the fair value of MSRs and certain other retained interests in securitizations using discounted cash flow ("DCF") models.

- For MSRs, JPMorgan Chase Bank, N.A. uses an option-adjusted spread ("OAS") valuation model in conjunction with JPMorgan Chase Bank, N.A.'s proprietary prepayment model to project MSR cash flows over multiple interest rate scenarios, which are then discounted at risk-adjusted rates to estimate an expected fair value of the MSRs. The OAS model considers portfolio characteristics, contractually specified servicing fees, prepayment assumptions, delinquency rates, late charges, other ancillary revenue, costs

to service and other economic factors. JPMorgan Chase Bank, N.A. reassesses and periodically adjusts the underlying inputs and assumptions used in the OAS model to reflect market conditions and assumptions that a market participant would consider in valuing the MSR asset. Due to the nature of the valuation inputs, MSRs are classified within level 3 of the valuation hierarchy.

- For certain retained interests in securitizations (such as interest-only strips), a single interest rate path discounted cash flow model is used and generally includes assumptions based upon projected finance charges related to the securitized assets, estimated net credit losses, prepayment assumptions and contractual interest paid to third-party investors. Changes in the assumptions used may have a significant impact on JPMorgan Chase Bank, N.A.'s valuation of retained interests, and such interests are therefore typically classified within level 3 of the valuation hierarchy.

For both MSRs and certain other retained interests in securitizations, JPMorgan Chase Bank, N.A. compares its fair value estimates and assumptions to observable market data where available and to recent market activity and actual portfolio experience. For further discussion of the most significant assumptions used to value retained interests in securitizations and MSRs, as well as the applicable stress tests for those assumptions, see Note 17 and Note 19 on pages 47–56 and 66–69, respectively, of these Consolidated Financial Statements.

Other assets

The fair value of asset-backed commercial paper ("ABCP") investments purchased under the Federal Reserve Bank's Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility ("AML Facility") for U.S. money market mutual funds is determined based on observable market information and is classified in level 2 of the valuation hierarchy.

Liabilities

Securities sold under repurchase agreements ("repurchase agreements")

To estimate the fair value of repurchase agreements, cash flows are evaluated taking into consideration any derivative features and are then discounted using the appropriate market rates for the applicable maturity. Generally, for these types of agreements, there is a requirement that collateral be maintained with a market value equal to, or in excess of, the principal amount loaned; as a result, there would be no adjustment, or an immaterial adjustment, to reflect the credit quality of JPMorgan Chase Bank, N.A. (i.e., DVA) related to these agreements. As the inputs into the valuation are primarily based upon observable pricing information, repurchase agreements are classified within level 2 of the valuation hierarchy.

Beneficial interests issued by consolidated VIEs

The fair value of beneficial interests issued by consolidated VIEs ("beneficial interests") is estimated based upon the fair value of the underlying assets held by the VIEs. The valuation of beneficial interests does not include an adjustment to reflect the credit quality of JPMorgan Chase Bank, N.A., as the holders of these beneficial interests do not have recourse to the general credit of JPMorgan Chase Bank, N.A. As the inputs into the valuation are generally based upon readily observable market pricing information, the majority of beneficial interests issued by consolidated VIEs are classified within level 2 of the valuation hierarchy.

Deposits, other borrowed funds and long-term debt

Included within deposits, other borrowed funds and long-term debt are structured notes issued by JPMorgan Chase Bank, N.A. that are financial instruments containing embedded derivatives. To estimate the fair value of structured notes, cash flows are evaluated taking into consideration any derivative features and are then discounted using the appropriate market rates for the applicable maturities. In addition, the valuation of structured notes includes an adjustment to reflect the credit quality of JPMorgan Chase Bank, N.A. (i.e., the DVA). Where the inputs into the valuation are primarily based upon readily observable market pricing information, the structured notes are classified within level 2 of the valuation hierarchy. Where significant inputs are unobservable, structured notes are classified within level 3 of the valuation hierarchy.

The following table presents the financial instruments carried at fair value as of December 31, 2008 and 2007, by caption on the Consolidated Balance Sheets and by SFAS 157 valuation hierarchy (as described above).

Assets and liabilities measured at fair value on a recurring basis

December 31, 2008 (in millions)	Quoted market prices in active markets (Level 1)	Internal models with significant observable market parameters (Level 2)	Internal models with significant unobservable market parameters (Level 3)	FIN 39 netting[c]	Total carrying value in the Consolidated Balance Sheets
Federal funds sold and securities purchased under resale agreements	$ —	$ 19,865	$ —	$ —	$ 19,865
Securities borrowed	—	3,381	—	—	3,381
Trading assets:					
Debt and equity instruments:					
U.S. government, agency, sponsored enterprise and non-U.S. governments	35,109	23,046	12	—	58,167
State and municipal securities	—	1,709	353	—	2,062
Certificates of deposit, bankers' acceptances and commercial paper	1,180	1,204	—	—	2,384
Corporate debt and other	22	49,088	4,859	—	53,969
Equity securities	64,867	2,218	235	—	67,320
Loans	—	14,254	14,481	—	28,735
Mortgage- and asset-backed securities	—	1,367	6,329	—	7,696
Physical commodities[a]	—	3,455	—	—	3,455
Total debt and equity instruments:	101,178	96,341	26,269	—	223,788
Derivative receivables	1,759	2,661,825	50,663	(2,572,670)	141,577
Total trading assets	102,937	2,758,166	76,932	(2,572,670)	365,365
Available-for-sale securities	117,467	70,985	11,258	—	199,710
Loans	—	4,641	1,397	—	6,038
Mortgage servicing rights	—	—	9,236	—	9,236
Other assets	—	130	1,650	—	1,780
Total assets at fair value	$ 220,404	$ 2,857,168	$ 100,473	$ (2,572,670)	$ 605,375
Deposits	$ —	$ 4,370	$ 1,235	$ —	$ 5,605
Federal funds purchased and securities loaned or sold under repurchase agreements	—	2,968	—	—	2,968
Other borrowed funds	—	2,658	56	—	2,714
Trading liabilities:					
Debt and equity instruments	21,595	9,030	287	—	30,912
Derivative payables	1,211	2,610,277	41,731	(2,541,722)	111,497
Total trading liabilities	22,806	2,619,307	42,018	(2,541,722)	142,409
Accounts payable and other liabilities	—	—	—	—	—
Beneficial interests issued by consolidated VIEs	—	1,364	—	—	1,364
Long-term debt	—	20,399	14,525	—	34,924
Total liabilities at fair value	$ 22,806	$ 2,651,066	$ 57,834	$ (2,541,722)	$ 189,984

Assets and liabilities measured at fair value on a recurring basis

December 31, 2007 (in millions)	Quoted market prices in active markets (Level 1)	Internal models with significant observable market parameters (Level 2)	Internal models with significant unobservable market parameters (Level 3)	FIN 39 netting[c]	Total carrying value in the Consolidated Balance Sheets
Federal funds sold and securities purchased under resale agreements	$ —	$ 18,063	$ —	$ —	$ 18,063
Trading assets:					
Debt and equity instruments:					
U.S. government, agency, sponsored enterprise and non-U.S. governments	79,703	33,510	258	—	113,471
State and municipal securities	39	131	—	—	170
Certificates of deposit, bankers' acceptances and commercial paper	3,019	899	—	—	3,918
Corporate debt and other	6	39,799	7,393	—	47,198
Equity securities	77,654	8,211	367	—	86,232
Loans	—	44,854	10,350	—	55,204
Mortgage- and asset-backed securities	—	6,720	447	—	7,167
Physical commodities[a]	—	4,220	—	—	4,220
Total debt and equity instruments:	160,421	138,344	18,815	—	317,580
Derivative receivables	18,033	868,188	19,389	(832,731)	72,879
Total trading assets	178,454	1,006,532	38,204	(832,731)	390,459
Available-for-sale securities	70,639	11,818	10	—	82,467
Loans	—	359	7,797	—	8,156
Mortgage servicing rights	—	—	8,632	—	8,632
Other assets	—	835	797	—	1,632
Total assets at fair value	$249,093	$ 1,037,607	$ 55,440	$ (832,731)	$ 509,409
Deposits	$ —	$ 5,228	$ 1,228	$ —	$ 6,456
Federal funds purchased and securities loaned or sold under repurchase agreements	—	5,768	—	—	5,768
Other borrowed funds	—	10,225	101	—	10,326
Trading liabilities:					
Debt and equity instruments	59,408	13,407	480	—	73,295
Derivative payables	18,875	854,614	19,183	(822,458)	70,214
Total trading liabilities	78,283	868,021	19,663	(822,458)	143,509
Accounts payable and other liabilities[b]	—	—	25	—	25
Beneficial interests issued by consolidated VIEs	—	2,645	82	—	2,727
Long-term debt	—	35,734	21,198	—	56,932
Total liabilities at fair value	$ 78,283	$ 927,621	$ 42,297	$ (822,458)	$ 225,743

(a) Physical commodities inventories are accounted for at the lower of cost or fair value.
(b) Includes the fair value adjustment for unfunded lending-related commitments accounted for at fair value.
(c) As permitted under FIN 39, JPMorgan Chase Bank, N.A. has elected to net derivative receivables and derivative payables and the related cash collateral received and paid when a legally enforceable master netting agreement exists. The increase in FIN 39 netting from December 31, 2007, primarily relates to the decline in interest rates, widening credit spreads and volatile foreign exchange rates reflected in interest rate, credit and foreign exchange derivatives, respectively.

Changes in level 3 recurring fair value measurements

The tables below include a rollforward of the balance sheet amounts for the years ended December 31, 2008 and 2007 (including the change in fair value), for financial instruments classified by JPMorgan Chase Bank, N.A. within level 3 of the valuation hierarchy. When a determination is made to classify a financial instrument within level 3, the determination is based upon the significance of the unobservable parameters to the overall fair value measurement. However, level 3 financial instruments typically include, in addition to the unobservable or level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources); accordingly, the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology. Also, JPMorgan Chase Bank, N.A. risk manages the observable components of level 3 financial instruments using securities and derivative positions that are classified within level 1 or 2 of the valuation hierarchy; as these level 1 and level 2 risk management instruments are not included below, the gains or losses in the tables do not reflect the effect of JPMorgan Chase Bank, N.A.'s risk management activities related to such level 3 instruments.

	Fair value measurements using significant unobservable inputs					
For the year ended December 31, 2008 (in millions)	Fair value, January 1, 2008	Total realized/unrealized gains/(losses)[b]	Purchases, issuances settlements, net	Transfers into and/or out of level 3[b]	Fair value, December 31, 2008	Change in unrealized gains and (losses) related to financial instruments held at December 31, 2008
Assets:						
Trading assets:						
Debt and equity instruments	**$ 18,815**	**$ (4,969)**[c][d]	**$ (1,063)**	**$ 13,486**	**$ 26,269**	**$ (4,229)**[c][d]
Net derivative receivables	**206**	**1,846**[c]	**5,645**	**1,235**	**8,932**	**(1,670)**[c]
Available-for-sale securities	**10**	**(895)**[e]	**3,439**	**8,704**	**11,258**	**(187)**[e]
Loans	**7,797**	**(1,091)**[c]	**(1,181)**	**(4,128)**	**1,397**	**(1,159)**[c]
Mortgage servicing rights	**8,632**	**(6,772)**[d]	**7,376**	**—**	**9,236**	**(6,772)**[d]
Other assets	**797**	**(159)**[f]	**1,031**	**(19)**	**1,650**	**(131)**[f]
Liabilities[a]**:**						
Deposits	**$ (1,228)**	**$ 72**[c]	**$ (28)**	**$ (51)**	**$ (1,235)**	**$ 69**[c]
Other borrowed funds	**(101)**	**(19)**[c]	**—**	**64**	**(56)**	**5**[c]
Trading liabilities:						
Debt and equity instruments	**(480)**	**78**[c]	**27**	**88**	**(287)**	**127**[c]
Accounts payable and other liabilities	**(25)**	**25**[c]	**—**	**—**	**—**	**—**[c]
Beneficial interests issued by consolidated VIEs	**(82)**	**53**[c]	**5**	**24**	**—**	**—**[c]
Long-term debt	**(21,198)**	**3,968**[c]	**3,604**	**(899)**	**(14,525)**	**3,227**[c]

For the year ended December 31, 2007 (in millions)	Fair value measurements using significant unobservable inputs					Change in unrealized gains and (losses) related to financial instruments held at December 31, 2007
	Fair value, January 1, 2007	Total realized/unrealized gains/(losses)[b]	Purchases, issuances settlements, net	Transfers into and/or out of level 3[b]	Fair value, December 31, 2007	
Assets:						
Trading assets:						
Debt and equity instruments	$ 6,691	$ 366[c][d]	$ 3,373	$ 8,385	$ 18,815	$ 370[c][d]
Net derivative receivables	(2,478)	1,240[c]	(40)	1,484	206	1,554[c]
Available-for-sale securities	71	41[e]	(11)	(91)	10	(1)[e]
Loans	435	(344)[c]	7,715	(9)	7,797	(32)[c]
Mortgage servicing rights	7,546	(516)[d]	1,602	—	8,632	(516)[d]
Other assets	1,004	37[f]	(280)	36	797	(5)[f]
Liabilities[a]:						
Deposits	$ (445)	$ (50)[c]	$ (667)	$ (66)	$ (1,228)	$ (41)[c]
Other borrowed funds	—	(67)[c]	(34)	—	(101)	(135)[c]
Trading liabilities:						
Debt and equity instruments	(16)	382[c]	(140)	(706)	(480)	(734)[c]
Accounts payable and other liabilities	—	(460)[c]	435	—	(25)	(25)[c]
Beneficial interests issued by consolidated VIEs	(8)	6[c]	1	(81)	(82)	—
Long-term debt	(11,046)	(968)[c]	(6,484)	(2,700)	(21,198)	(371)[c]

(a) Level 3 liabilities as a percentage of total JPMorgan Chase Bank, N.A. liabilities accounted for at fair value (including liabilities carried at fair value on a nonrecurring basis) were 30% and 19% at December 31, 2008 and 2007, respectively. JPMorgan Chase Bank, N.A. does not allocate the FIN 39 netting adjustment across the levels of the fair value hierarchy. As such, the level 3 derivative payables balance included in the level 3 total balance is gross of any netting adjustments.
(b) Beginning January 1, 2008, all transfers in and out of level 3 are assumed to occur at the beginning of the reporting period.
(c) Reported in principal transactions revenue.
(d) Changes in fair value for retail business mortgage loans originated with the intent to sell and MSRs are measured at fair value and reported in mortgage fees and related income.
(e) Realized gains (losses) are reported in securities gains (losses). Unrealized gains (losses) are reported in accumulated other comprehensive income (loss).
(f) Reported in other income.

Assets and liabilities measured at fair value on a nonrecurring basis

Certain assets, liabilities and unfunded lending-related commitments are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). The following tables present the financial instruments carried on the Consolidated Balance Sheets by caption and level within the SFAS 157 valuation hierarchy (as described above) as of December 31, 2008 and 2007, for which a nonrecurring change in fair value has been recorded during the reporting period.

December 31, 2008 (in millions)	Quoted market prices in active markets (Level 1)	Internal models with significant observable market parameters (Level 2)	Internal models with significant unobservable market parameters (Level 3)	Total carrying value in the Consolidated Balance Sheets
Loans[a]	**$ —**	**$ 4,975**	**$ 3,685**	**$ 8,660**
Other assets	**—**	**263**	**138**	**401**
Total assets at fair value on a nonrecurring basis	**$ —**	**$ 5,238**	**$ 3,823**	**$ 9,061**
Accounts payable and other liabilities[b]	**$ —**	**$ 207**	**$ 81**	**$ 288**
Total liabilities at fair value on a nonrecurring basis	**$ —**	**$ 207**	**$ 81**	**$ 288**

December 31, 2007 (in millions)	Quoted market prices in active markets (Level 1)	Internal models with significant observable market parameters (Level 2)	Internal models with significant unobservable market parameters (Level 3)	Total carrying value in the Consolidated Balance Sheets
Loans[a][c]	$ —	$ 2,784	$ 15,895	$ 18,679
Other assets	—	7	19	26
Total assets at fair value on a nonrecurring basis	$ —	$ 2,791	$ 15,914	$ 18,705
Accounts payable and other liabilities[b]	$ —	$ —	$ 103	$ 103
Total liabilities at fair value on a nonrecurring basis	$ —	$ —	$ 103	$ 103

(a) Includes leveraged lending and other loan warehouses held-for-sale.
(b) Represents the fair value adjustment associated with $1.4 billion and $3.2 billion of unfunded held-for-sale lending-related commitments within the leveraged lending portfolio at December 31, 2008 and 2007, respectively.
(c) Includes $4.5 billion of level 3 held-for-sale loans reclassified to held-for-investment during 2007.

Nonrecurring fair value changes

The following table presents the total change in value of financial instruments for which a fair value adjustment has been included in the Consolidated Statements of Income for the years ended December 31, 2008 and 2007, related to financial instruments held at December 31, 2008 and 2007.

Year ended December 31, (in millions)	**2008**	2007
Loans	**$ (3,786)**	$ (677)
Other assets	**(211)**	(5)
Accounts payable and other liabilities	**(263)**	2
Total nonrecurring fair value gains (losses)	**$ (4,260)**	$ (680)

In the above table, loans predominantly include the change in fair value for the investment banking business' leveraged lending and warehouse loans carried on the balance sheet at the lower of cost or fair value; and accounts payable and other liabilities predominantly include the change in fair value for unfunded lending-related commitments within the leveraged lending portfolio.

Level 3 analysis

Level 3 assets (including assets measured at fair value on a nonrecurring basis) were 6% of total assets and 17% of total assets measured at fair value at December 31, 2008, compared with 5% and 13%, respectively, at December 31, 2007. The following describes significant changes to level 3 assets during the year.

Level 3 assets increased $32.9 billion in 2008, largely due to the following:

- Acquisition of $5.9 billion of MSRs related to the Washington Mutual transaction.
- Purchase of approximately $4.4 billion of reverse mortgages in the first quarter of 2008, for which there is limited pricing information and a lack of market liquidity.
- Transfers of $13.6 billion of AAA-rated CLOs backed by corporate loans, based upon a significant reduction in new deal issuance and price transparency; $8.9 billion largely of mortgage-related assets, including commercial mortgage-backed securities with a rating below "AAA", other noninvestment grade mortgage securities and certain prime mortgages.
- Positions resulting from Bear Stearns.

The increases in level 3 assets described above were partially offset by:

- Approximately $7.6 billion of sales and markdowns of residential mortgage-backed securities, prime residential mortgage loans and Alt-A residential mortgage loans.
- $11.3 billion of sales and markdowns of leveraged loans, as well as transfers of similar loans to level 2 due to the increased price transparency for such assets.
- $3.5 billion of transfers of bridge loans to level 2 due to increased price transparency for such assets.

Gains and Losses

Gains and losses in the tables above for 2008 include:

- Losses on trading and debt and equity instruments of approximately $5.0 billion, principally from mortgage-related transactions.
- A $6.8 billion decline in the fair value of the MSR asset.
- Losses of approximately $3.2 billion on leveraged loans. Leveraged loans are typically classified as held-for-sale and measured at the lower of cost or fair value and therefore included in the nonrecurring fair value assets.
- Gains of $4.0 billion related to structured notes, principally due to significant volatility in the equity markets.
- Net gains of $1.8 billion related to derivatives, principally due to changes in credit spreads and rate curves.

JPMorgan Chase Bank, N.A. risk manages level 3 financial instruments using securities and derivative positions classified within level 1 or 2 of the valuation hierarchy; the effect of these risk management activities is not reflected in the level 3 gains and losses included in the tables above.

For further information on changes in the fair value of the MSRs, see Note 19 on pages 66–69 of these Consolidated Financial Statements.

SFAS 157 Transition

In connection with the initial adoption of SFAS 157, JPMorgan Chase Bank, N.A. recorded the following on January 1, 2007:

- a cumulative effect increase to retained earnings of $252 million, primarily related to the release of profit previously deferred in accordance with EITF 02-3;
- an increase to pretax income of $165 million ($103 million after-tax) related to the incorporation of JPMorgan Chase Bank, N.A.'s creditworthiness in the valuation of liabilities recorded at fair value.

Prior to the adoption of SFAS 157, JPMorgan Chase Bank, N.A. applied the provisions of EITF 02-3 to its derivative portfolio. EITF 02-3 precluded the recognition of initial trading profit in the absence of: (a) quoted market prices, (b) observable prices of other current market transactions or (c) other observable data supporting a valuation technique. In accordance with EITF 02-3, JPMorgan Chase Bank, N.A. recognized the deferred profit in principal transactions revenue on a systematic basis (typically straight-line amortization over the life of the instruments) and when observable market data became available.

Prior to the adoption of SFAS 157 JPMorgan Chase Bank, N.A. did not incorporate an adjustment into the valuation of liabilities carried at fair value on the Consolidated Balance Sheets. Commencing January 1, 2007, in accordance with the requirements of SFAS 157, an adjustment was made to the valuation of liabilities measured at fair value to reflect the credit quality of JPMorgan Chase Bank, N.A.

Financial disclosures required by SFAS 107

Many but not all of the financial instruments held by JPMorgan Chase Bank, N.A. are recorded at fair value on the Consolidated Balance Sheets. SFAS 107 requires disclosure of the estimated fair value of certain financial instruments and the methods and significant assumptions used to estimate their fair value. Financial instruments within the scope of SFAS 107 are included in the table below. Additionally, certain financial instruments and all nonfinancial instruments are excluded from the scope of SFAS 107. Accordingly, the fair value disclosures required by SFAS 107 provide only a partial estimate of the fair value of JPMorgan Chase Bank, N.A. For example, JPMorgan Chase Bank, N.A. has developed long-term relationships with its customers through its deposit base and credit card accounts, commonly referred to as core deposit intangibles and credit card relationships. In the opinion of management, these items, in the aggregate, add significant value to JPMorgan Chase Bank, N.A., but their fair value is not disclosed in this Note.

Financial instruments for which fair value approximates carrying value

Certain financial instruments that are not carried at fair value on the Consolidated Balance Sheets are carried at amounts that approximate fair value due to their short-term nature and generally negligible credit risk. These instruments include cash and due from banks, deposits with banks, federal funds sold and securities purchased under resale agreements and securities borrowed with short-dated maturities, short-term receivables and accrued interest receivable, commercial paper, federal funds purchased and securities loaned or sold under repurchase agreements with short-dated maturities, other borrowed funds (excluding advances from Federal Home Loan Banks), accounts payable and accrued liabilities. In addition, SFAS 107 requires that the fair value for deposit liabilities with no stated maturity (i.e., demand, savings and certain money market deposits) be equal to their carrying value. SFAS 107 does not allow for the recognition of the inherent funding value of these instruments.

The following table presents the carrying value and estimated fair value of financial assets and liabilities as required by SFAS 107 (a discussion of the valuation of the individual instruments can be found at the beginning of this Note or following the table below).

	2008			2007		
December 31, (in billions)	Carrying value	Estimated fair value	Appreciation/ (depreciation)	Carrying value	Estimated fair value	Appreciation/ (depreciation)
Financial assets						
Assets for which fair value approximates carrying value	**$ 197.4**	**$ 197.4**	**$ —**	$ 76.4	$ 76.4	$ —
Federal funds sold and securities purchased under resale agreements (included $19.9 and $18.1 at fair value at December 31, 2008 and 2007, respectively)	**199.7**	**199.7**	—	192.1	192.1	—
Securities borrowed (including $3.4 and zero at fair value at December 31, 2008 and 2007, respectively)	**42.7**	**42.7**	—	44.0	44.0	—
Trading assets	**365.4**	**365.4**	—	390.5	390.5	—
Securities	**199.7**	**199.7**	—	82.5	82.5	—
Loans (included $6.0 and $8.2 at fair value at December 31, 2008 and 2007, respectively)	**645.2**	**620.4**	**(24.8)**	454.6	454.3	(0.3)
Mortgage servicing rights at fair value	**9.2**	**9.2**	—	8.6	8.6	—
Other (included $1.8 and $1.6 at fair value at December 31, 2008 and 2007, respectively)	**42.9**	**43.1**	**0.2**	28.4	28.9	0.5
Total financial assets	**$ 1,702.2**	**$1,677.6**	**$(24.6)**	$ 1,277.1	$ 1,277.3	$ 0.2
Financial liabilities						
Deposits (included $5.6 and $6.5 at fair value at December 31, 2008 and 2007, respectively)[(a)]	**$ 1,055.8**	**$1,056.7**	**$ (0.9)**	$ 772.1	$ 772.7	$ (0.6)
Federal funds purchased and securities loaned or sold under repurchase agreements (included $3.0 and $5.8 at fair value at December 31, 2008 and 2007, respectively)	**180.7**	**180.7**	**—**	118.6	118.6	—
Other borrowed funds (included $2.7 and $10.3 at fair value at December 31, 2008 and 2007, respectively)	**95.0**	**96.7**	**(1.7)**	23.3	23.3	—
Trading liabilities	**142.4**	**142.4**	**—**	143.5	143.5	—
Accounts payable and other liabilities	**64.7**	**64.7**	**—**	57.4	57.4	—
Beneficial interests issued by consolidated VIEs (included $1.4 and $2.7 at fair value at December 31, 2008 and 2007, respectively)	**4.2**	**4.1**	**0.1**	6.9	6.9	—
Long-term debt and junior subordinated deferrable interest debentures (included $34.9 and $56.9 at fair value at December 31, 2008 and 2007, respectively)[(b)]	**72.5**	**66.4**	**6.1**	88.2	87.9	0.3
Total financial liabilities	**$ 1,615.3**	**$1,611.7**	**$ 3.6**	$ 1,210.0	$ 1,210.3	$ (0.3)
Net (depreciation) appreciation			**$(21.0)**			$ (0.1)

(a) The fair value of interest-bearing deposits are estimated by discounting cash flows using the appropriate market rates for the applicable maturity.
(b) Fair value for long-term debt, including junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities, is based upon current market rates and adjusted for JPMorgan Chase Bank N.A.'s credit quality.

The majority of JPMorgan Chase Bank, N.A.'s unfunded lending-related commitments are not carried at fair value on a recurring basis on the Consolidated Balance Sheets nor are they actively traded. Although there is no liquid secondary market for wholesale commitments, JPMorgan Chase Bank, N.A. estimates the fair value of its wholesale lending-related commitments primarily using the cost of credit derivatives (which is adjusted to account for the difference in recovery rates between bonds, upon which the cost of credit derivatives is based, and loans) and loan equivalents (which represent the portion of an unused commitment expected, based upon JPMorgan Chase Bank, N.A.'s average portfolio historical experience, to become outstanding in the event an obligor defaults). On this basis, the estimated fair value of JPMorgan Chase Bank, N.A.'s lending-related commitments at December 31, 2008 and 2007, was a liability of $7.5 billion and $1.9 billion, respectively. JPMorgan Chase Bank, N.A. does not estimate the fair value of consumer lending-related commitments. In many cases, JPMorgan Chase Bank, N.A. can reduce or cancel these commitments by providing the borrower prior notice, or, in some cases, without notice as permitted by law.

Note 6 – Fair value option

In February 2007, the FASB issued SFAS 159, which was effective for fiscal years beginning after November 15, 2007, with early adoption permitted. JPMorgan Chase Bank, N.A. chose early adoption for SFAS 159 effective January 1, 2007. SFAS 159 provides an option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments, and written loan commitments not previously carried at fair value.

Elections

The following is a discussion of the primary financial instruments for which fair value elections were made and the basis for those elections:

Loans and unfunded lending-related commitments

On January 1, 2007, JPMorgan Chase Bank, N.A. elected to record, at fair value, the following:

- Loans and unfunded lending-related commitments that are extended as part of the investment banking business' principal investing activities. The transition amount related to these loans included a reversal of the allowance for loan losses of $56 million.
- Certain loans held-for-sale. These loans were reclassified to trading assets – debt and equity instruments. This election enabled JPMorgan Chase Bank, N.A. to record loans purchased as part of the investment banking business' commercial mortgage securitization activity and proprietary activities at fair value and discontinue SFAS 133 fair value hedge relationships for certain originated loans.

Beginning on January 1, 2007, JPMorgan Chase Bank, N.A. chose to elect fair value as the measurement attribute for the following loans originated or purchased after that date:

- Loans purchased or originated as part of the investment banking business' securitization warehousing activities.
- Prime mortgage loans originated with the intent to sell within the retail business.

The election to fair value the above loans did not include loans within these portfolios that existed on January 1, 2007, based upon the short holding period of the loans and/or the negligible impact of the elections.

Warehouse loans elected to be reported at fair value are classified as trading assets – debt and equity instruments. For additional information regarding warehouse loans, see Note 17 on pages 47–56 of these Consolidated Financial Statements.

Beginning in the third quarter of 2007, JPMorgan Chase Bank, N.A. elected the fair value option for newly originated bridge financing activity in the investment banking business. These elections were made to align further the accounting basis of the bridge financing activities with their related risk management practices. For these activities, the loans continue to be classified within loans on the Consolidated Balance Sheets; the fair value of the unfunded commitments is recorded within accounts payable and other liabilities.

Securities Financing Arrangements

On January 1, 2007, JPMorgan Chase Bank, N.A. elected to record at fair value resale and repurchase agreements with an embedded derivative or a maturity of greater than one year. The intent of this election was to mitigate volatility due to the differences in the measurement basis for the agreements (which were previously accounted for on an accrual basis) and the associated risk management arrangements (which are accounted for on a fair value basis). An election was not made for short-term agreements, as the carrying value for such agreements generally approximates fair value. For additional information regarding these agreements, see Note 14 on page 42 of these Consolidated Financial Statements.

In the second quarter of 2008, JPMorgan Chase Bank, N.A. began electing the fair value option for newly transacted securities borrowed and securities lending agreements with a maturity of greater than one year. An election was not made for any short-term agreements, as the carrying value for such agreements generally approximates fair value.

Structured Notes

The investment banking business issues structured notes as part of its client-driven activities. Structured notes are financial instruments that contain embedded derivatives and are included in long-term debt. On January 1, 2007, JPMorgan Chase Bank, N.A. elected to record at fair value all structured notes not previously elected or eligible for election under SFAS 155. The election was made to mitigate the volatility due to the differences in the measurement basis for structured notes and the associated risk management arrangements as well as to eliminate the operational burdens of having different accounting models for the same type of financial instrument.

Other

In the third quarter of 2008, JPMorgan Chase Bank, N.A. elected the fair value option for the ABCP investments purchased under the Federal Reserve's AML Facility for U.S. money market mutual funds, as well as the related nonrecourse advances from the Federal Reserve Bank of Boston ("FRBB"). At December 31, 2008, ABCP investments of $130 million were recorded in other assets; the corresponding nonrecourse liability to the FRBB in the same amount was recorded in other borrowed funds. For further discussion, see Note 22 on page 70 of these Consolidated Financial Statements.

In 2008, JPMorgan Chase Bank, N.A. elected the fair value option for certain loans acquired as part of the Bear Stearns merger that were included in the trading portfolio and for prime mortgages previously designated as held-for-sale by Washington Mutual as part of the Washington Mutual transaction. In addition, JPMorgan Chase Bank, N.A. elected the fair value option for certain tax credit and other equity investments acquired as part of the Washington Mutual transaction.

Changes in fair value under the fair value option election

The following table presents the changes in fair value included in the Consolidated Statements of Income for the years ended December 31, 2008 and 2007, for items for which the fair value election was made. The profit and loss information presented below only includes the financial instruments that were elected to be measured at fair value; related risk management instruments, which are required to be measured at fair value, are not included in the table.

	2008			2007		
December 31, (in millions)	Principal transactions[c]	Other income[c]	Total changes in fair value recorded	Principal transactions[c]	Other income[c]	Total changes in fair value recorded
Federal funds sold and securities purchased under resale agreements	**$ 1,116**	**$ —**	**$ 1,116**	$ 564	$ —	$ 564
Securities borrowed	**29**	**—**	**29**	—	—	—
Trading assets:						
Debt and equity instruments, excluding loans	**(558)**	**(15)**[d]	**(573)**	312	(1)[d]	311
Loans reported as trading assets:						
Changes in instrument-specific credit risk	**(8,869)**	**(283)**[d]	**(9,152)**	(394)	(157)[d]	(551)
Other changes in fair value	**786**	**1,178**[d]	**1,964**	103	1,033[d]	1,136
Loans:						
Changes in instrument-specific credit risk	**(1,210)**	**—**	**(1,210)**	102	—	102
Other changes in fair value	**(44)**	**—**	**(44)**	41	—	41
Other assets	**—**	**(168)**[e]	**(168)**	—	10[e]	10
Deposits[a]	**(117)**	**—**	**(117)**	(913)	—	(913)
Federal funds purchased and securities loaned or sold under repurchase agreements	**(121)**	**—**	**(121)**	(78)	—	(78)
Other borrowed funds[a]	**1,243**	**—**	**1,243**	(400)	—	(400)
Trading liabilities	**14**	**—**	**14**	(17)	—	(17)
Accounts payable and other liabilities	**—**	**—**	**—**	(460)	—	(460)
Beneficial interests issued by consolidated VIEs	**421**	**—**	**421**	(236)	—	(236)
Long-term debt:						
Changes in instrument-specific credit risk[a]	**797**	**—**	**797**	698	—	698
Other changes in fair value[b]	**11,990**	**—**	**11,990**	(2,165)	—	(2,165)

(a) Total changes in instrument-specific credit risk related to structured notes were $834 million and $732 million for the years ended December 31, 2008 and 2007, respectively, which includes adjustments for structured notes classified within deposits and other borrowed funds, as well as long-term debt.
(b) Structured notes are debt instruments with embedded derivatives that are tailored to meet a client's need for derivative risk in funded form. The embedded derivative is the primary driver of risk. The 2008 gain included in "Other changes in fair value" results from a significant decline in the value of certain structured notes where the embedded derivative is principally linked to either equity indices or commodity prices, both of which declined sharply during the second half of 2008. Although the risk associated with the structured notes is actively managed, the balance reported in this table does not include the income statement impact of such risk management instruments.
(c) Included in the amounts are gains and losses related to certain financial instruments previously carried at fair value by JPMorgan Chase Bank, N.A., such as structured liabilities elected pursuant to SFAS 155 and loans purchased as part of the trading activities of the investment banking business.
(d) Reported in mortgage fees and related income.
(e) Reported in other income.

Determination of instrument-specific credit risk for items for which a fair value election was made

The following describes how the gains and losses included in earnings during 2008 and 2007, which were attributable to changes in instrument-specific credit risk, were determined.

- Loans and lending-related commitments: For floating-rate instruments, all changes in value are attributed to instrument-specific credit risk. For fixed-rate instruments, an allocation of the changes in value for the period is made between those changes in value that are interest rate-related and changes in value that are credit-related. Allocations are generally based upon an analysis of borrower-specific credit spread and recovery information, where available, or benchmarking to similar entities or industries.
- Long-term debt: Changes in value attributable to instrument-specific credit risk were derived principally from observable changes in JPMorgan Chase Bank, N.A.'s credit spread. The gain for 2008 and 2007 was attributable to the widening of JPMorgan Chase Bank, N.A.'s credit spread.
- Resale and repurchase agreements, securities borrowed agreements and securities lending agreements: Generally, for these types of agreements, there is a requirement that collateral be maintained with a market value equal to or in excess of the principal amount loaned; as a result, there would be no adjustment or an immaterial adjustment for instrument-specific credit risk related to these agreements.

Difference between aggregate fair value and aggregate remaining contractual principal balance outstanding

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of December 31, 2008 and 2007, for loans and long-term debt for which the SFAS 159 fair value option has been elected. The loans were classified in trading assets – debt and equity instruments or in loans.

December 31, (in millions)	2008 Remaining aggregate contractual principal amount outstanding	2008 Fair value	2008 Fair value over (under) remaining aggregate contractual principal amount outstanding	2007 Remaining aggregate contractual principal amount outstanding	2007 Fair value	2007 Fair value over (under) remaining aggregate contractual principal amount outstanding
Loans						
Performing loans 90 days or more past due						
Loans reported as trading assets	**$ —**	**$ —**	**$ —**	$ —	$ —	$ —
Loans	**—**	**—**	**—**	11	11	—
Nonaccrual loans						
Loans reported as trading assets	**2,653**	**894**	**(1,759)**	2,769	991	(1,778)
Loans	**22**	**10**	**(12)**	—	—	—
Subtotal	**2,675**	**904**	**(1,771)**	2,780	1,002	(1,778)
All other performing loans						
Loans reported as trading assets	**34,240**	**27,841**	**(6,399)**	53,620	54,213	593
Loans	**7,189**	**6,028**	**(1,161)**	8,562	8,145	(417)
Total loans	**$ 44,104**	**$ 34,773**	**$ (9,331)**	$ 64,962	$ 63,360	$ (1,602)
Long-term debt						
Principal protected debt	**$ (10,411)[(b)]**	**$ (10,377)**	**$ (34)**	$ (17,935)[(b)]	$ (17,859)	$ (76)
Nonprincipal protected debt[(a)]	**NA**	**(24,547)**	**NA**	NA	(39,073)	NA
Total long-term debt	**NA**	**$ (34,924)**	**NA**	NA	$ (56,932)	NA
FIN 46R long-term beneficial interests						
Principal protected debt	**$ —**	**$ —**	**$ —**	$ (58)	$ (58)	$ —
Nonprincipal protected debt[(a)]	**NA**	**(1,364)**	**NA**	NA	(2,669)	NA
Total FIN 46R long-term beneficial interests	**NA**	**$ (1,364)**	**NA**	NA	$ (2,727)	NA

(a) Remaining contractual principal is not applicable to nonprincipal protected notes. Unlike principal protected notes for which JPMorgan Chase Bank, N.A. is obligated to return a stated amount of principal at the maturity of the note, nonprincipal protected notes do not obligate JPMorgan Chase Bank, N.A. to return a stated amount of principal at maturity but to return an amount based upon the performance of an underlying variable or derivative feature embedded in the note.

(b) Where JPMorgan Chase Bank, N.A. issues principal protected zero coupon or discount notes, the balance reflected as the remaining contractual principal is the final principal payment at maturity.

The contractual amount of unfunded lending-related commitments for which the fair value option was elected was negligible at December 31, 2008. At December 31, 2007, the contractual amount of unfunded lending-related commitments for which the fair value option was elected was $1.0 billion with a corresponding fair value of $25 million. Such commitments are reflected as liabilities and included in accounts payable and other liabilities.

Note 7 – Principal transactions

Principal transactions revenue predominantly consists of realized and unrealized gains and losses from trading activities (including physical commodities inventories that are accounted for at the lower of cost or fair value), changes in fair value associated with financial instruments held by the investment banking business for which the SFAS 159 fair value option was elected, and loans held-for-sale within the wholesale lines of business. For loans measured at fair value under SFAS 159, origination costs are recognized in the associated expense category as incurred.

Trading assets and liabilities

Trading assets include debt and equity instruments held for trading purposes that JPMorgan Chase Bank, N.A. owns ("long" positions), certain loans for which JPMorgan Chase Bank, N.A. manages on a fair value basis and has elected the SFAS 159 fair value option, and physical commodities inventories that are accounted for at the lower of cost or fair value. Trading liabilities include debt and equity instruments that JPMorgan Chase Bank, N.A. has sold to other parties but does not own ("short" positions). JPMorgan Chase Bank, N.A. is obligated to purchase instruments at a future date to cover the short positions. Included in trading assets and trading liabilities are the reported receivables (unrealized gains) and payables (unrealized losses) related to derivatives. Trading assets and liabilities are carried at fair value on the Consolidated Balance Sheets. For a discussion of the valuation of trading assets and trading liabilities, see Note 5 on pages 13–24 of these Consolidated Financial Statements.

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

December 31, (in millions)	2008	2007
Trading assets		
Debt and equity instruments:[a]		
U.S. government and federal agency obligations:		
U.S. treasuries	**$ 6,419**	$ 20,750
Mortgage-backed securities	**2,462**	588
Agency obligations	**—**	989
U.S. government-sponsored enterprise obligations:		
Mortgage-backed securities	**8,128**	22,282
Direct obligations	**2,438**	944
Obligations of state and political subdivisions	**2,062**	170
Certificates of deposit, bankers' acceptances and commercial paper	**2,384**	3,918
Debt securities issued by non-U.S. governments	**38,720**	67,918
Corporate debt securities	**52,226**	41,940
Equity securities	**67,320**	86,232
Loans	**28,735**	55,204
Mortgage-backed securities:		
Prime	**268**	207
Alt-A	**2**	—
Subprime	**101**	—
Non-U.S. residential	**389**	872
Commercial	**314**	229
Asset-backed securities:		
Credit card receivables	**457**	99
Automobile loans	**63**	36
Other consumer loans	**534**	298
Commercial and industrial loans	**1,584**	151
Collateralized debt obligations	**3,745**	4,733
Other	**239**	542
Physical commodities	**3,455**	4,220
Other	**1,743**	5,258
Total debt and equity instruments	**223,788**	317,580
Derivative receivables:		
Interest rate	**63,096**	36,876
Credit	**34,172**	20,146
Commodity	**7,586**	7,481
Foreign exchange	**24,784**	5,621
Equity	**11,939**	2,755
Total derivative receivables	**141,577**	72,879
Total trading assets	**$ 365,365**	$ 390,459

December 31, (in millions)	2008	2007
Trading liabilities		
Debt and equity instruments[b]	**$ 30,912**	$ 73,295
Derivative payables:		
Interest rate	**52,642**	25,436
Credit	**14,217**	10,601
Commodity	**4,869**	5,301
Foreign exchange	**23,999**	11,820
Equity	**15,770**	17,056
Total derivative payables	**111,497**	70,214
Total trading liabilities	**$ 142,409**	$ 143,509

(a) Prior periods have been revised to reflect the current presentation.
(b) Primarily represents securities sold, not yet purchased.

Included in trading assets and trading liabilities are the reported receivables (unrealized gains) and payables (unrealized losses) related to derivatives. As permitted under FIN 39, JPMorgan Chase Bank, N.A. has elected to net derivative receivables and derivative payables and the related cash collateral received and paid when a legally enforceable master netting agreement exists. The netted amount of cash collateral received and paid was $102.2 billion and $71.2 billion, respectively, at December 31, 2008, and $34.9 billion and $24.6 billion, respectively, at December 31, 2007. JPMorgan Chase Bank, N.A. received and paid excess collateral of $22.2 billion and $3.7 billion, respectively, at December 31, 2008, and $17.4 billion and $2.4 billion, respectively, at December 31, 2007. This additional collateral received and paid secures potential exposure that could arise in the derivatives portfolio should the mark-to-market of the transactions move in JPMorgan Chase Bank, N.A.'s favor or the client's favor, respectively, and is not nettable against the derivative receivables or payables in the table above. The above amounts also exclude liquid securities held and posted as collateral by JPMorgan Chase Bank, N.A. to secure derivative receivables and derivative payables. Collateral amounts held and posted in securities form are not recorded on JPMorgan Chase Bank, N.A.'s balance sheet, and are therefore not nettable against derivative receivables. JPMorgan Chase Bank, N.A. held securities collateral of $19.8 billion and $9.8 billion at December 31, 2008 and 2007, respectively, related to derivative receivables. JPMorgan Chase Bank, N.A. posted $11.7 billion and $5.9 billion of securities collateral at December 31, 2008 and 2007, respectively, related to derivative payables.

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

Year ended December 31, (in millions)	2008	2007	2006
Trading assets – debt and equity instruments	**$ 268,986**	$ 287,089	$ 211,828
Trading assets – derivative receivables	**106,225**	60,916	54,603
Trading liabilities – debt and equity instruments[a]	**$ 55,921**	$ 70,341	$ 81,297
Trading liabilities – derivative payables	**84,411**	63,829	55,206

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

Note 8 – Other noninterest revenue

Investment banking fees

This revenue category includes advisory and equity and debt underwriting fees. Advisory fees are recognized as revenue when the related services have been performed. Underwriting fees are recognized as revenue when JPMorgan Chase Bank, N.A. has rendered all services to the issuer and is entitled to collect the fee from the issuer, as long as there are no other contingencies associated with the fee (e.g., the fee is not contingent upon the customer obtaining financing). Underwriting fees are net of syndicate expense; JPMorgan Chase Bank, N.A. recognizes credit arrangement and syndication fees as revenue after satisfying certain retention, timing and yield criteria.

The following table presents the components of Investment banking fees.

Year ended December 31, (in millions)	2008	2007	2006
Underwriting:			
Equity	$ 708	$ 999	$ 699
Debt	1,171	1,531	1,643
Total underwriting	**1,879**	2,530	2,342
Advisory	**796**	938	684
Total investment banking fees	**$ 2,675**	$ 3,468	$ 3,026

Lending & deposit-related fees

This revenue category includes fees from loan commitments, standby letters of credit, financial guarantees, deposit-related fees in lieu of compensating balances, cash management-related activities or transactions, deposit accounts and other loan-servicing activities. These fees are recognized over the period in which the related service is provided.

Asset management, administration and commissions

This revenue category includes fees from investment management and related services, custody, brokerage services, insurance premiums and commissions, and other products. These fees are recognized over the period in which the related service is provided.

The following table presents components of asset management, administration and commissions.

Year ended December 31, (in millions)	2008	2007	2006
Total asset management fees	**$ 1,509**	$ 1,556	$ 877
Total administration fees[(a)]	**2,263**	2,188	1,801
Commission and other fees:			
Brokerage commissions	**1,780**	1,846	1,393
All other commissions and fees	**4,042**	4,186	3,762
Total commissions and fees	**5,822**	6,032	5,155
Total asset management, administration and commissions	**$ 9,594**	$ 9,776	$ 7,833

(a) Includes fees for custody, securities lending, funds services and broker-dealer clearance.

Mortgage fees and related income

This revenue category primarily reflects the retail business' mortgage banking revenue, including: fees and income derived from mortgages originated with the intent to sell; mortgage sales and servicing; the impact of risk management activities associated with the mortgage pipeline, warehouse loans and MSRs; and revenue related to any residual interests held from mortgage securitizations. This revenue category also includes gains and losses on sales and lower of cost or fair value adjustments for mortgage loans held-for-sale, as well as changes in fair value for mortgage loans originated with the intent to sell and measured at fair value under SFAS 159. For loans measured at fair value under SFAS 159, origination costs are recognized in the associated expense category as incurred. Costs to originate loans held-for-sale and accounted for at the lower of cost or fair value are deferred and recognized as a component of the gain or loss on sale. Net interest income from mortgage loans and securities gains and losses on available-for-sale ("AFS") securities used in mortgage-related risk management activities are recorded in interest income and securities gains (losses), respectively. For a further discussion of MSRs, see Note 19 on pages 66–69 of these Consolidated Financial Statements.

Credit card income

The revenue related to credit cards primarily results from a participation arrangement with a bank affiliate of JPMorgan Chase Bank, N.A. and from the acquired Sears credit card business.

This revenue category includes interchange income from credit and debit cards and servicing fees earned in connection with securitization activities. Volume-related payments to partners and expense for rewards programs is netted against interchange income; expense related to rewards programs is recorded when the rewards are earned by the customer. Other fee revenue is recognized as earned, except for annual fees, which are deferred and recognized on a straight-line basis over the 12-month period to which they pertain. Direct loan origination costs are also deferred and recognized over a 12-month period. In addition, due to the consolidation of Chase Paymentech Solutions in the fourth quarter of 2008, this category now includes net fees earned for processing card transactions for merchants.

Note 9 – Interest income and Interest expense

Details of interest income and interest expense were as follows.

Year ended December 31, (in millions)	2008	2007	2006
Interest income[(a)]			
Loans[(b)]	**$31,049**	$ 29,784	$ 27,155
Securities[(b)]	**6,213**	5,145	3,901
Trading assets	**11,071**	11,597	7,015
Federal funds sold and securities purchased under resale agreements	**5,805**	8,519	7,544
Securities borrowed	**1,436**	2,410	1,794
Deposits with banks	**1,765**	1,385	1,223
Interests in purchased receivables[(b)]	—	—	652
Other assets[(c)]	**98**	—	—
Total interest income	**57,437**	58,840	49,284
Interest expense[(a)]			
Interest-bearing deposits	**15,705**	21,862	16,939
Short-term and other liabilities[(d)]	**8,234**	11,573	10,966
Long-term debt	**1,729**	1,878	2,101
Beneficial interests issued by consolidated VIEs	**252**	390	1,143
Total interest expense	**25,920**	35,703	31,149
Net interest income	**31,517**	23,137	18,135
Provision for credit losses	**14,704**	4,672	1,809
Provision for credit losses – accounting conformity[(e)]	**1,534**	—	—
Total provision for credit losses	**16,238**	4,672	1,809
Net interest income after provision for credit losses	**$15,279**	$ 18,465	$ 16,326

(a) Interest income and interest expense include the current period interest accruals for financial instruments measured at fair value except for financial instruments containing embedded derivatives that would be separately accounted for in accordance with SFAS 133 absent the SFAS 159 fair value election; for those instruments, all changes in fair value, including any interest elements, are reported in principal transactions revenue.

(b) As a result of restructuring certain multi-seller conduits JPMorgan Chase Bank, N.A. administers, JPMorgan Chase Bank, N.A. deconsolidated $29 billion of interests in pur-

chased receivables, $3 billion of loans and $1 billion of securities and recorded $33 billion of lending-related commitments during 2006.
(c) Predominantly margin loans.
(d) Includes brokerage customer payables.
(e) Includes accounting conformity loan loss reserve provision related to the acquisition of Washington Mutual's banking operations.

Note 10 – Pension and other postretirement employee benefit plans

JPMorgan Chase Bank, N.A.'s defined benefit pension plans are accounted for in accordance with SFAS 87 and SFAS 88, and the U.K. OPEB plan is accounted for in accordance with SFAS 106. In September 2006, the FASB issued SFAS 158, which requires companies to recognize on their Consolidated Balance Sheets the overfunded or underfunded status of their defined benefit postretirement plans, measured as the difference between the fair value of plan assets and the benefit obligation. SFAS 158 requires unrecognized amounts (e.g., net loss and prior service costs) to be recognized in accumulated other comprehensive income (loss) ("AOCI") and that these amounts be adjusted as they are subsequently recognized as components of net periodic benefit cost based upon the current amortization and recognition requirements of SFAS 87 and SFAS 106. JPMorgan Chase Bank, N.A. prospectively adopted SFAS 158 as required on December 31, 2006, which resulted in an after-tax charge to AOCI of $431 million at that date.

SFAS 158 also eliminates the provisions of SFAS 87 and SFAS 106 that allow plan assets and obligations to be measured as of a date not more than three months prior to the reporting entity's balance sheet date. JPMorgan Chase Bank, N.A. uses a measurement date of December 31 for its defined benefit pension and OPEB plans; therefore, this provision of SFAS 158 had no effect on JPMorgan Chase Bank, N.A.'s financial statements.

For JPMorgan Chase Bank, N.A.'s defined benefit pension plans, fair value is used to determine the expected return on plan assets. Amortization of net gains and losses is included in annual net periodic benefit cost if, as of the beginning of the year, the net gain or loss exceeds 10 percent of the greater of the projected benefit obligation or the fair value of the plan assets. Any excess, as well as prior service costs, are amortized over the average future service period of defined benefit pension plan participants, which for the Excess Retirement Plan is currently nine years (the decrease of one year from the prior year in the assumptions is related to pension plan demographic assumption revisions at December 31, 2007, to reflect recent experience relating to form and timing of benefit distributions and rates of turnover) and for the non-U.S. defined benefit pension plans is the period appropriate for the affected plan. For the U.K. OPEB plan, any excess net gains and losses also are amortized over the average remaining life expectancy of benefit recipients, which is currently 16 years.

Defined benefit pension plans and OPEB plan

Substantially all of JPMorgan Chase Bank, N.A.'s U.S. employees are eligible to participate in JPMorgan Chase's consolidated, qualified, noncontributory, U.S. defined benefit pension plan. In addition, JPMorgan Chase Bank, N.A. provides postretirement medical and life insurance benefits to certain retirees and postretirement medical benefits to qualifying U.S. employees through JPMorgan Chase. These JPMorgan Chase plans are discussed in the JPMorgan Chase pension and other postretirement employee benefits ("OPEB") plans section below.

JPMorgan Chase Bank, N.A. provides pension benefits to qualifying employees in various non-U.S. locations and OPEB to qualifying United Kingdom ("U.K.") employees. The U.K. OPEB plan is unfunded. JPMorgan Chase Bank, N.A. also offers certain qualifying employees in the U.S. the ability to participate in a number of defined benefit pension plans not subject to Title IV of the Employee Retirement Income Security Act. The most significant of these plans is the U.S. Excess Retirement Plan, pursuant to which certain employees earn pay and interest credits on compensation amounts above the maximum stipulated by law under a qualified pension plan. The U.S. Excess Retirement Plan had an unfunded projected benefit obligation in the amount of $191 million and $176 million, at December 31, 2008 and 2007, respectively. Effective May 1, 2009, JPMorgan Chase will discontinue future pay credits under this plan which is expected to reduce 2009 pension expense by approximately $2 million.

It is JPMorgan Chase Bank, N.A.'s policy to fund the U.S. defined benefit pension plan in amounts sufficient to meet the requirements for benefit payments. The estimated amount of 2009 contributions to the U.S. Excess Retirement Plan is $33 million. It is JPMorgan Chase Bank, N.A.'s policy to fund the non-U.S. defined benefit pension plans in amounts sufficient to meet the requirements under applicable employee benefit and local tax laws. The estimated amount of 2009 contributions to the non-U.S. defined benefit plans and U.K. OPEB plan is $46 million.

Defined contribution plans

JPMorgan Chase Bank, N.A.'s employees may also participate in several defined contribution plans offered by JPMorgan Chase in the U.S. and by JPMorgan Chase Bank, N.A. in certain non-U.S. locations, all of which are administered in accordance with applicable local laws and regulations. The most significant of these plans is The JPMorgan Chase 401(k) Savings Plan (the "401(k) Savings Plan"), which covers substantially all U.S. employees. The 401(k) Savings Plan allows employees to make pretax and Roth 401(k) contributions to tax-deferred investment portfolios. The JPMorgan Chase Common Stock Fund, which is an investment option under the 401(k) Savings Plan, is a nonleveraged employee stock ownership plan. JPMorgan Chase Bank, N.A. matches eligible employee contributions up to a certain percentage of benefits-eligible compensation per pay period, subject to plan and legal limits. Employees begin to receive matching contributions after completing a one-year-of-service requirement and are immediately vested in JPMorgan Chase Bank, N.A.'s contributions when made. Employees with total annual cash compensation of $250,000 or more are not eligible for matching contributions. The 401(k) Savings Plan also permits discretionary profit-sharing contributions by participating companies for certain employees, subject to a specified vesting schedule.

JPMorgan Chase has made changes to the 401(k) Savings Plan with respect to the level and frequency of the employer match based on eligible compensation levels, which will become effective on May 1, 2009. Since these changes provide for discretion in the level and frequency of the employer match, the impact on 2009 defined contribution plan expense is indeterminable at this time.

The following table presents the changes in benefit obligations and plan assets and funded status amounts reported on the Consolidated Balance Sheets for JPMorgan Chase Bank, N.A.'s U.S. and non-U.S. defined benefit pension plans and U.K. OPEB plan.

	Defined benefit pension plans					
	U.S.		Non-U.S.		U.K. OPEB plan	
As of or for the year ended December 31, (in millions)	**2008**	2007	**2008**	2007	**2008**	2007
Change in benefit obligation						
Benefit obligation, beginning of year	**$ (276)**	$ (301)	**$ (2,743)**	$ (2,917)	**$ (49)**	$ (52)
Benefits earned during the year	**(5)**	(7)	**(29)**	(36)	**—**	—
Interest cost on benefit obligations	**(18)**	(16)	**(142)**	(144)	**(3)**	(3)
Plan amendments	**—**	—	**—**	2	**—**	—
Liabilities of newly material plans	**—**	—	**—**	(5)	**—**	—
Employee contributions	**NA**	NA	**(3)**	(3)	**—**	—
Net gain (loss)	**(23)**	25	**214**	327	**4**	4
Benefits paid	**27**	30	**105**	90	**3**	3
Curtailments	**—**	—	**—**	4	**—**	—
Settlements	**—**	—	**—**	24	**—**	—
Special termination benefits	**—**	—	**(3)**	(1)	**—**	—
Foreign exchange impact and other	**—**	(7)	**594**	(84)	**13**	(1)
Benefit obligation, end of year	**$ (295)**	$ (276)	**$ (2,007)**	$ (2,743)	**$ (32)**	$ (49)
Change in plan assets						
Fair value of plan assets, beginning of year	**$ —**	$ —	**$ 2,933**	$ 2,813	**$ —**	$ —
Actual return on plan assets	**—**	—	**(298)**	57	**—**	—
JPMorgan Chase Bank N.A. contributions	**27**	30	**88**	92	**3**	3
Employee contributions	**—**	—	**3**	3	**—**	—
Assets of newly material plans	**—**	—	**—**	3	**—**	—
Benefits paid	**(27)**	(30)	**(105)**	(90)	**(3)**	(3)
Settlements	**—**	—	**—**	(24)	**—**	—
Foreign exchange impact and other	**—**	—	**(613)**	79	**—**	—
Fair value of plan assets, end of year	**$ —**	$ —	**$ 2,008**	$ 2,933	**$ —**	$ —
Funded (unfunded) status[(a)]	**$ (295)**	$ (276)	**$ 1**	$ 190	**$ (32)**	$ (49)
Accumulated benefit obligation, end of year	**$ (291)**	$ (273)	**$ (1,977)**	$ (2,708)	**NA**	NA

(a) Represents overfunded plans with an aggregate balance of $59 million and $260 million at December 31, 2008 and 2007, respectively, and underfunded plans with an aggregate balance of $385 million and $395 million at December 31, 2008 and 2007, respectively.

The following table presents pretax pension and OPEB amounts recorded in AOCI.

	Defined benefit pension plans					
	U.S.		Non-U.S.		U.K. OPEB plan	
As of the year ended December 31, (in millions)	**2008**	2007	**2008**	2007	**2008**	2007
Net (loss) gain	**$ (36)**	$ (14)	**$ (487)**	$ (434)	**$ 9**	$ 8
Prior service cost (credit)	**(2)**	(2)	**2**	2	**—**	—
Accumulated other comprehensive income (loss), pretax, end of year	**$ (38)**	$ (16)	**$ (485)**	$ (432)	**$ 9**	$ 8

The following table presents the components of net periodic benefit costs reported in the Consolidated Statements of Income and other comprehensive income for JPMorgan Chase Bank, N.A.'s U.S. and non-U.S. defined benefit pension plans and U.K. OPEB plan.

	Defined benefit pension plans								
	U.S.			Non-U.S.			U.K. OPEB plan		
Year ended December 31, (in millions)	**2008**	2007	2006	**2008**	2007	2006	**2008**	2007	2006
Components of net periodic benefit cost									
Benefits earned during the year	**$ 5**	$ 7	$ 3	**$ 29**	$ 36	$ 37	**$ —**	$ —	$ —
Interest cost on benefit obligations	**18**	16	15	**142**	144	120	**3**	3	2
Expected return on plan assets	**—**	—	—	**(152)**	(153)	(122)	**—**	—	—
Amortization of net loss	**—**	—	—	**25**	55	45	**—**	—	—
Curtailment loss	**—**	—	—	**—**	—	1	**—**	—	—
Settlement (gain) loss	**—**	—	—	**—**	(1)	4	**—**	—	—
Special termination benefits	**—**	—	—	**3**	1	1	**—**	—	—
Net periodic benefit cost	**23**	23	18	**47**	82	86	**3**	3	2
Other defined benefit pension plans[(a)]	**14**	8	—	**14**	19	11	**NA**	NA	NA
Total defined benefit plans	**37**	31	18	**61**	101	97	**3**	3	2
Total defined contribution plans	**209**	217	203	**286**	196	198	**NA**	NA	NA
Total pension and OPEB cost included in compensation expense	**$ 246**	$ 248	$ 221	**$ 347**	$ 297	$ 295	**$ 3**	$ 3	$ 2
Changes in plan assets and benefit obligations recognized in other comprehensive income									
Net (gain) loss arising during the year	**$ 22**	$ (25)	NA	**$ 230**	$(175)	NA	**$ (1)**	$ (4)	NA
Prior service credit arising during the year	**—**	—	NA	**—**	(2)	NA	**—**	—	NA
Amortization of net loss	**—**	—	NA	**(27)**	(55)	NA	**—**	—	NA
Curtailment gain	**—**	—	NA	**—**	(5)	NA	**—**	—	NA
Settlement loss	**—**	—	NA	**—**	1	NA	**—**	—	NA
Foreign exchange impact and other	**—**	(8)	NA	**(150)**	—	NA	**—**	—	NA
Total recognized in other comprehensive income	**22**	(33)	NA	**53**	(236)	NA	**(1)**	(4)	NA
Total recognized in net periodic benefit cost and other comprehensive income	**$ 45**	$ (10)	NA	**$ 100**	$(154)	NA	**$ 2**	$ (1)	NA

(a) Includes various defined benefit pension plans, which are individually immaterial.

It is expected that $42 million, pretax, of net loss related to non-U.S. defined benefit pension plans recorded in AOCI at December 31, 2008, will be recognized in earnings during 2009.

Plan assumptions

JPMorgan Chase Bank, N.A.'s expected long-term rate of return for its non-U.S. defined benefit pension plans' assets is a blended average of the investment advisor's projected long-term (10 years or more) returns for the various asset classes, weighted by the asset allocation. Returns on asset classes are developed using a forward-looking building-block approach and are not strictly based upon historical returns. For the U.K. defined benefit pension plans, which represent the most significant of JPMorgan Chase Bank, N.A.'s non-U.S. defined benefit pension plans, procedures are used to develop the expected long-term rate of return on defined benefit plan assets taking into consideration local market conditions and the specific allocation of plan assets. The expected long-term rate of return on plan assets is an average of projected long-term returns for each asset class. The return on equities has been selected by reference to the yield on long-term U.K. government bonds plus an equity risk premium above the risk-free rate. The return on "AA"-rated long-term corporate bonds has been taken as the average yield on such bonds, adjusted for the expected downgrades and the expected narrowing of credit spreads over the long-term.

The discount rate used in determining the benefit obligation under the U.S. Excess Retirement Plan was selected by reference to the yields on portfolios of bonds with maturity dates and coupons that closely match the plan's projected cash flows; such portfolios are derived from a broad-based universe of high-quality corporate bonds as of the measurement date. In years in which these hypothetical bond portfolios generates excess cash, such excess is assumed to be reinvested at the one-year forward rates implied by the Citigroup Pension Discount Curve published as of the measurement date. The discount rate for the U.K. defined benefit pension and OPEB plans represents a rate implied from the yield curve of the year-end iBoxx £ corporate "AA" 15-year-plus bond index (adjusted for expected downgrades in the underlying bonds comprising the index) with a duration corresponding to that of the underlying benefit obligations.

The following tables present the weighted-average annualized actuarial assumptions for the projected and accumulated postretirement benefit obligations and the components of net periodic benefit costs for the U.S. and non-U.S. defined benefit pension and U.K. OPEB plans, as of and for the periods indicated.

Weighted-average assumptions used to determine benefit obligations

	U.S.		Non-U.S.	
December 31,	**2008**	2007	**2008**	2007
Discount rate:				
Defined benefit pension plans	**6.65%**	6.60%	**2.00-6.20%**	2.25-5.80%
OPEB plan	**NA**	NA	**6.20**	5.80
Rate of compensation increase	**4.00**	4.00	**3.00-4.00**	3.00-4.25
Health care cost trend rate:				
Assumed for next year	**NA**	NA	**7.00**	5.75
Ultimate	**NA**	NA	**5.50**	4.00
Year when rate will reach ultimate	**NA**	NA	**2012**	2010

Weighted-average assumptions used to determine net periodic benefit costs

	U.S.			Non-U.S.		
Year ended December 31,	**2008**	2007	2006	**2008**	2007	2006
Discount rate:						
Defined benefit pension plans	**6.60%**	5.95%	5.70%	**2.25-5.80%**	2.25-5.10%	2.00-4.70%
OPEB plan	**NA**	NA	NA	**5.80**	5.10	4.70
Expected long-term rate of return on plan assets:						
Defined benefit pension plans	**NA**	NA	NA	**3.25-5.75**	3.25-5.60	3.25-5.50
OPEB plan	**NA**	NA	NA	**NA**	NA	NA
Rate of compensation increase	**4.00**	4.00	4.00	**3.00-4.25**	3.00-4.00	3.00-3.75
Health care cost trend rate:						
Assumed for next year	**NA**	NA	NA	**5.75**	6.63	7.50
Ultimate	**NA**	NA	NA	**4.00**	4.00	4.00
Year when rate will reach ultimate	**NA**	NA	NA	**2010**	2010	2010

The following table presents the effect of a one-percentage-point change in the assumed health care cost trend rate on JPMorgan Chase Bank, N.A.'s total service and interest cost and accumulated postretirement benefit obligation.

For the year ended December 31, 2008 (in millions)	1-Percentage-point increase	1-Percentage-point decrease
Effect on total service and interest cost	$ —	$ —
Effect on accumulated postretirement benefit obligation	3	(3)

At December 31, 2008, JPMorgan Chase Bank, N.A. increased the discount rates used to determine its benefit obligations for the U.S. Excess Retirement Plan based upon current market interest rates, which will result in an immaterial decrease in expense for 2009. As of December 31, 2008, the interest crediting rate assumption and the assumed rate of compensation increase remained at 5.25% and 4.00%, respectively.

A 25-basis point decline in the discount rate for the U.S Excess Retirement Plan would result in an immaterial increase in expense for 2009. JPMorgan Chase Bank, N.A.'s non-U.S. defined benefit pension plans expense is sensitive to changes in the discount rate. A 25-basis point decline in the discount rates for the non-U.S. plans would result in an increase in the 2009 non-U.S. defined benefit pension and OPEB plan expense of approximately $10 million. A 25-point basis point increase in the interest crediting rate for the U.S. Excess Retirement Plan would result in an immaterial increase in 2009 U.S. defined benefit pension expense and an immaterial increase in the related projected benefit obligation.

Investment strategy and asset allocation

The investment policy for JPMorgan Chase Bank, N.A.'s employee benefit plan assets is to optimize the risk-return relationship as appropriate to the respective plan's needs and goals, using a global portfolio of various asset classes diversified by market segment, economic sector, and issuer. Specifically, the goal is to optimize the asset mix for future benefit obligations, while managing various risk factors and each plan's investment return objectives. Plan assets are managed by a combination of internal and external investment managers and are rebalanced within approved ranges on a continuous basis. JPMorgan Chase reviews the allocation daily and all factors that impact portfolio changes to ensure the Plan stays within these ranges, rebalancing when deemed necessary. Assets of the non-U.S. defined benefit pension plans are held in various trusts and are invested in well-diversified portfolios of equity, fixed income and other securities. As of December 31, 2008, assets held by JPMorgan Chase Bank, N.A.'s non-U.S. defined benefit pension plans do not include JPMorgan Chase common stock, except in connection with investments in third-party stock-index funds.

The following table presents the weighted-average asset allocation of the fair values of plan assets at December 31 for the years indicated, and the respective approved target allocation by asset category.

	Non-U.S. defined benefit pension plans		
	Target	% of plan assets	
December 31,	Allocation	**2008**	2007
Asset category			
Debt securities	68%	**73%**	70%
Equity securities	27	**21**	25
Real estate	1	**1**	1
Alternatives	4	**5**	4
Total	100%	**100%**	100%

The following table presents the actual rate of return on plan assets for the non-U.S. defined benefit pension plans.

	Non-U.S. defined benefit pension plans		
December 31,	**2008**	2007	2006
Actual rate of return	**(21.58)-5.06%**	0.06-7.51%	2.80-7.30%

Estimated future benefit payments

The following table presents benefit payments expected to be paid, which include the effect of expected future service, for the years indicated.

Year ended December 31, (in millions)	U.S. defined benefit pension plans	Non-U.S. defined benefit pension plans	U.K. OPEB plan
2009	$ 28	$ 88	$ 2
2010	25	94	2
2011	23	99	2
2012	24	102	2
2013	24	107	2
Years 2014–2018	130	571	13

JPMorgan Chase pension and OPEB plans

JPMorgan Chase Bank, N.A.'s U.S. employees are eligible to participate in JPMorgan Chase's U.S. consolidated, qualified, noncontributory defined benefit pension plan. In addition, qualifying U.S. employees may receive medical and life insurance benefits that are provided through JPMorgan Chase's U.S. OPEB plan. Benefits vary with length of service and date of hire and provide for limits on JPMorgan Chase Bank, N.A.'s share of covered medical benefits. The medical benefits are contributory, while the life insurance benefits are noncontributory. Pension expense and postretirement medical benefit expense is determined based upon participation and effected through an intercompany charge from JPMorgan Chase.

JPMorgan Chase Bank, N.A. was charged $215 million, $213 million and $211 million in 2008, 2007 and 2006, respectively, for its share of the U.S. qualified defined benefit pension plan expense; and it was charged $8 million, $10 million and $6 million in 2008, 2007 and 2006, respectively, for its share of the U.S. OPEB plan expense.

On January 15, 2009, JPMorgan Chase made a discretionary cash contribution to its U.S. defined benefit pension plan of $1.3 billion, funding the plan to the maximum allowable amount under applicable tax law. JPMorgan Chase Bank, N.A. was not allocated any portion of this discretionary cash contribution.

Consolidated disclosures of information about the pension and OPEB plans of JPMorgan Chase, including the funded status of the plans, components of benefit cost and weighted-average actuarial assumptions are included in Note 9 on pages 149–155 of JPMorgan Chase's 2008 Annual Report on Form 10-K.

Note 11 – Employee stock-based incentives

JPMorgan Chase Bank, N.A.'s employees receive annual incentive compensation based on their performance, the performance of their business and JPMorgan Chase's consolidated operating results. JPMorgan Chase Bank, N.A.'s employees participate, to the extent they meet minimum eligibility requirements, in various benefit plans sponsored by JPMorgan Chase. For additional information regarding JPMorgan Chase's employee stock-based incentives, see Note 10 on pages 155–158 of JPMorgan Chase's Annual Report on Form 10-K for the year ended December 31, 2008.

Effective January 1, 2006, JPMorgan Chase Bank, N.A., adopted SFAS 123R and all related interpretations using the modified prospective transition method. SFAS 123R requires all share-based payments to employees, including employee stock options and stock appreciation rights ("SARs"), to be measured at their grant date fair values. JPMorgan Chase also adopted the transition election provided by FSP FAS 123(R)-3. The pool of tax benefits calculated under FSP 123(R)-3 was allocated to JPMorgan Chase Bank, N.A. by JPMorgan Chase based on the percentage of stock compensation expense incurred by JPMorgan Chase Bank, N.A. in relation to the total.

Upon adopting SFAS 123R, JPMorgan Chase Bank, N.A. began to recognize in the Consolidated Statements of Income compensation expense for unvested stock options previously accounted for under APB 25. Additionally, JPMorgan Chase Bank, N.A. recognized as compensation expense an immaterial cumulative effect adjustment resulting from the SFAS 123R requirement to estimate forfeitures at the grant date instead of recognizing them as incurred. Finally, JPMorgan Chase Bank, N.A. revised its accounting policies for share-based payments granted to employees eligible for continued vesting under specific age and service or service-related provisions ("full-career eligible employees") under SFAS 123R. Prior to adopting SFAS 123R, JPMorgan Chase Bank, N.A.'s accounting policy for share-based payment awards granted to full-career eligible employees was to recognize compensation cost over the award's stated service period. Beginning with awards granted to full-career eligible employees in 2006, JPMorgan Chase Bank, N.A. recognized compensation expense on the grant date without giving consideration to the impact of post employment restrictions. In the first quarter of 2006, JPMorgan Chase Bank, N.A. also began to accrue the estimated cost of stock awards granted to full-career eligible employees in the following year.

In June 2007, the FASB ratified EITF 06-11, which requires that realized tax benefits from dividends or dividend equivalents paid on equity-classified share-based payment awards that are charged to retained earnings should be recorded as an increase to additional paid-in capital and included in the pool of excess tax benefits avail-

able to absorb tax deficiencies on share-based payment awards. Prior to the issuance of EITF 06-11, JPMorgan Chase did not include these tax benefits as part of this pool of excess tax benefits. JPMorgan Chase adopted EITF 06-11 on January 1, 2008. The adoption of this consensus did not have an impact on JPMorgan Chase's Consolidated Balance Sheets or results of operations.

Employee stock-based awards

In 2008, 2007 and 2006, JPMorgan Chase granted long-term stock-based awards to certain key employees under the 2005 Long-Term Incentive Plan (the "2005 Plan"). The 2005 Plan, plus prior JPMorgan Chase plans and plans assumed as the result of acquisitions, constitute JPMorgan Chase's stock-based incentive plans ("LTI Plan"). The 2005 Plan became effective on May 17, 2005, after approval by shareholders at the 2005 annual meeting. In May 2008, the 2005 Plan was amended and under the terms of the amended plan as of December 31, 2008, 348 million shares of common stock are available for issuance through May 2013. The amended 2005 Plan is the only active plan under which JPMorgan Chase is currently granting stock-based incentive awards.

Restricted stock units ("RSUs") are awarded at no cost to the recipient in connection with JPMorgan Chase's annual incentive grant. RSUs generally vest 50 percent after two years and 50 percent after three years and convert to shares of JPMorgan Chase common stock at the vesting date. In addition, RSUs typically include full-career eligibility provisions, which allow employees to continue to vest upon voluntary termination, subject to post-employment and other restrictions. All of these awards are subject to forfeiture until the vesting date. An RSU entitles the recipient to receive cash payments equivalent to any dividends paid on the underlying common stock during the period the RSU is outstanding.

Under the LTI Plan, stock options and SARs have been granted with an exercise price equal to the fair value of JPMorgan Chase's common stock on the grant date. JPMorgan Chase typically awards SARs to certain key employees once per year, and it also periodically grants discretionary stock-based incentive awards to individual employees, primarily in the form of both employee stock options and SARs. The 2008 and 2007 grants of SARs to key employees vests ratably over five years (i.e., 20 percent per year) and the 2006 awards vest one-third after each of years three, four and five. These awards do not include any full-career eligibility provisions and all awards generally expire ten years after the grant date.

JPMorgan Chase Bank, N.A. separately recognizes compensation expense for each tranche of each award as if it were a separate award with its own vesting date. For each tranche granted (other than grants to employees who are full-career eligible at the grant date), compensation expense is recognized on a straight-line basis from the grant date until the vesting date of the respective tranche, provided that the employees will not become full-career eligible during the vesting period. For each tranche granted to employees who will become full-career eligible during the vesting period, compensation expense is recognized on a straight-line basis from the grant date until the earlier of the employee's full-career eligibility date or the vesting date of the respective tranche.

In January 2008, JPMorgan Chase awarded to its Chairman and Chief Executive Officer up to two million SARs. The terms of this award are distinct from, and more restrictive than, other equity grants regularly awarded by JPMorgan Chase. The SARs, which have a ten-year term, will become exercisable no earlier than January 22, 2013, and have an exercise price of $39.83, the price of JPMorgan Chase common stock on the date of the award. The number of SARs that will become exercisable (ranging from none to the full two million) and their exercise date or dates will be determined by JPMorgan Chase's Board of Directors based on an assessment of the performance of both the CEO and JPMorgan Chase. That assessment will be made by JPMorgan Chase's Board in the year prior to the fifth anniversary of the date of the award, relying on such factors that in its sole discretion the Board deems appropriate. Due to the substantial uncertainty surrounding the number of SARs that will ultimately be granted and their exercise dates, a grant date has not been established for accounting purposes. However, since the service inception date precedes the grant date, JPMorgan Chase Bank, N.A. will recognize this award ratably over an assumed five-year service period, subject to a requirement to recognize changes in the fair value of the award through the grant date. JPMorgan Chase Bank, N.A. recognized $1 million in compensation expense in 2008 for this award.

RSU activity

Compensation expense for RSUs is measured based upon the number of shares granted multiplied by JPMorgan Chase's stock price at the grant date, and is recognized in net income as previously described. The following table summarizes JPMorgan Chase Bank, N.A.'s RSU activity for 2008.

Year ended December 31, 2008

(in thousands, except weighted average data)	Number of shares	Weighted-average grant date fair value
Outstanding, January 1	62,542	$ 43.05
Granted	48,967	40.06
Vested	(22,811)	38.76
Forfeited	(4,060)	42.93
Transferred	1,465	42.36
Outstanding, December 31	86,103	$ 42.48

The total fair value of shares that vested during the years ended December 31, 2008, 2007 and 2006 was $1.0 billion, $1.0 billion and $871 million, respectively.

Employee stock option and SARs activity

Compensation expense, which is measured at the grant date as the fair value of employee stock options and SARs, is recognized in net income as described above.

The following table summarizes JPMorgan Chase Bank, N.A.'s employee stock option and SARs activity for the year ended December 31, 2008, including awards granted to key employees and awards granted in prior years under broad-based plans.

Year ended December 31, 2008 (in thousands, except weighted-average data)	Number of options/SARs	Weighted-average exercise price	Weighted-average remaining contractual life (in years)	Aggregate intrinsic value
Outstanding, January 1	262,694	$ 41.53		
Granted	6,614	40.89		
Exercised	(28,143)	33.61		
Forfeited	(2,192)	42.82		
Canceled	(13,920)	43.96		
Transferred[(a)]	(262)	193.78		
Outstanding, December 31	224,791	$ 42.61	3.5	$ 189,898
Exercisable, December 31	192,343	42.46	2.7	189,898

(a) Includes a transfer in of Bear Stearns awards of 139,936 options/SARs with a weighted-average exercise price of $461.81.

The weighted-average grant date per share fair value of stock options and SARs granted during the years ended December 31, 2008, 2007 and 2006 was $9.94, $13.32 and $10.86, respectively. The total intrinsic value of options exercised during the years ended December 31, 2008, 2007 and 2006 was $315 million, $740 million and $778 million, respectively.

Impact of adoption of SFAS 123R

During 2006, the incremental expense related to JPMorgan Chase Bank, N.A.'s adoption of SFAS123R was $506 million. This amount represents an accelerated recognition of costs that would otherwise have been incurred in future periods. Also as a result of adopting SFAS 123R, JPMorgan Chase Bank, N.A.'s income from continuing operations (pretax) for the year ended December 31, 2006, was lower by $506 million, and income from continuing operations (after-tax), as well as net income, for the year ended December 31, 2006, was lower by $314 million, than if JPMorgan Chase Bank, N.A. had continued to account for share-based incentives under APB 25 and SFAS 123.

Compensation expense

JPMorgan Chase Bank, N.A. recognized compensation expense related to its various employee stock-based incentive awards of $1.6 billion, $1.3 billion and $1.6 billion (including the $506 million incremental impact of adopting SFAS 123R) for the years ended December 31, 2008, 2007 and 2006, respectively, in its Consolidated Statements of Income. These amounts included an accrual for the estimated cost of stock awards to be granted to full-career eligible employees of $259 million, $324 million and $355 million for the years ended December 31, 2008, 2007 and 2006 respectively. At December 31, 2008, approximately $1.0 billion (pretax) of compensation cost related to unvested awards has not yet been charged to net income. That cost is expected to be amortized into compensation expense over a weighted-average period of 1.3 years. JPMorgan Chase Bank, N.A. does not capitalize any compensation cost related to share-based compensation awards to employees.

Tax benefits

The total income tax benefit related to stock-based incentive arrangements recognized in JPMorgan Chase Bank, N.A.'s Consolidated Statements of Income for the years ended December 31, 2008, 2007 and 2006, was $651 million, $524 million and $622 million, respectively. Pursuant to an informal tax sharing agreement between JPMorgan Chase Bank, N.A. and its parent, JPMorgan Chase, excess tax benefits related to share-based incentive awards, determined in accordance with SFAS 123R, are recorded by JPMorgan Chase. In addition, the above compensation expense allocated to JPMorgan Chase Bank, N.A. was cash-settled in accordance with the aforementioned tax sharing arrangement through cash payments made by JPMorgan Chase Bank, N.A. to JPMorgan Chase.

Valuation assumptions

The following table presents the assumptions used by JPMorgan Chase to value employee stock options and SARs granted during the period under the Black-Scholes valuation model.

Year ended December 31,	2008	2007	2006
Weighted-average annualized valuation assumptions			
Risk-free interest rate	**3.80%**	4.78%	5.11%
Expected dividend yield	**3.53**	3.18	2.89
Expected common stock price volatility	**34**	33	23
Expected life (in years)	**6.8**	6.8	6.8

Prior to the adoption of SFAS 123R, JPMorgan Chase used the historical volatility of its common stock price as the expected volatility assumption in valuing options. JPMorgan Chase completed a review of its expected volatility assumption in 2006. Effective October 1, 2006, JPMorgan Chase Bank, N.A. began to value its employee stock options granted or modified after that date using an expected volatility assumption derived from the implied volatility of JPMorgan Chase's publicly traded stock options.

The expected life assumption is an estimate of the length of time that an employee might hold an option or SAR before it is exercised or canceled. The expected life assumption was developed using historic experience.

Note 12 – Noninterest expense

Merger costs

Costs associated with the Bear Stearns merger and the Washington Mutual transaction in 2008, the 2004 merger with Bank One Corporation, and The Bank of New York transaction in 2006 are reflected in the merger costs caption of the Consolidated Statements of Income. For a further discussion of the Bear Stearns merger and the Washington Mutual transaction, see Note 3 on pages 10–12 of these Consolidated Financial Statements. A summary of merger-related costs is shown in the following table.

	2008				
Year ended December 31, (in millions)	Bear Stearns	Washington Mutual	Total	2007[(b)]	2006[(b)]
Expense category					
Compensation	**$ 32**	**$ 113**	**$ 145**	$ (20)	$ 51
Occupancy	**40**	**—**	**40**	17	24
Technology and communications and other	**34**	**10**	**44**	175	182
The Bank of New York transaction	**—**	**—**	**—**	22	14
Total[(a)]	**$ 106**	**$ 123**	**$ 229**	$ 194	$ 271

(a) With the exception of occupancy and technology-related write-offs, all of the costs in the table required the expenditure of cash.
(b) The 2007 and 2006 activity reflect the 2004 merger with Bank One Corporation and 2006 The Bank of New York transaction.

The table below shows the change in the merger reserve balance related to the costs associated with the transactions.

	2008				
Year ended December 31, (in millions)	Bear Stearns	Washington Mutual	Total	2007[(a)]	2006[(a)]
Merger reserve balance, beginning of period	**$ —**	**$ —**	**$ —**	$ 155	$ 306
Recorded as merger costs	**106**	**123**	**229**	172	257
Included in net assets acquired	**—**	**430**	**430**	(44)	—
Utilization of merger reserve	**(42)**	**(112)**	**(154)**	(283)	(408)
Merger reserve balance, end of period	**$ 64**	**$ 441**	**$ 505**	$ —[(b)]	$ 155[(b)]

(a) The 2007 and 2006 activity reflect the 2004 merger with Bank One Corporation.
(b) Excludes $10 million and $21 million at December 31, 2007 and 2006, respectively, related to The Bank of New York transaction.

Note 13 – Securities

Securities are classified as AFS, held-to-maturity ("HTM") or trading. Trading securities are discussed in Note 6 on pages 25–27 of these Consolidated Financial Statements. Securities are classified primarily as AFS when used to manage JPMorgan Chase Bank, N.A.'s exposure to interest rate movements, as well as to make strategic longer-term investments. AFS securities are carried at fair value on the Consolidated Balance Sheets. Unrealized gains and losses, after any applicable SFAS 133 hedge accounting adjustments, are reported as net increases or decreases to accumulated other comprehensive income (loss). The specific identification method is used to determine realized gains and losses on AFS securities, which are included in securities gains (losses) on the Consolidated Statements of Income. Securities that JPMorgan Chase Bank, N.A. has the positive intent and ability to hold to maturity are classified as HTM and are carried at amortized cost on the Consolidated Balance Sheets. JPMorgan Chase Bank, N.A. has not classified new purchases of securities as HTM for the past several years.

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

Year ended December 31, (in millions)	**2008**	2007	2006
Realized gains	**$ 1,569**	$ 525	$ 375
Realized losses	**(241)**	(475)	(925)
Net realized securities gains (losses)[(a)]	**$ 1,328**	$ 50	$ (550)

(a) Proceeds from securities sold were within approximately 2% of amortized cost.

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

	2008				2007			
December 31, (in millions)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale securities								
U.S. government and federal agency obligations:								
U.S. treasuries	**$ 537**	**$ 2**	**$ 7**	**$ 532**	$ 2,374	$ 14	$ 2	$ 2,386
Mortgage-backed securities	**6,281**	**148**	**5**	**6,424**	8	1	—	9
Agency obligations	**69**	**13**	**—**	**82**	73	9	—	82
Collateralized mortgage obligations	**557**	**9**	**8**	**558**	—	—	—	—
U.S. government-sponsored enterprise obligations:								
Mortgage-backed securities	**108,360**	**2,257**	**214**	**110,403**	62,505	641	55	63,091
Direct obligations[(a)]	**9,717**	**37**	**90**	**9,664**	6	2	—	8
Obligations of state and political subdivisions	**931**	**13**	**31**	**913**	52	—	1	51
Certificates of deposit	**17,226**	**64**	**8**	**17,282**	2,040	—	—	2,040
Debt securities issued by non-U.S. governments	**8,173**	**173**	**2**	**8,344**	6,804	18	28	6,794
Corporate debt securities	**9,310**	**256**	**61**	**9,505**	1,927	1	4	1,924
Equity securities	**1,794**	**1**	**7**	**1,788**	2,005	53	1	2,057
Mortgage-backed securities:								
Prime	**7,762**	**4**	**1,739**	**6,027**	3,551	7	5	3,553
Subprime	**—**	**—**	**—**	**—**	—	—	—	—
Alt-A	**1,064**	**—**	**196**	**868**	—	—	—	—
Non-U.S. residential	**2,233**	**24**	**182**	**2,075**	—	—	—	—
Commercial	**4,623**	**—**	**684**	**3,939**	—	—	—	—
Asset-backed securities:								
Credit card receivables	**11,446**	**8**	**1,986**	**9,468**	475	—	32	443
Other consumer loans	**730**	**2**	**106**	**626**	—	—	—	—
Commercial and industrial loans	**11,847**	**168**	**820**	**11,195**	—	—	—	—
Other	**18**	**—**	**1**	**17**	29	—	—	29
Total available-for-sale securities	**$ 202,678**	**$ 3,179**	**$ 6,147**	**$ 199,710**	$ 81,849	$ 746	$ 128	$ 82,467
Held-to-maturity securities[(b)]	**$ 34**	**$ 1**	**$ —**	**$ 35**	$ 44	$ 1	$ —	$ 45

(a) Consists primarily of mortgage-related obligations.
(b) Consists primarily of mortgage-backed securities issued by U.S. government-sponsored entities.

The following table presents the fair value and gross unrealized losses for AFS securities by aging category at December 31.

	Securities with gross unrealized losses					
	Less than 12 months		12 months or more			Total
2008 (in millions)	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Total Fair value	Gross unrealized losses
Available-for-sale securities						
U.S. government and federal agency obligations:						
U.S. treasuries	**$ 249**	**$ 7**	**$ —**	**$ —**	**$ 249**	**$ 7**
Mortgage-backed securities	**2,043**	**5**	**—**	**—**	**2,043**	**5**
Agency obligations	—	—	**—**	**—**	**—**	**—**
Collateralized mortgage obligations	**427**	**8**	**—**	**—**	**427**	**8**
U.S. government-sponsored enterprise obligations:						
Mortgage-backed securities	**3,547**	**211**	**468**	**3**	**4,015**	**214**
Direct obligations	**7,410**	**90**	**—**	—	**7,410**	**90**
Obligations of state and political subdivisions	**312**	**25**	**16**	**6**	**328**	**31**
Certificates of deposit	**382**	**8**	**—**	—	**382**	**8**
Debt securities issued by non-U.S. governments	**308**	**1**	**74**	**1**	**382**	**2**
Corporate debt securities	**532**	**54**	**30**	**7**	**562**	**61**
Equity securities	**19**	**7**	—	—	**19**	**7**
Mortgage-backed securities:						
Prime	**5,386**	**1,642**	**333**	**97**	**5,719**	**1,739**
Subprime	**—**	**—**	**—**	**—**	**—**	**—**
Alt-A	**868**	**196**	**—**	**—**	**868**	**196**
Non-U.S. residential	**1,908**	**182**	**—**	**—**	**1,908**	**182**
Commercial	**3,939**	**684**	**—**	**—**	**3,939**	**684**
Asset-backed securities:						
Credit card receivables	**8,191**	**1,792**	**282**	**194**	**8,473**	**1,986**
Other consumer loans	**558**	**106**	**—**	**—**	**558**	**106**
Commercial and industrial loans	**9,059**	**820**	**—**	**—**	**9,059**	**820**
Other	—	—	**17**	**1**	**17**	**1**
Total securities with gross unrealized losses	**$45,138**	**$ 5,838**	**$ 1,220**	**$ 309**	**$ 46,358**	**$ 6,147**

	Securities with gross unrealized losses					
	Less than 12 months		12 months or more			
2007 (in millions)	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Total Fair value	Total Gross unrealized losses
Available-for-sale securities						
U.S. government and federal agency obligations:						
U.S. treasuries	$ 163	$ 2	$ —	$ —	$ 163	$ 2
Mortgage-backed securities	—	—	—	—	—	—
Agency obligations	—	—	—	—	—	—
Collateralized mortgage obligations	—	—	—	—	—	—
U.S. government-sponsored enterprise obligations:						
Mortgage-backed securities	—	—	1,345	55	1,345	55
Direct obligations	—	—	—	—	—	—
Obligations of state and political subdivisions	21	1	—	—	21	1
Certificates of deposit	1,102	—	—	—	1,102	—
Debt securities issued by non-U.S. governments	335	3	1,928	25	2,263	28
Corporate debt securities	1,126	3	183	1	1,309	4
Equity securities	—	—	4	1	4	1
Mortgage-backed securities:						
Prime	1,313	5	—	—	1,313	5
Subprime	—	—	—	—	—	—
Alt-A	—	—	—	—	—	—
Non-U.S. residential	—	—	—	—	—	—
Commercial	—	—	—	—	—	—
Asset-backed securities:						
Credit card receivables	443	32	—	—	443	32
Other consumer loans	—	—	—	—	—	—
Commercial and industrial loans	—	—	—	—	—	—
Other	29	—	—	—	29	—
Total securities with gross unrealized losses	$ 4,532	$ 46	$ 3,460	$ 82	$ 7,992	$ 128

AFS securities in unrealized loss positions are analyzed in depth as part of JPMorgan Chase Bank, N.A.'s ongoing assessment of other-than-temporary impairment. Potential other-than-temporary impairment of AFS securities is considered using a variety of factors, including the length of time and extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer or underlying collateral of a security; and JPMorgan Chase Bank, N.A.'s intent and ability to retain the security in order to allow for an anticipated recovery in fair value. Where applicable under EITF Issue 99-20, JPMorgan Chase Bank, N.A. estimates the cash flows over the life of the security to determine if any adverse changes have occurred that require an other-than-temporary impairment charge. JPMorgan Chase Bank, N.A. applies EITF Issue 99-20 to beneficial interests in securitizations that are rated below "AA" at acquisition or that can be contractually prepaid or otherwise settled in such a way that JPMorgan Chase Bank, N.A. would not recover substantially all of its recorded investment. JPMorgan Chase Bank, N.A. considers a decline in fair value to be other-than-temporary if it is probable that JPMorgan Chase Bank, N.A. will not recover its recorded investment, including as applicable under EITF Issue 99-20, when an adverse change in cash flows has occurred.

JPMorgan Chase Bank, N.A.'s analysis of the financial condition and near term prospects of the issuer or underlying collateral of a security noted above includes analysis of performance indicators relevant to the specific investment. For asset-backed investments, such relevant performance indicators may include ratings, valuation of subordinated positions in current and/or stress scenarios, excess spread or overcollateralization levels, and whether certain protective triggers have been reached. For mortgage-backed investments, such relevant performance indicators may

include ratings, prepayment speeds, delinquencies, default rates, loss severities, geographic concentration, and forecasted performance under various home price decline stress scenarios.

As of December 31, 2008, approximately $309 million of the unrealized losses relate to securities that have been in an unrealized loss position for longer than 12 months, and primarily relate to prime mortgage-backed securities and credit card-related asset-backed securities. The prime mortgage-backed securities are primarily rated "AAA", while the credit card-related asset-backed securities are rated "BBB". Based upon the analyses described above, which have been applied to these securities, JPMorgan Chase Bank, N.A. believes that the unrealized losses result from liquidity conditions in the current market environment and not from concerns regarding the credit of the issuers or underlying collateral. JPMorgan Chase Bank, N.A. does not believe it is probable that it will not recover its investments, given the current levels of collateral and credit enhancements that exist to protect the investments. For securities analyzed for impairment under EITF 99-20, the collateral and credit enhancement features are at levels sufficient to ensure that an adverse change in expected future cash flows has not occurred.

As of December 31, 2008, approximately $5.8 billion of the unrealized losses relate to securities that have been in an unrealized loss position for less than 12 months; these losses largely relate to credit card-related asset-backed securities, mortgage-backed securities issued by private issuers and commercial and industrial asset-backed securities. Of the $1.7 billion of unrealized losses related to credit card-related asset-backed securities, $1.6 billion relates to purchased credit card-related asset-backed securities, and $133 million relates to retained interests in JPMorgan Chase Bank, N.A.'s own credit card receivable securitizations. The credit card-related asset-backed securities include "AAA", "A" and "BBB" ratings. Based on the levels of excess spread available to absorb credit losses, and based on the value of interests subordinate to JPMorgan Chase Bank, N.A.'s interests where applicable, JPMorgan Chase Bank, N.A. does not believe it is probable that it will not recover its investments. Where applicable under EITF 99-20, the collateral and credit enhancement features are at levels sufficient to ensure that an adverse change in expected future cash flows has not occurred. Of the remaining unrealized losses as of December 31, 2008, related to securities that have been in an unrealized loss position for less than 12 months, $2.7 billion relates to mortgage-backed securities issued by private issuers and $820 million relates to commercial and industrial asset-backed securities. The mortgage-backed securities and commercial and industrial asset-backed securities are predominantly rated "AAA". Based on an analysis of the performance indicators noted above for mortgage-backed securities and asset-backed securities, which have been applied to the loans underlying these securities, JPMorgan Chase Bank, N.A. does not believe it is probable that it will not recover its investments in these securities.

JPMorgan Chase Bank, N.A. intends to hold the securities in an unrealized loss position for a period of time sufficient to allow for an anticipated recovery in fair value or maturity. JPMorgan Chase Bank, N.A. has sufficient capital and liquidity to hold these securities until recovery in fair value or maturity. Based on JPMorgan Chase Bank, N.A.'s evaluation of the factors and other objective evidence described above, JPMorgan Chase Bank, N.A. believes that the securities are not other-than-temporarily impaired as of December 31, 2008.

The following table presents the amortized cost, estimated fair value and average yield at December 31, 2008, of JPMorgan Chase Bank, N.A.'s AFS and HTM securities by contractual maturity.

By remaining maturity at **December 31, 2008** (in millions, except ratios)	Available-for-sale securities			Held-to-maturity securities		
	Amortized cost	Fair value	Average yield[(b)]	Amortized cost	Fair value	Average yield[(b)]
Due in one year or less	$ 22,108	$ 22,178	2.57%	$ —	$ —	—%
Due after one year through five years	25,569	24,601	2.43	—	—	—
Due after five years through ten years	12,887	12,255	3.78	31	32	6.88
Due after ten years[(a)]	142,114	140,676	5.25	3	3	5.70
Total securities	$ 202,678	$ 199,710	4.51%	$ 34	$ 35	6.78%

(a) Includes securities with no stated maturity. Substantially all of JPMorgan Chase Bank, N.A.'s mortgage-backed securities and collateralized mortgage obligations are due in ten years or more based upon contractual maturity. The estimated duration, which reflects anticipated future prepayments based upon a consensus of dealers in the market, is approximately four years for mortgage-backed securities and collateralized mortgage obligations.

(b) The average yield is based upon amortized cost balances at year-end. Yields are derived by dividing interest income by total amortized cost. Taxable-equivalent yields are used where applicable.

Note 14 – Securities financing activities

JPMorgan Chase Bank, N.A. enters into resale agreements, repurchase agreements, securities borrowed transactions and securities loaned transactions, primarily to finance JPMorgan Chase Bank, N.A.'s inventory positions, acquire securities to cover short positions and settle other securities obligations. JPMorgan Chase Bank, N.A. also enters into these transactions to accommodate customers' needs.

Resale agreements and repurchase agreements are generally treated as collateralized financing transactions carried on the Consolidated Balance Sheets at the amounts the securities will be subsequently sold or repurchased, plus accrued interest. On January 1, 2007, pursuant to the adoption of SFAS 159, JPMorgan Chase Bank, N.A. elected fair value measurement for certain resale and repurchase agreements. In 2008, JPMorgan Chase Bank, N.A. elected fair value measurement for certain newly transacted securities borrowed and securities lending agreements. For a further discussion of SFAS 159, see Note 6 on pages 25–27 of these Consolidated Financial Statements. The securities financing agreements for which the fair value option was elected continue to be reported within securities purchased under resale agreements; securities loaned or sold under repurchase agreements; securities borrowed; and other borrowed funds on the Consolidated Balance Sheets. Generally, for agreements carried at fair value, current-period interest accruals are recorded within interest income and interest expense, with changes in fair value reported in principal transactions revenue. However, for financial instruments containing embedded derivatives that would be separately accounted for in accordance with SFAS 133, all changes in fair value, including any interest elements, are reported in principal transactions revenue. Where appropriate, resale and repurchase agreements with the same counterparty are reported on a net basis in accordance with FIN 41. JPMorgan Chase Bank, N.A. takes possession of securities purchased under resale agreements. On a daily basis, JPMorgan Chase Bank, N.A. monitors the market value of the underlying collateral, primarily U.S. and non-U.S. government and agency securities, that it has received from its counterparties, and requests additional collateral when necessary.

Transactions similar to financing activities that do not meet the SFAS 140 definition of a repurchase agreement are accounted for as "buys" and "sells" rather than financing transactions. These transactions are accounted for as a purchase (sale) of the underlying securities with a forward obligation to sell (purchase) the securities. The forward purchase (sale) obligation, a derivative, is recorded on the Consolidated Balance Sheets at its fair value, with changes in fair value recorded in principal transactions revenue.

Securities borrowed and securities lent are recorded at the amount of cash collateral advanced or received. Securities borrowed consist primarily of government and equity securities. JPMorgan Chase Bank, N.A. monitors the market value of the securities borrowed and lent on a daily basis and calls for additional collateral when appropriate. Fees received or paid in connection with securities borrowed and lent are recorded in interest income or interest expense.

The following table details the components of collateralized financings.

December 31, (in millions)	2008	2007
Securities purchased under resale agreements[(a)]	**$ 196,867**	$ 185,680
Securities borrowed[(b)]	**42,658**	44,051
Securities sold under repurchase agreements[(c)]	**$ 158,655**	$ 90,756
Securities loaned	**8,896**	8,628

(a) Includes resale agreements of $19.9 billion and $18.1 billion accounted for at fair value at December 31, 2008 and 2007, respectively.
(b) Includes securities borrowed of $3.4 billion accounted for at fair value at December 31, 2008.
(c) Includes repurchase agreements of $3.0 billion and $5.8 billion accounted for at fair value at December 31, 2008 and 2007, respectively.

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

At December 31, 2008, JPMorgan Chase Bank, N.A. received securities as collateral that could be repledged, delivered or otherwise used with a fair value of approximately $275.9 billion. This collateral was generally obtained under resale or securities borrowing agreements. Of these securities, approximately $249.0 billion were repledged, delivered or otherwise used, generally as collateral under repurchase agreements, securities lending agreements or to cover short sales.

Note 15 – Loans

The accounting for a loan may differ based upon whether it is originated or purchased and as to whether the loan is used in an investing or trading strategy. For purchased loans held-for-investment, the accounting also differs depending on whether a loan is credit-impaired at the date of acquisition. Purchased loans with evidence of credit deterioration since the origination date and for which it is probable, at acquisition, that all contractually required payments receivable will not be collected are considered to be credit-impaired. The measurement framework for loans in these Consolidated Financial Statements is one of the following:

- At the principal amount outstanding, net of the allowance for loan losses, unearned income and any net deferred loan fees or costs, for loans held for investment (other than purchased credit-impaired loans);
- At the lower of cost or fair value, with valuation changes recorded in noninterest revenue, for loans that are classified as held-for-sale; or

- At fair value, with changes in fair value recorded in noninterest revenue, for loans classified as trading assets or risk managed on a fair value basis;
- Purchased credit-impaired loans held for investment are accounted for under SOP 03-3 and initially measured at fair value, which includes estimated future credit losses. Accordingly, an allowance for loan losses related to these loans is not recorded at the acquisition date.

See Note 6 on pages 25–27 of these Consolidated Financial Statements for further information on JPMorgan Chase Bank, N.A.'s elections of fair value accounting under SFAS 159. See Note 7 on pages 27–28 of these Consolidated Financial Statements for further information on loans carried at fair value and classified as trading assets.

For loans held for investment, other than purchased credit-impaired loans, interest income is recognized using the interest method or on a basis approximating a level rate of return over the term of the loan.

Loans within the held-for-investment portfolio that management decides to sell are transferred to the held-for-sale portfolio. Transfers to held-for-sale are recorded at the lower of cost or fair value on the date of transfer. Credit-related losses are charged off to the allowance for loan losses, and losses due to changes in interest rates, or exchange rates, are recognized in noninterest revenue.

Loans within the held-for-sale portfolio that management decides to retain are transferred to the held-for-investment portfolio at the lower of cost or fair value. These loans are subsequently assessed for impairment based on JPMorgan Chase Bank, N.A.'s allowance methodology. For a further discussion of the methodologies used in establishing JPMorgan Chase Bank, N.A.'s allowance for loan losses, see Note 16 on pages 46–47 of these Consolidated Financial Statements.

Nonaccrual loans are those on which the accrual of interest is discontinued. Loans (other than certain consumer and purchased credit-impaired loans discussed below) are placed on nonaccrual status immediately if, in the opinion of management, full payment of principal or interest is in doubt, or when principal or interest is 90 days or more past due and collateral, if any, is insufficient to cover principal and interest. Loans are charged off to the allowance for loan losses when it is highly certain that a loss has been realized. Interest accrued but not collected at the date a loan is placed on nonaccrual status is reversed against interest income. In addition, the amortization of net deferred loan fees is suspended. Interest income on nonaccrual loans is recognized only to the extent it is received in cash. However, where there is doubt regarding the ultimate collectibility of loan principal, all cash thereafter received is applied to reduce the carrying value of such loans (i.e., the cost recovery method). Loans are restored to accrual status only when future payments of interest and principal are reasonably assured.

Consumer loans, other than purchased credit-impaired loans, are generally charged to the allowance for loan losses upon reaching specified stages of delinquency, in accordance with the Federal Financial Institutions Examination Council policy. For example, credit card loans are charged off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification of the filing of bankruptcy, whichever is earlier. Residential mortgage products are generally charged off to net realizable value at no later than 180 days past due. Other consumer products, if collateralized, are generally charged off to net realizable value at 120 days past due. Accrued interest on residential mortgage products, automobile financings, student loans and certain other consumer loans are accounted for in accordance with the nonaccrual loan policy discussed in the preceding paragraph. Interest and fees related to credit card loans continue to accrue until the loan is charged off or paid in full. Accrued interest on all other consumer loans is generally reversed against interest income when the loan is charged off. A collateralized loan is reclassified to assets acquired in loan satisfactions, within other assets, only when JPMorgan Chase Bank, N.A. has taken physical possession of the collateral, regardless of whether formal foreclosure proceedings have taken place.

For purchased credit-impaired loans, the excess of the loan's cash flows expected to be collected over the initial fair value (i.e., the accretable yield) is accreted into interest income at a level rate of return over the term of the loan, provided that the timing and amount of future cash flows is reasonably estimable. On a periodic basis, JPMorgan Chase Bank, N.A. updates the amount of cash flows expected to be collected for these loans, incorporating assumptions regarding default rates, loss severities, the amounts and timing of prepayments and other factors that are reflective of current market conditions. Probable and significant increases in cash flows previously expected to be collected would first be used to reverse any related valuation allowance; any remaining increases are recognized prospectively as interest income. Probable decreases in expected cash flows after the acquisition date, excluding decreases related to repricings of variable rate loans, are recognized through the allowance for loan losses. Disposals of loans, which may include sales of loans, receipt of payments in full by the borrower, or foreclosure, result in removal of the loan from the SOP 03-3 portfolio.

With respect to purchased credit-impaired loans, when the timing and/or amounts of expected cash flows on such loans are not reasonably estimable, no interest is accreted and the loan is reported as a nonperforming loan; otherwise, if the timing and amounts of expected cash flows for purchased credit-impaired loans are reasonably estimable, then interest is accreted and the loans are reported as performing loans.

The composition of JPMorgan Chase Bank, N.A.'s aggregate loan portfolio at each of the dates indicated was as follows.

December 31, (in millions)	**2008**	2007
U.S. wholesale loans:		
Commercial and industrial	**$ 66,592**	$ 53,924
Real estate	**63,944**	16,628
Financial institutions	**19,902**	14,593
Government agencies	**4,725**	4,881
Other	**20,883**	25,653
Loans held-for-sale and at fair value	**3,225**	13,840
Total U.S. wholesale loans	**179,271**	129,519
Non-U.S. wholesale loans:		
Commercial and industrial	**27,168**	27,026
Real estate	**2,673**	3,559
Financial institutions	**16,413**	16,691
Government agencies	**403**	520
Other	**18,516**	21,850
Loans held-for-sale and at fair value	**8,743**	8,889
Total non-U.S. wholesale loans	**73,916**	78,535
Total wholesale loans:[(a)]		
Commercial and industrial	**93,760**	80,950
Real estate[(b)]	**66,617**	20,187
Financial institutions	**36,315**	31,284
Government agencies	**5,128**	5,401
Other	**39,399**	47,503
Loans held-for-sale and at fair value[(c)]	**11,968**	22,729
Total wholesale loans	**253,187**	208,054
Total consumer loans:		
Home equity	**114,335**	94,832
Prime mortgage	**72,168**	39,875
Subprime mortgage	**15,326**	15,467
Option ARMs	**9,018**	—
Auto loans	**42,603**	42,349
Credit card[(d)]	**31,141**	31,824
Other	**33,693**	25,272
Loans held-for-sale[(e)]	**2,028**	3,989
Total consumer loans – excluding purchased credit-impaired	**320,312**	253,608
Consumer loans – purchased credit-impaired	**88,813**	NA
Total consumer loans	**409,125**	253,608
Total loans[(a)(f)]	**$ 662,312**	$ 461,662

(a) Includes purchased credit-impaired loans of $224 million at December 31, 2008, acquired in the Washington Mutual transaction.
(b) Represents credits extended for real estate-related purposes to borrowers who are primarily in the real estate development or investment businesses and for which the repayment is predominantly from the sale, lease, management, operations or refinancing of the property.
(c) Includes loans for commercial & industrial, real estate, financial institutions and other of $9.2 billion, $423 million, $1.4 billion and $995 million at December 31, 2008, respectively, and $18.9 billion, $513 million, $732 million and $2.5 billion at December 31, 2007 respectively.
(d) Includes billed finance charges and fees net of an allowance for uncollectible amounts.
(e) Includes loans for prime mortgage and other (largely student loans) of $206 million and $1.8 billion at December 31, 2008, respectively, and $570 million and $3.4 billion at December 31, 2007, respectively.
(f) Loans (other than purchased loans and those for which the SFAS 159 fair value option has been elected) are presented net of deferred loan costs (which includes unearned income) of $152 million and $199 million at December 31, 2008 and 2007, respectively.

The following table reflects information about JPMorgan Chase Bank, N.A.'s loan sales.

Year ended December 31, (in millions)	**2008**	2007	2006
Net gains/(losses) on sales of loans (including lower of cost or fair value adjustments)[(a)]	**$ (2,664)**	$ (81)	$ 631

(a) Excludes sales related to loans accounted for at fair value.

Purchased credit-impaired loans

In connection with the Washington Mutual transaction, JPMorgan Chase Bank, N.A. acquired certain loans that it deemed to be credit-impaired under SOP 03-3. Wholesale loans with a carrying amount of $224 million at December 31, 2008, were determined to be credit-impaired at the date of acquisition in accordance with SFAS 114. These wholesale loans are being accounted for individually (not on a pooled basis) and are reported as nonperforming loans since cash flows for each individual loan are not reasonably estimable. Such loans are excluded from the remainder of the following discussion, which relates solely to purchased credit-impaired consumer loans.

Purchased credit-impaired consumer loans were determined to be credit-impaired based upon specific risk characteristics of the loan, including product type, loan-to-value ratios, FICO scores, and past due status. SOP 03-3 allows purchasers to aggregate credit-impaired loans acquired in the same fiscal quarter into one or more pools, provided that the loans have common risk characteristics. A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. With respect to the Washington Mutual transaction, all of the consumer loans were aggregated into pools of loans with common risk characteristics.

The table below sets forth information about these purchased credit-impaired consumer loans at the acquisition date.

(in millions)	September 25, 2008[(a)(b)]
Contractually required payments receivable (including interest)	$ 168,460
Less: Nonaccretable difference	(45,690)
Cash flows expected to be collected[(c)]	122,770
Less: Accretable yield[(d)]	(32,662)
Fair value of loans acquired	$ 90,108

(a) Date of the Washington Mutual transaction.
(b) The amounts in the table above were revised in the fourth quarter of 2008 due to JPMorgan Chase Bank, N.A.'s refinement of both estimates and its application of certain provisions of SOP 03-3.
(c) Represents undiscounted principal and interest cash flows expected at acquisition.
(d) This amount is recognized into interest income over the estimated life of the underlying loans.

JPMorgan Chase Bank, N.A. determined the fair value of the purchased credit-impaired consumer loans by discounting the cash flows expected to be collected at a market observable discount rate, when applicable, adjusted for factors that a market participant would consider in determining fair value. In determining the cash flows expected to be collected, management incorporated assumptions regarding default rates, loss severities and the amounts and timing of prepayments. Contractually required payments were determined following the same process used to estimate cash flows expected to be collected, but without incorporating assumptions related to default rates and loss severities.

Purchased credit-impaired loans acquired in the Washington Mutual transaction are reported in loans on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets. Following the initial acquisition date of these loans, the allowance for loan losses, if any is required, would be reported as a reduction of the carrying amount of the loans. No allowance has been recorded for these loans as of December 31, 2008. The outstanding balance and the carrying value of the purchased credit-impaired consumer loans were as follows.

December 31, (in millions)	2008
Outstanding balance[a]	$ 118,180
Carrying amount	88,813

(a) Represents the sum of principal and earned interest at the reporting date.

Interest income is being accreted on the purchased credit-impaired consumer loans based on JPMorgan Chase Bank, N.A.'s belief that both the timing and amount of cash flows expected to be collected is reasonably estimable. For variable rate loans, expected future cash flows are based on the current contractual rate of the underlying loans.

The table below sets forth the accretable yield activity for these loans for the year ended December 31, 2008.

Accretable Yield Activity
(in millions)

Balance, September 30, 2008	$ 32,662
Accretion into interest income	(1,292)
Changes in interest rates on variable rate loans	(4,877)
Balance, December 31, 2008	**$ 26,493**

Impaired loans

A loan is considered impaired when, based upon current information and events, it is probable that JPMorgan Chase Bank, N.A. will be unable to collect all amounts due (including principal and interest) according to the contractual terms of the loan agreement. Impaired loans include certain nonaccrual wholesale loans and loans for which a charge-off has been recorded based upon the fair value of the underlying collateral. Impaired loans also include loans that have been modified in troubled debt restructurings as a concession to borrowers experiencing financial difficulties. Troubled debt restructurings typically result from JPMorgan Chase Bank, N.A.'s loss mitigation activities and could include rate reductions, principal forgiveness, forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of collateral. When JPMorgan Chase Bank, N.A. modifies home equity lines of credit in troubled debt restructurings, future lending commitments related to the modified loans are canceled as part of the terms of the modification. Accordingly, JPMorgan Chase Bank, N.A. does not have future commitments to lend additional funds related to these modified loans. Purchased credit-impaired loans are not required to be reported as impaired loans as long as it is probable that JPMorgan Chase Bank, N.A. expects to collect all cash flows expected at acquisition, plus additional cash flows expected to be collected arising from changes in estimates after acquisition. Accordingly, none of the credit-impaired loans acquired in the Washington Mutual transaction are reported in the following tables.

Interest income on impaired loans is recognized based on JPMorgan Chase Bank, N.A.'s policy for recognizing interest on accrual and nonaccrual loans. Certain loans that have been modified through troubled debt restructurings accrue interest under this policy.

The tables below set forth information about JPMorgan Chase's impaired loans, excluding credit card loans which are discussed below. JPMorgan Chase Bank, N.A. primarily uses the discounted cash flow method for valuing impaired loans.

December 31, (in millions)	**2008**	2007
Impaired loans with an allowance:		
Wholesale	**$ 1,999**	$ 429
Consumer[a]	**2,252**	322
Total impaired loans with an allowance[b]	**4,251**	751
Impaired loans without an allowance:[c]		
Wholesale	**62**	28
Consumer[a]	**—**	—
Total impaired loans without an allowance	**62**	28
Total impaired loans[b]	**$ 4,313**	$ 779
Allowance for impaired loans under SFAS 114:		
Wholesale	**$ 712**	$ 108
Consumer[a]	**379**	116
Total allowance for impaired loans under SFAS 114[d]	**$ 1,091**	$ 224

Year ended December 31, (in millions)	**2008**	2007	2006
Average balance of impaired loans during the period:			
Wholesale	**$ 887**	$ 316	$ 696
Consumer[a]	**1,211**	317	300
Total impaired loans[b]	**$ 2,098**	$ 633	$ 996
Interest income recognized on impaired loans during the period:			
Wholesale	**$ —**	$ —	$ 2
Consumer[a]	**57**	—	—
Total interest income recognized on impaired loans during the period	**$ 57**	$ —	$ 2

(a) Excludes credit card loans.
(b) In 2008, methodologies for calculating impaired loans have changed. Prior periods have been revised to conform to current presentation.
(c) When the discounted cash flows, collateral value or market price equals or exceeds the carrying value of the loan, then the loan does not require an allowance under SFAS 114.
(d) The allowance for impaired loans under SFAS 114 is included in JPMorgan Chase Bank, N.A.'s allowance for loan losses. The allowance for certain consumer impaired loans has been categorized in the allowance for loan losses as formula-based.

During 2008, loss mitigation efforts related to delinquent mortgage and home equity loans increased substantially, resulting in a significant increase in consumer troubled debt restructurings. In the fourth quarter of 2008, JPMorgan Chase Bank, N.A. announced plans to further expand loss mitigation efforts related to these portfolios, including plans to open regional counseling centers, hire additional loan counselors, introduce new financing alternatives, proactively reach out to borrowers to offer pre-qualified modifications, and commence a new process to independently review each loan before moving it into the foreclosure process. These loss mitigation efforts, which generally represent various forms of term extensions, rate

reductions and forbearances, are expected to result in additional increases in the balance of modified loans carried on JPMorgan Chase Bank, N.A.'s balance sheet, including loans accounted for as troubled debt restructurings, while minimizing the economic loss to JPMorgan Chase Bank, N.A. and providing alternatives to foreclosure.

JPMorgan Chase Bank, N.A. may modify the terms of its credit card loan agreements with borrowers who have experienced financial difficulty. Such modifications may include canceling the customer's available line of credit on the credit card, reducing the interest rate on the card, and placing the customer on a fixed payment plan not exceeding 60 months. If the cardholder does not comply with the modified terms, then the credit card loan agreement will revert back to its original terms, with the amount of any loan outstanding reflected in the appropriate delinquency "bucket" and the loan amounts then charged-off in accordance with JPMorgan Chase Bank, N.A.'s standard charge-off policy. Under these procedures, $842 million and $563 million of on-balance sheet credit card loan outstandings have been modified at December 31, 2008 and 2007, respectively. In accordance with JPMorgan Chase Bank, N.A.'s methodology for determining its consumer allowance for loan losses, JPMorgan Chase Bank, N.A. had already provisioned for these credit card loans; the modifications to these credit card loans had no incremental impact on JPMorgan Chase Bank, N.A.'s allowance for loan losses.

Note 16 – Allowance for credit losses

During 2008, in connection with the Washington Mutual transaction, JPMorgan Chase Bank, N.A. recorded adjustments to its provision for credit losses in the aggregate amount of $1.5 billion to conform the Washington Mutual loan loss reserve methodologies to the appropriate JPMorgan Chase Bank, N.A. methodology, based upon the nature and characteristics of the underlying loans. This amount included an adjustment of $646 million to the wholesale provision for credit losses and an adjustment of $888 million to the consumer provision for credit losses. JPMorgan Chase Bank, N.A.'s methodologies for determining its allowance for credit losses, which have been applied to the Washington Mutual loans, are described more fully below.

JPMorgan Chase Bank, N.A.'s allowance for loan losses covers the wholesale (risk-rated) and consumer (scored) loan portfolios and represents management's estimate of probable credit losses inherent in JPMorgan Chase Bank, N.A.'s loan portfolio. Management also computes an allowance for wholesale lending-related commitments using a methodology similar to that used for the wholesale loans.

The allowance for loan losses includes an asset-specific component and a formula-based component. The asset-specific component relates to provisions for losses on loans considered impaired and measured pursuant to SFAS 114. An allowance is established when the discounted cash flows (or collateral value or observable market price) of the loan is lower than the carrying value of that loan. To compute the asset-specific component of the allowance, larger impaired loans are evaluated individually, and smaller impaired loans are evaluated as a pool using historical loss experience for the respective class of assets. An allowance for loan losses will also be recorded for purchased credit-impaired loans accounted for in accordance with SOP 03-3 if there are probable decreases in expected future cash flows other than decreases related to repricing of variable rate loans. Any required allowance would be measured based on the present value of expected cash flows discounted at the loan's (or pool's) effective interest rate. For additional information on purchased credit-impaired loans, see Note 15 on pages 42–46 of these Consolidated Financial Statements.

The formula-based component covers performing wholesale and consumer loans. For risk-rated loans (generally loans originated by the wholesale business), it is based on a statistical calculation, which is adjusted to take into consideration model imprecision, external factors and current economic events that have occurred but are not yet reflected in the factors used to derive the statistical calculation. The statistical calculation is the product of probability of default ("PD") and loss given default ("LGD"). These factors are differentiated by risk rating and expected maturity. PD estimates are based on observable external data, primarily credit-rating agency default statistics. LGD estimates are based on a study of actual credit losses over more than one credit cycle. For scored loans (generally loans originated by the consumer lines of business), loss is primarily determined by applying statistical loss factors, including loss frequency and severity factors, to pools of loans by asset type. In developing loss frequency and severity assumptions, known and anticipated changes in the economic environment, including changes in housing prices, unemployment rates and other risk indicators, are considered. Multiple forecasting methods are used to estimate statistical losses, including credit loss forecasting models and vintage-based loss forecasting.

Management applies its judgment within specified ranges to adjust the statistical calculation. Where adjustments are made to the statistical calculation for the risk-rated portfolios, the determination of the appropriate point within the range are based upon management's quantitative and qualitative assessment of the quality of underwriting standards; relevant internal factors affecting the credit quality of the current portfolio; and external factors such as current macroeconomic and political conditions that have occurred but are not yet reflected in the loss factors. Factors related to concentrated and deteriorating industries are also incorporated into the calculation, where relevant. Adjustments to the statistical calculation for the scored loan portfolios are accomplished in part by analyzing the historical loss experience for each major product segment. The specific ranges and the determination of the appropriate point within the range are based upon management's view of uncertainties that relate to current macroeconomic and political conditions, the quality of underwriting standards, and other relevant internal and external factors affecting the credit quality of the portfolio.

The allowance for lending-related commitments represents management's estimate of probable credit losses inherent in JPMorgan Chase Bank, N.A.'s process of extending credit. Management establishes an asset-specific allowance for lending-related commitments that are considered impaired and computes a formula-based allowance for performing wholesale lending-related commitments.

These are computed using a methodology similar to that used for the wholesale loan portfolio, modified for expected maturities and probabilities of drawdown.

Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowances for loan losses and lending-related commitments in future periods.

At least quarterly, the allowance for credit losses is reviewed by the Chief Risk Officer, the Chief Financial Officer and the Controller of JPMorgan Chase and discussed with the Risk Policy and Audit Committees of the Board of Directors of JPMorgan Chase. As of December 31, 2008, JPMorgan Chase Bank, N.A. deemed the allowance for credit losses to be appropriate (i.e., sufficient to absorb losses that are inherent in the portfolio, including those not yet identifiable).

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

Year ended December 31, (in millions)	**2008**	2007	2006
Allowance for loan losses at January 1	**$ 7,015**	$ 5,170	$ 4,857
Cumulative effect of change in accounting principles[(a)]	**—**	(56)	—
Allowance for loan losses at January 1, adjusted	**7,015**	5,114	4,857
Gross charge-offs	**7,425**	2,956	2,025
Gross (recoveries)	**(539)**	(487)	(565)
Net charge-offs	**6,886**	2,469	1,460
Provision for loan losses			
Provision excluding accounting conformity	**14,922**	4,346	1,690
Provision for loan losses – accounting conformity[(b)]	**1,577**	—	—
Total provision for loan losses	**16,499**	4,346	1,690
Addition resulting from Washington Mutual transaction	**2,535**	—	—
Other[(c)]	**(2,010)**	24	83
Allowance for loan losses at December 31	**$ 17,153**	$ 7,015	$ 5,170
Components:			
Asset-specific	**$ 786**	$ 188	$ 118
Formula-based	**16,367**	6,827	5,052
Total Allowance for loan losses	**$ 17,153**	$ 7,015	$ 5,170

(a) Reflects the effect of the adoption of SFAS 159 at January 1, 2007. For a further discussion of SFAS 159, see Note 6 on pages 25–27 of these Consolidated Financial Statements.
(b) Relates to the Washington Mutual transaction in 2008.
(c) The 2008 amount primarily represents the sale by JPMorgan Chase Bank, N.A. of credit card-related assets, acquired in the Washington Mutual transaction, to Chase Bank USA, N.A. of $(1,996) million (see Note 3 on pages 10–12 of these Consolidated Financial Statements) and foreign exchange translation of $(16) million. The 2007 amount represents the transfer of auto-related assets from JPMorgan Chase to JPMorgan Chase Bank, N.A. of $19 million and foreign exchange translation of $11 million, partly offset by a transfer of loans to trading assets of $6 million. The 2006 amount represents The Bank of New York transaction.

The table below summarizes the changes in the allowance for lending-related commitments.

Year ended December 31, (in millions)	**2008**	2007	2006
Allowance for lending-related commitments at January 1	**$ 849**	$ 523	$ 397
Provision for lending-related commitments			
Provision excluding accounting conformity	**(218)**	326	119
Provision for lending-related commitments – accounting conformity[(a)]	**(43)**	—	—
Total provision for lending-related commitments	**(261)**	326	119
Addition resulting from Washington Mutual	**66**	—	—
Other[(b)]	**2**	—	7
Allowance for lending-related commitments at December 31	**$ 656**	$ 849	$ 523
Components:			
Asset-specific	**$ 29**	$ 28	$ 33
Formula-based	**627**	821	490
Total allowance for lending-related commitments	**$ 656**	$ 849	$ 523

(a) Related to the Washington Mutual transaction.
(b) The 2006 amount represents The Bank of New York transaction.

Note 17 – Loan securitizations

JPMorgan Chase Bank, N.A. securitizes and sells a variety of loans, including residential mortgage, credit card, automobile, student, and commercial loans (primarily related to real estate). JPMorgan Chase Bank, N.A.-sponsored securitizations utilize SPEs as part of the securitization process. These SPEs are structured to meet the definition of a QSPE (as discussed in Note 1 on page ## of these Consolidated Financial Statements); accordingly, the assets and liabilities of securitization-related QSPEs are not reflected on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets (except for retained interests, as described below). The primary purpose of these securitization vehicles is to meet investor needs and to generate liquidity for JPMorgan Chase Bank, N.A. through the sale of loans to the QSPEs. These QSPEs are financed through the issuance of fixed- or floating-rate asset-backed securities.

JPMorgan Chase Bank, N.A. records a loan securitization as a sale when the accounting criteria for a sale are met. Those criteria are: (1) the transferred assets are legally isolated from JPMorgan Chase Bank, N.A.'s creditors; (2) the entity can pledge or exchange the financial assets, or if the entity is a QSPE, its investors can pledge or exchange their interests; and (3) JPMorgan Chase Bank, N.A. does not maintain effective control to repurchase the transferred assets before their maturity or have the ability to unilaterally cause the holder to return the transferred assets.

For loan securitizations that meet the accounting sales criteria, the gains or losses recorded depend, in part, on the carrying amount of the loans sold except for servicing assets which are initially recorded at fair value. At the time of sale, any retained servicing asset is initially recognized at fair value. The remaining carrying amount of the loans sold is allocated between the loans sold and the other interests retained, based upon their relative fair values on the date of sale. Gains on securitizations are reported in noninterest revenue.

When quoted market prices are not available, JPMorgan Chase Bank, N.A. estimates the fair value for these retained interests by calculating the present value of future expected cash flows using modeling techniques. Such models incorporate management's best estimates of key variables, such as expected credit losses, prepayment speeds and the discount rates appropriate for the risks involved. See Note 5 on pages 16–17 of these Consolidated Financial Statements for further information on the valuation of retained interests.

JPMorgan Chase Bank, N.A. may retain interests in the securitized loans in the form of undivided seller's interest, senior or subordinated interest-only strips, debt and equity tranches, escrow accounts and servicing rights. The classification of retained interests is dependent upon several factors, including the type of interest, whether or not the retained interest is represented by a security certificate and when it was retained. Interests retained by the investment banking business are classified as trading assets. See the credit card securitizations and mortgage securitizations sections of this note for further information on the classification of their related retained interests. Retained interests classified as AFS that are rated below "AA" by an external rating agency are subject to the impairment provisions of EITF 99-20, as discussed in Note 13 on page 38 of these Consolidated Financial Statements.

The following table presents the total unpaid principal amount of assets held in JPMorgan Chase Bank, N.A.-sponsored securitization entities, for which sale accounting was achieved and to which JPMorgan Chase Bank, N.A. has continuing involvement, at December 31, 2008 and 2007. Continuing involvement includes servicing the loans, holding senior or subordinated interests, recourse or guarantee arrangements and derivative transactions. In certain instances, JPMorgan Chase Bank, N.A.'s only continuing involvement is servicing the loans. Certain of JPMorgan Chase Bank, N.A.'s retained interests (trading assets, AFS securities and other assets) are reflected at their fair value.

December 31, 2008 (in billions)	Principal amount outstanding: Total assets held by JPMorgan Chase Bank, N.A.-sponsored QSPEs	Principal amount outstanding: Assets held in QSPEs with continuing involvement	JPMorgan Chase Bank, N.A. interest in securitized assets[f][g][h]: Trading assets	AFS securities	Loans	Other assets	Total interests held by JPMorgan Chase Bank, N.A.
Securitized related:							
Credit card	**$ 41.2**	**$ 41.2**[e]	**$ 0.1**	**$ 3.6**	**$ 8.4**	**$ 1.4**	**$ 13.5**
Residential mortgage:							
Prime[a]	**122.6**	**122.4**	**0.4**	**0.7**	**—**	**—**	**1.1**
Subprime	**43.7**	**42.1**	**—**	**—**	**—**	**—**	**—**
Option ARMs	**48.3**	**48.3**	**0.1**	**0.3**	**—**	**—**	**0.4**
Commercial and other[b]	**113.5**	**39.8**	**0.1**	**0.5**	**—**	**—**	**0.6**
Student loans	**1.1**	**1.1**	**—**	**—**	**—**	**0.1**	**0.1**
Auto	**0.7**	**0.7**	**—**	**—**	**—**	**—**	**—**
Total[c][d]	**$ 371.1**	**$ 295.6**	**$ 0.7**	**$ 5.1**	**$ 8.4**	**$ 1.5**	**$ 15.7**

December 31, 2007 (in billions)	Principal amount outstanding: Total assets held by JPMorgan Chase Bank, N.A.-sponsored QSPEs	Principal amount outstanding: Assets held in QSPEs with continuing involvement	JPMorgan Chase Bank, N.A. interest in securitized assets[f][h]: Trading assets	AFS securities	Loans	Other assets	Total interests held by JPMorgan Chase Bank, N.A.
Securitized related:							
Credit card	$ 37.6	$ 37.6[e]	$ —	$ —	$ 7.7	$ 1.9	$ 9.6
Residential mortgage:							
Prime[a]	78.3	77.5	0.1	—	—	—	0.1
Subprime	23.7	22.7	—	—	—	—	—
Option ARMs	—	—	—	—	—	—	—
Commercial and other[b]	108.8	2.7	—	—	—	—	—
Student loans	1.1	1.1	—	—	—	0.1	0.1
Auto	1.8	1.8	—	—	—	0.1	0.1
Total[c]	$ 251.3	$ 143.4	$ 0.1	$ —	$ 7.7	$ 2.1	$ 9.9

(a) Includes Alt-A loans.
(b) Includes co-sponsored commercial securitizations and, therefore, includes non-JPMorgan Chase Bank, N.A. originated commercial mortgage loans. Commercial and other consists of securities backed by commercial loans (predominantly real estate) and non-mortgage related consumer receivables purchased from third parties. JPMorgan Chase Bank, N.A. generally does not retain a residual interest in the JPMorgan Chase Bank, N.A.'s sponsored commercial mortgage securitization transactions.
(c) Includes securitized loans where JPMorgan Chase Bank, N.A. owns less than a majority of the subordinated or residual interests in the securitizations.
(d) Includes securitization-related QSPEs sponsored by heritage Bear Stearns and heritage Washington Mutual at December 31, 2008.
(e) Includes credit card loans, accrued interest and fees, and cash amounts on deposit.
(f) Excludes retained servicing (for a discussion of MSRs, see Note 19 on pages 66–69 of these Consolidated Financial Statements).
(g) Includes investments acquired in the secondary market, but predominantly held-for-investment purposes of $1.8 billion as of December 31, 2008. This is comprised of $1.4 billion of investments classified as available-for-sale, including $172 million in credit cards, $693 million of residential mortgages and $495 million of commercial and other; and $452 million of investments classified as trading, including $112 million of credit cards, $303 million of residential mortgages, and $37 million of commercial and other.
(h) Excludes interest rate and foreign exchange derivatives that are primarily used to manage the interest rate and foreign exchange risks of the securitization entities. See Note 7 and Note 30 on pages 27–28 and 80–83, respectively, of these Consolidated Financial Statements for further information on derivatives.

Securitization activity by major product type

The following discussion describes the nature of JPMorgan Chase Bank, N.A.'s securitization activities by major product type.

Credit Card Securitizations

The credit card business securitizes originated and purchased credit card loans. JPMorgan Chase Bank, N.A.'s primary continuing involvement includes servicing the receivables, retaining an undivided seller's interest in the receivables, retaining certain senior securities and the maintenance of escrow accounts. JPMorgan Chase Bank, N.A. also retains a participation interest in the undivided seller's interest in receivables and certain senior securities resulting from securitizations sponsored by an affiliate ("participating securitizations"). JPMorgan Chase Bank, N.A maintains servicing responsibilities for all credit card securitizations that it sponsors and also receives servicing fees from participating securitizations. As servicer and transferor, JPMorgan Chase Bank, N.A. receives contractual servicing fees based upon the securitized loan balance plus excess servicing fees, which are recorded in credit card income as discussed in Note 8 on pages 28–29 of these Consolidated Financial Statements.

The agreements with the credit card securitization trust require JPMorgan Chase Bank, N.A. to maintain a minimum undivided interest in the trust it sponsors of 12%. The undivided interests in the receivables transferred to the trust have not been securitized and are not represented by security certificates; these undivided interests are carried at historical cost and classified within loans. At December 31, 2008 and 2007, JPMorgan Chase Bank, N.A. had $8.4 billion and $7.7 billion, respectively, related to undivided interests in securitization trusts (including participating securitizations).

Additionally, JPMorgan Chase Bank, N.A. retained subordinated interest in accrued interest and fees on the securitized receivables totaling $1.2 billion and $1.1 billion (net of an allowance for uncollectible amounts) as of December 31, 2008 and 2007, respectively, which are classified in other assets.

JPMorgan Chase Bank N.A. retained senior securities totaling $3.5 billion at December 31, 2008, which were classified as AFS securities at December 31, 2008, were also used as collateral for a secured financing transaction.

JPMorgan Chase Bank, N.A. also maintains escrow accounts up to predetermined limits for some credit card securitizations to cover deficiencies in cash flows owed to investors. The amounts available in such escrow accounts related to credit cards are recorded in other assets and amounted to $17 million and $46 million as of December 31, 2008 and 2007, respectively.

Mortgage Securitizations
JPMorgan Chase Bank, N.A. securitizes originated and purchased residential mortgages and originated commercial mortgages.

The retail business securitizes residential mortgage loans that it originates and purchases and it typically retains servicing for all of its originated and purchased residential mortgage loans. Additionally, the retail business may retain servicing for certain mortgage loans purchased by the investment banking business. As servicer, JPMorgan Chase Bank, N.A. receives servicing fees based upon the securitized loan balance plus ancillary fees. JPMorgan Chase Bank, N.A. also retains the right to service the residential mortgage loans it sells to the Government National Mortgage Association ("GNMA"), Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac") in accordance with their servicing guidelines and standards. For a discussion of MSRs, see Note 19 on pages 66–69 of these Consolidated Financial Statements. In a limited number of securitizations, the retail business may retain an interest in addition to servicing rights. The amount of interest retained related to these securitizations totaled $588 million and $67 million at December 31, 2008 and 2007, respectively. These retained interests are accounted for as trading or AFS securities; the classification depends on whether the retained interest is represented by a security certificate, has an embedded derivative, and when it was retained (i.e., prior to the adoption of SFAS 155).

The investment banking business securitizes residential mortgage loans (including those that it purchased and certain mortgage loans originated by the retail business) and commercial mortgage loans that it originated. Upon securitization, the investment banking business may engage in underwriting and trading activities of the securities issued by the securitization trust. The investment banking business may retain unsold senior and/or subordinated interests (including residual interests) in both residential and commercial mortgage securitizations at the time of securitization. These retained interests are accounted for at fair value and classified as trading assets. The investment banking business retained $4 million of senior and subordinated interests as of December 31, 2008; these securities were retained at securitization in connection with JPMorgan Chase Bank, N.A.'s underwriting activity.

In addition to the amounts reported in the securitization activity tables below, JPMorgan Chase Bank, N.A. sold residential mortgage loans totaling $122.0 billion, $81.8 billion and $53.7 billion during the years ended December 31, 2008, 2007 and 2006, respectively. The majority of these loan sales were for securitization by the GNMA, Fannie Mae and Freddie Mac. These sales resulted in pretax gains of $32 million, $47 million and $251 million, respectively.

JPMorgan Chase Bank, N.A.'s mortgage loan sales are primarily nonrecourse, thereby effectively transferring the risk of future credit losses to the purchaser of the loans. However, for a limited number of loan sales, JPMorgan Chase Bank, N.A. is obligated to share up to 100% of the credit risk associated with the sold loans with the purchaser. See Note 31 on pages 83–87 of these Consolidated Financial Statements for additional information on loans sold with recourse.

Other Securitizations
JPMorgan Chase Bank, N.A. also securitizes automobile and student loans originated by the retail business and purchased consumer loans (including automobile and student loans). JPMorgan Chase Bank, N.A. retains servicing responsibilities for all originated and certain purchased student and automobile loans. It may also hold a retained interest in these securitizations; such residual interests are classified as other assets. At December 31, 2008 and 2007, JPMorgan Chase Bank, N.A. held $30 million and $66 million, respectively, of retained interests in securitized automobile loans and $52 million and $55 million, respectively, of retained interests in securitized student loans.

JPMorgan Chase Bank, N.A. also maintains escrow accounts up to predetermined limits for some automobile and student loan securitizations to cover deficiencies in cash flows owed to investors. These escrow accounts are classified within other assets and carried at fair value. The amounts available in such escrow accounts as of December 31, 2008, were $2 million for automobile and $3 million for student loan securitizations; as of December 31, 2007, these amounts were $14 million and $3 million for automobile and student loan securitizations, respectively.

Securitization activity

The following tables provide information related to JPMorgan Chase Bank, N.A.'s securitization activities for the years ended December 31, 2008, 2007 and 2006. For the periods presented there were no cash flows from JPMorgan Chase Bank, N.A. to the QSPEs related to recourse or guarantee arrangements.

Year ended December 31, 2008		Residential mortgage[f]					
(in millions, except for ratios and where otherwise noted)	Credit card	Prime[g]	Subprime	Option ARMs	Commercial and other	Student loans	Auto
Principal securitized	**$ 10,716**	**$ —**	**$ —**	**$ —**	**$ 1,023**	**$ —**	**$ —**
Pretax gains	**60**	**—**	**—**	**—**	**—**	**—**	**—**
All cash flows during the period:							
Proceeds from new securitizations	**$ 10,716**[e]	**$ —**	**$ —**	**$ —**	**$ 989**	**$ —**	**$ —**
Servicing fees collected	**459**	**192**	**107**	**129**	**11**	**4**	**12**
Other cash flows received[a]	**2,056**	**—**	**—**	**—**	**—**	**—**	**—**
Proceeds from collections reinvested in revolving securitizations	**62,998**	**—**	**—**	**—**	**—**	**—**	**—**
Purchases of previously transferred financial assets (or the underlying collateral)[b]	**—**	**217**	**13**	**6**	**—**	**—**	**234**
Cash flows received on the interests that continue to be held by JPMorgan Chase Bank, N.A.[c]	**45**	**165**	**8**	**53**	**368**	**—**	**31**
Key assumptions used to measure retained interests originated during the year (rates per annum):							
Prepayment rate[d]	**17.9-20.0% PPR**				**1.5% CPR**		
Weighted-average life (in years)	**0.4**				**2.1**		
Expected credit losses	**4.2-4.8%**				**1.5%**		
Discount rate	**12.0-13.0%**				**25.0%**		

Year ended December 31, 2007		Residential mortgage					
(in millions, except for ratios and where otherwise noted)	Credit card	Prime[g]	Subprime	Option ARMs	Commercial and other	Student loans	Auto
Principal securitized	$ 8,464	$ 32,084	$ 6,763	$ —	$ 12,797	$ 1,168	$ —
Pretax gains	71	28[h]	43	—	—	51	—
All cash flows during the period:							
Proceeds from new securitizations	$ 8,464	$ 31,918	$ 6,844	$ —	$ 13,038	$ 1,168	$ —
Servicing fees collected	402	124	246	—	7	2	27
Other cash flows received[a]	2,006	—	—	—	—	—	—
Proceeds from collections reinvested in revolving securitizations	59,970	—	—	—	—	—	—
Purchases of previously transferred financial assets (or the underlying collateral)[b]	—	58	598	—	—	—	373
Cash flows received on the interests that continue to be held by JPMorgan Chase Bank, N.A.[c]	1	138	240	—	256	—	65
Key assumptions used to measure retained interests originated during the year (rates per annum):							
Prepayment rate[d]	20.4% PPR	14.8-24.2% CPR			1.5-8.0% CPR	1.0-8.0% CPR	
Weighted-average life (in years)	0.4	3.2-4.0			1.3-10.2	9.3	
Expected credit losses	3.5-3.9%	—%[i]			0.9%	—%[i]	
Discount rate	12.0%	5.8-13.8%			12.0-14.0%	9.0%	

Year ended December 31, 2006		Residential mortgage					
(in millions, except for ratios and where otherwise noted)	Credit card	Prime[g]	Subprime	Option ARMs	Commercial and other	Student loans	Auto
Principal securitized	$ 3,894	$ 30,254	$ 17,359	$ —	$ 13,858	$ —	$ 2,027
Pretax gains	27	53	193	—	129	—	2
All cash flows during the period:							
Proceeds from new securitizations	$ 3,894	$ 30,202	$ 17,635	$ —	$ 14,343	$ —	$ 1,487
Servicing fees collected	389	76	29	—	1	—	37
Other cash flows received[a]	2,152	—	—	—	—	—	—
Proceeds from collections reinvested in revolving securitizations	61,076	—	—	—	—	—	—
Purchases of previously transferred financial assets (or the underlying collateral)[b]	—	31	31	—	—	—	123
Cash flows received on the interests that continue to be held by JPMorgan Chase Bank, N.A.[c]	24	48	144	—	73	—	67
Key assumptions used to measure retained interests originated during the year (rates per annum):							
Prepayment rate[d]	20.0-22.2% PPR	18.2-24.6% CPR			0.0-36.2% CPR		1.4-1.5% ABS
Weighted-average life (in years)	0.4	3.0-3.6			1.5-6.1		1.4-1.9
Expected credit losses	3.3-4.2%	—%[i]			0.0-0.9%		0.3-0.7%
Discount rate	12.0%	8.4-12.7%			3.8-14.0%		7.6-7.8%

(a) Other cash flows received include excess servicing fees and other ancillary fees received.
(b) Includes cash paid by JPMorgan Chase Bank, N.A. to reacquire assets from the QSPEs, for example, servicer clean-up calls.
(c) Includes cash flows received on retained interests including, for example, principal repayments, and interest payments.
(d) PPR: principal payment rate; CPR: constant prepayment rate; ABS: absolute prepayment speed.
(e) Includes $3.6 billion of securities retained by JPMorgan Chase Bank, N.A.
(f) Includes securitizations sponsored by Washington Mutual as of their respective acquisition dates.
(g) Includes Alt-A loans.
(h) As of January 1, 2007, JPMorgan Chase Bank, N.A. adopted the fair value election for the investment banking business warehouse and the retail business prime mortgage warehouse. The carrying value of these loans accounted for at fair value approximates the proceeds received from securitization.
(i) Expected credit losses for consumer prime residential mortgage, and student and certain other securitizations are minimal and are incorporated into other assumptions.

Retained securitization interests

The following table summarizes JPMorgan Chase Bank, N.A.'s retained securitization interests, which are carried at fair value on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets at December 31, 2008. As of December 31, 2008, 72% of the JPMorgan Chase Bank, N.A.'s retained securitization interests, which are carried at fair value, were risk rated "A" or better.

	Ratings profile of retained interests[c][d]		
	2008		
December 31, (in billions)	Investment grade	Noninvestment grade	Retained interest
Asset types:			
Credit card[a]	**$ 3.5**	**$ 1.3**	**$ 4.8**
Residential mortgage:			
Prime[b]	**0.1**	**0.1**	**0.2**
Subprime	—	—	—
Option ARMs	**0.4**	—	**0.4**
Commercial and other	—	—	—
Student loans	—	**0.1**	**0.1**
Auto	—	—	—
Total	**$ 4.0**	**$ 1.5**	**$ 5.5**

(a) Includes retained subordinated interests carried at fair value, including the credit card business' accrued interests and fees, escrow accounts, and other residual interests. Excludes undivided seller interest in the trusts of $8.4 billion at December 31, 2008, which is carried at historical cost, and unencumbered cash amounts on deposit of $62 million at December 31, 2008.
(b) Includes Alt-A loans.
(c) The ratings scale is presented on an S&P-equivalent basis.
(d) Excludes $1.8 billion of investments acquired in the secondary market, but predominantly held for investment purposes. Of this amount $1.7 billion is classified as investment grade.

The table below outlines the key economic assumptions used at December 31, 2008 and 2007, to determine the fair value as of December 31, 2008 and 2007, respectively, of JPMorgan Chase Bank, N.A.'s retained interests, other than MSRs, that are valued using modeling techniques; it excludes securities that are valued using quoted market prices. The table below also outlines the sensitivities of those fair values to immediate 10% and 20% adverse changes in assumptions used to determine fair value. For a discussion of residential MSRs, see Note 19 on pages 66–69 of these Consolidated Financial Statements.

December 31, 2008 (in millions, except rates and where otherwise noted)	Credit card	Residential mortgage Prime[c]	Residential mortgage Option ARMs	Commercial and other	Student loans	Auto
Retained interests	**$ 1,348**[b]	**$ 153**	**$ 436**	**$ 30**	**$ 55**	**$ 32**
Weighted-average life (in years)	**0.5**	**6.6**	**7.3**	**5.9**	**8.2**	**0.7**
Prepayment rates[a]	**15.4-16.7%**	**10.0-10.2%**	**5.0-15.0%**	**0.0-100%**	**5.0%**	**1.2-1.4%**
Weighted-average prepayment rate	**16.6 PPR**	**17.9 CPR**	**7.6 CPR**	**3.0 CPR**	**5.0 CPR**	**1.3 ABS**
Impact of 10% adverse change	**$ (18)**	**$ (5)**	**$ (4)**	**$ —**	**$ (1)**	**$ —**
Impact of 20% adverse change	**(36)**	**(11)**	**(11)**	**—**	**(2)**	**(1)**
Loss assumptions	**4.7-7.6%**	**2.3-17.0%**	**0.0-26.3%**	**0.0-3.4%**	**—%**[d]	**0.4-0.7%**
Weighted-average loss assumption	**7.0**	**3.3**	**0.3**	**2.7**	**—**	**0.5**
Impact of 10% adverse change	**$ (101)**	**$ (1)**	**$ —**	**$ —**	**$ —**	**$ —**
Impact of 20% adverse change	**(177)**	**(2)**	**(1)**	**—**	**—**	**(1)**
Discount rates	**18.0%**	**9.1-52.5%**	**3.6-71.7%**	**0.0-43.3%**	**9.0%**	**4.1-4.2%**
Weighted-average discount rate	**18.0**	**30.5**	**17.3**	**31.2**	**9.0**	**4.1**
Impact of 10% adverse change	**$ (4)**	**$ (6)**	**$ (16)**	**$ (1)**	**$ (2)**	**$ —**
Impact of 20% adverse change	**(8)**	**(13)**	**(28)**	**(1)**	**(4)**	**—**

December 31, 2007 (in millions, except rates and where otherwise noted)	Credit card	Residential mortgage Prime[c]	Residential mortgage Option ARMs	Commercial and other	Student loans	Auto
Retained interests	$ 1,348	$ 67	$ —	$ 8	$ 58	$ 80
Weighted-average life (in years)	0.4-0.5	3.7	—	0.9-3.7	8.8	0.9
Prepayment rates[a]	15.6-18.9% PPR	21.1% CPR	—% CPR	0.0-1.5% CPR	1.0-8.0% CPR	1.4% ABS
Impact of 10% adverse change	$ (25)	$ (8)	$ —	$ —	$ (1)	$ (1)
Impact of 20% adverse change	(50)	(13)	—	—	(2)	(1)
Loss assumptions	3.3-4.6%	—%[d]	—%	0.0-0.9%	—%[d]	0.6%
Impact of 10% adverse change	$ (47)	$ —	$ —	$ —	$ —	$ (1)
Impact of 20% adverse change	(94)	—	—	—	—	(2)
Discount rates	12.0%	12.2%	—%	5.2-14.0%	9.0%	6.8%
Impact of 10% adverse change	$ (1)	$ (5)	$ —	$ —	$ (3)	$ —
Impact of 20% adverse change	(2)	(10)	—	—	(5)	(1)

(a) PPR: principal payment rate; ABS: absolute prepayment speed; CPR: constant prepayment rate.
(b) Excludes certain interests that are not valued using modeling techniques.
(c) Includes Alt-A loans.
(d) Expected losses for prime residential mortgage, student loans and certain wholesale securitizations are minimal and are incorporated into other assumptions.

The sensitivity analysis in the preceding table is hypothetical. Changes in fair value based upon a 10% or 20% variation in assumptions generally cannot be extrapolated easily because the relationship of the change in the assumptions to the change in fair value may not be linear. Also, in the table, the effect that a change in a particular assumption may have on the fair value is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might counteract or magnify the sensitivities. The above sensitivities also do not reflect JPMorgan Chase Bank, N.A.'s risk management practices that may be undertaken to mitigate such risks.

The table below includes information about delinquencies, net charge-offs (recoveries) and components of reported and securitized financial assets at December 31, 2008 and 2007.

Year ended December 31, (in millions)	Total Loans		90 days past due and still accruing		Nonaccrual assets[g][h]		Net loan charge-offs	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Home Equity	**$ 114,335**	$ 94,832	**$ —**	$ —	**$ 1,394**	$ 786	**$ 2,391**	$ 563
Prime mortgage[a]	**72,168**	39,875	**—**	—	**1,888**	493	**526**	33
Subprime mortgage	**15,326**	15,467	**—**	—	**2,689**	1,015	**933**	154
Option ARMs	**9,018**	—	**—**	—	**—**	—	**—**	—
Auto loans	**42,603**	42,349	**—**	—	**148**	116	**568**	353
Credit card	**31,141**	31,824	**703**	564	**—**	—	**1,617**	1,094
All other loans	**33,693**	25,272	**463**	421	**430**	341	**459**	242
Loans held-for-sale[b]	**2,028**	3,989	**—**	—	**—**	—	**NA**	NA
Total consumer loans – excluding purchased credit-impaired	**320,312**	253,608	**1,166**	985	**6,549**	2,751	**6,494**	2,439
Consumer loans – purchased credit-impaired[c]	**88,813**	—	**—**	—	**—**	—	**—**	—
Total consumer loans	**409,125**	253,608	**1,166**	985	**6,549**	2,751	**6,494**	2,439
Total wholesale loans	**253,187**	208,054	**162**	73	**2,354**[i]	511[i]	**393**	30
Total loans reported	**662,312**	461,662	**1,328**	1,058	**8,903**	3,262	**6,887**	2,469
Securitized loans:								
Residential mortgage:								
Prime mortgage[a]	**122,419**	77,588	**—**	—	**6,081**	1,215	**344**	7
Subprime mortgage	**42,142**	22,692	**—**	—	**9,230**	3,238	**2,804**	413
Option ARMs	**48,328**	—	**—**	—	**6,440**	—	**270**	—
Automobile	**668**	1,739	**—**	—	**1**	5	**12**	9
Credit card	**32,470**	29,312	**609**	422	**—**	—	**1,335**	958
Student	**1,074**	1,141	**66**	—	**—**	—	**1**	—
Commercial and other	**39,812**	2,662	**28**	—	**156**	—	**8**	11
Total loans securitized[d]	**$ 286,913**	$ 135,134	**$ 703**	$ 422	**$ 21,908**	$ 4,458	**$ 4,774**	$ 1,398
Total loans reported and securitized[e]	**$ 949,225**[f]	$ 596,796[f]	**$ 2,031**	$ 1,480	**$ 30,811**	$ 7,720	**$ 11,661**	$ 3,867

(a) Includes Alt-A loans.
(b) Includes loans for prime mortgage and other (largely student loans) of $206 million and $1.8 billion at December 31, 2008, respectively, and $570 million and $3.4 billion at December 31, 2007, respectively.
(c) Purchased credit-impaired loans represent loans acquired in the Washington Mutual transaction that were considered credit-impaired under SOP 03-3, and include $6.4 billion of loans that were nonperforming immediately prior to the acquisition. Under SOP 03-3, these loans are considered to be performing loans as of the acquisition date; they accrete interest income over the estimated life of the loan when cash flows are reasonably estimable, even if the underlying loans are contractually past due. For additional information, see Note 15 on pages 42–46 of these Consolidated Financial Statements.
(d) Total assets held in securitization-related SPEs were $371.1 billion and $251.3 billion at December 31, 2008 and 2007, respectively. The $286.9 billion and $135.1 billion of loans securitized at December 31, 2008 and 2007, respectively, excludes $75.5 billion and $107.9 billion of securitized loans, respectively, in which JPMorgan Chase Bank, N.A. has no continuing involvement; $8.4 billion and $7.7 billion of seller's interests in credit card master trusts, respectively; and $262 million and $619 million of cash amounts on deposit and escrow accounts.
(e) Represents both loans on the Consolidated Balance Sheets and loans that have been securitized.
(f) Includes securitized loans that were previously recorded at fair value and classified as trading assets.
(g) During the second quarter of 2008, the policy for classifying subprime mortgage and home equity loans as nonperforming was changed to conform to all other home lending products. Amounts for 2007 have been revised to reflect this change.
(h) Excludes nonperforming assets related to (i) loans eligible for repurchase, as well as loans repurchased from GNMA pools that are insured by U.S. government agencies, of $3.3 billion and $1.5 billion at December 31, 2008 and 2007, respectively, and (ii) student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program, of $437 million and $417 million at December 31, 2008 and 2007, respectively. These amounts for GNMA and student loans are excluded, as reimbursement is proceeding normally.
(i) Includes nonperforming loans held-for-sale and loans at fair value of $32 million and $47 million at December 31, 2008 and 2007, respectively.

Subprime adjustable-rate mortgage loan modifications
See the Glossary of Terms on pages 91–93 of these Consolidated Financial Statements for JPMorgan Chase Bank, N.A.'s definition of subprime loans. Within the confines of the limited decision-making abilities of a QSPE under SFAS 140, the operating documents that govern existing subprime securitizations generally authorize the servicer to modify loans for which default is reasonably foreseeable, provided that the modification is in the best interests of the QSPE's beneficial interest holders and would not result in a REMIC violation.

In December 2007, the American Securitization Forum ("ASF") issued the "Streamlined Foreclosure and Loss Avoidance Framework for Securitized Subprime Adjustable Rate Mortgage Loans" (the "Framework"). The Framework provides guidance for servicers to streamline evaluation procedures for borrowers with certain subprime adjustable rate mortgage ("ARM") loans to more efficiently provide modifications of such loans with terms that are more appropriate for the individual needs of such borrowers. The Framework applies to all first-lien subprime ARM loans that have a fixed rate of interest for an initial period of 36 months or less, are included in securitized pools, were originated between January 1, 2005, and July 31, 2007, and have an initial interest rate reset date between January 1, 2008, and July 31, 2010 ("ASF Framework Loans").

The Framework categorizes the population of ASF Framework Loans into three segments: Segment 1 includes loans where the borrower is current and is likely to be able to refinance into any readily available mortgage product; Segment 2 includes loans where the borrower is current, is unlikely to be able to refinance into any readily available mortgage industry product and meets certain defined criteria; and Segment 3 includes loans where the borrower is not current, as defined, and does not meet the criteria for Segments 1 or 2.

ASF Framework Loans in Segment 2 of the Framework are eligible for fast-track modification under which the interest rate will be kept at the existing initial rate, generally for five years following the interest rate reset date. The Framework indicates that for Segment 2 loans, JPMorgan Chase Bank, N.A., as servicer, may presume that the borrower will be unable to make payments pursuant to the original terms of the borrower's loan after the initial interest rate reset date. Thus, JPMorgan Chase Bank, N.A. may presume that a default on that loan by the borrower is reasonably foreseeable unless the terms of the loan are modified. JPMorgan Chase Bank, N.A. has adopted the loss mitigation approaches under the Framework for securitized subprime ARM loans that meet the specific Segment 2 criteria and began modifying Segment 2 loans during the first quarter of 2008. The adoption of the Framework did not affect the off-balance sheet accounting treatment of JPMorgan Chase Bank, N.A.-sponsored QSPEs that hold Segment 2 subprime loans.

The total dollar amount of assets owned by JPMorgan Chase Bank, N.A.-sponsored QSPEs that hold subprime adjustable rate mortgage loans as of December 31, 2008 and 2007, was $18.3 billion and $20.0 billion, respectively. Of these amounts, $8.0 billion and $9.7 billion, respectively, are related to ASF Framework Loans serviced by JPMorgan Chase Bank, N.A. Included within the assets owned by JPMorgan Chase Bank, N.A.-sponsored QSPEs was foreclosure-related real estate owned, for which JPMorgan Chase Bank, N.A. is the servicer, in the amount of $2.8 billion and $637 million at December 31, 2008 and 2007, respectively. The growth in real estate owned in 2008 is attributable to the Washington Mutual transaction and increased foreclosures resulting from current housing market conditions. The following table presents the principal amounts of ASF Framework Loans, serviced by JPMorgan Chase Bank, N.A., that are owned by JPMorgan Chase Bank, N.A.-sponsored QSPEs that fell within Segments 1, 2 and 3 as of December 31, 2008 and 2007, respectively.

December 31,	**2008**		2007	
(in millions, except ratios)	Amount	%	Amount	%
Segment 1	**$ 1,671**	**21%**	$ 1,940	20%
Segment 2	**2,068**	**26**	970	10
Segment 3	**4,237**	**53**	6,790	70
Total	**$ 7,976**	**100%**	$ 9,700	100%

The estimates of segment classification could change substantially in the future as a result of future changes in housing values, economic conditions, borrower/investor behavior and other factors.

The total principal amount of beneficial interests issued by JPMorgan Chase Bank, N.A.-sponsored securitizations that hold ASF Framework Loans as of December 31, 2008 and 2007, was as follows.

December 31, (in millions)	**2008**	2007
Third-party	**$ 32,173**	$ 19,636
Retained interest held by JPMorgan Chase and/or affiliates	**74**	412
Total	**$ 32,247**	$ 20,048

For those ASF Framework Loans serviced by JPMorgan Chase Bank, N.A. and owned by JPMorgan Chase Bank, N.A.-sponsored QSPEs, JPMorgan Chase Bank, N.A. modified principal amounts of $1.5 billion of Segment 2 subprime mortgages during the year ended December 31, 2008. There were no Segment 2 subprime mortgages modified during the year ended December 31, 2007. For Segment 3 loans, JPMorgan Chase Bank, N.A. has adopted a loss mitigation approach, without employing the fast-track modifications prescribed for Segment 2 subprime mortgages, that is intended to maximize the recoveries of the securitization trust. The loss mitigation approach chosen by JPMorgan Chase Bank, N.A. is consistent with the applicable servicing agreements and could include rate reductions, principal forgiveness, forbearance and other actions intended to minimize economic loss and avoid foreclosure. The table below presents selected information relating to the principal amount of Segment 3 loans for the year ended December 31, 2008, including those that have been modified, subjected to other loss mitigation activities or have been prepaid by the borrower.

For the year ended December 31, (in millions)	2008
Loan modifications	$ 1,392
Other loss mitigation activities	454
Prepayments	182

The impact of loss mitigation efforts on the fair value of JPMorgan Chase Bank, N.A.'s retained interests in ASF Framework loans was not material at December 31, 2008.

Note 18 – Variable interest entities

Refer to Note 1 on pages 6–7 of these Consolidated Financial Statements for a further description of JPMorgan Chase Bank, N.A.'s policies regarding consolidation of variable interest entities.

JPMorgan Chase Bank, N.A.'s principal involvement with VIEs occurs in the following business segments:

- Investment banking business: Utilizes VIEs to assist clients in accessing the financial markets in a cost-efficient manner. The investment banking business is involved with VIEs through multi-seller conduits and for investor intermediation purposes, as discussed below. The investment banking business also securitizes loans through QSPEs, to create asset-backed securities, as further discussed in Note 17 on pages 47–56 of these Consolidated Financial Statements.
- Asset management business: Provides investment management services to a limited number of JPMorgan Chase Bank, N.A.'s funds deemed VIEs. The asset management business earns a fixed fee based upon assets managed; the fee varies with each fund's investment objective and is competitively priced. For the limited number of funds that qualify as VIEs, the asset management business' relationships with such funds are not considered significant variable interests under FIN 46(R).
- Treasury and securities services business: Provides services to a number of VIEs that are similar to those provided to non-VIEs. The treasury and securities services business earns market-based fees for the services it provides. The relationships resulting from treasury and securities services business' services are not considered to be significant variable interests under FIN 46(R).
- Commercial banking business: Utilizes VIEs to assist clients in accessing the financial markets in a cost-efficient manner. This is often accomplished through the use of products similar to those offered in the investment banking business. The commercial banking business may assist in the structuring and/or ongoing administration of these VIEs and may provide liquidity, letters of credit and/or derivative instruments in support of the VIEs. The relationships resulting from the commercial banking business' services are not considered to be significant variable interests under FIN 46(R).
- Corporate/private equity business: Corporate utilizes VIEs to issue guaranteed capital debt securities. See Note 23 on pages 71–72 for further information.

As noted above, the investment banking business is predominantly involved with multi-seller conduits and VIEs associated with investor intermediation activities. These nonconsolidated VIEs that are sponsored by JPMorgan Chase Bank, N.A. are discussed below. JPMorgan Chase Bank, N.A. considers a "sponsored" VIE to include any entity where: (1) JPMorgan Chase Bank, N.A. is the principal beneficiary of the structure; (2) the VIE is used by JPMorgan Chase Bank, N.A. to securitize JPMorgan Chase Bank, N.A. assets; (3) the VIE issues financial instruments associated with the JPMorgan Chase Bank, N.A. brand name; or (4) the entity is a JPMorgan Chase Bank, N.A.-administered asset-backed commercial paper ("ABCP") conduit.

Multi-seller conduits

Funding and liquidity

JPMorgan Chase Bank, N.A. is an active participant in the asset-backed securities business, and it helps customers meet their financing needs by providing access to the commercial paper markets through VIEs known as multi-seller conduits. Multi-seller conduit entities are separate bankruptcy-remote entities that purchase interests in, and make loans secured by, pools of receivables and other financial assets pursuant to agreements with customers of JPMorgan Chase Bank, N.A. The conduits fund their purchases and loans through the issuance of highly rated commercial paper to third-party investors. The primary source of repayment of the commercial paper is the cash flow from the pools of assets. In most instances, the assets are structured with deal-specific credit enhancements provided by the customers (i.e., sellers) to the conduits or other third parties. Deal-specific credit enhancements are generally structured to cover a multiple of historical losses expected on the pool of assets, and are typically in the form of overcollateralization provided by the seller, but also may include any combination of the following: recourse to the seller or originator, cash collateral accounts, letters of credit, excess spread, retention of subordinated interests or third-party guarantees. The deal-specific credit enhancements mitigate JPMorgan Chase Bank, N.A.'s potential losses on its agreements with the conduits.

JPMorgan Chase Bank, N.A. receives fees related to the structuring of multi-seller conduit transactions and compensation from the multi-seller conduits for its role as administrative agent, liquidity provider, and provider of program-wide credit enhancement.

As a means of ensuring timely repayment of the commercial paper, each asset pool financed by the conduits has a minimum 100% deal-specific liquidity facility associated with it. Deal-specific liquidity facilities are the primary source of liquidity support for the conduits. The deal-specific liquidity facilities are typically in the form of asset purchase agreements and generally structured so the liquidity that will be provided by JPMorgan Chase Bank, N.A. as liquidity provider will be effected by JPMorgan Chase Bank, N.A. purchasing, or lending against, a pool of nondefaulted, performing assets.

The conduit's administrative agent can require the liquidity provider to perform under its asset purchase agreement with the conduit at any time. These agreements may cause the liquidity provider, including JPMorgan Chase Bank, N.A., to purchase an asset from the conduit at an amount above the asset's then current fair value – in effect providing a guarantee of the initial value of the reference asset as of the date of the agreement. In limited circumstances, JPMorgan Chase Bank, N.A. may provide unconditional liquidity.

JPMorgan Chase Bank, N.A. also provides the multi-seller conduit vehicles with program-wide liquidity facilities in the form of uncommitted short-term revolving facilities that can be accessed by the conduits to handle funding increments too small to be funded by commercial paper and in the form of uncommitted liquidity facilities that can be accessed by the conduits only in the event of short-term disruptions in the commercial paper market.

Because the majority of the deal-specific liquidity facilities will only fund nondefaulted assets, program-wide credit enhancement is required to absorb losses on defaulted receivables in excess of losses absorbed by any deal-specific credit enhancement. Program-wide credit enhancement may be provided by JPMorgan Chase Bank, N.A. in the form of standby letters of credit or by third-party surety bond providers. The amount of program-wide credit enhancement required varies by conduit and ranges between 5% and 10% of applicable commercial paper outstanding.

The following table summarizes JPMorgan Chase Bank, N.A.'s involvement with nonconsolidated JPMorgan Chase Bank, N.A.-administered multi-seller conduits. There were no consolidated JPMorgan Chase Bank, N.A.-administered multi-seller conduits as of December 31, 2008 or 2007.

December 31, (in billions)	**2008**	2007
Total assets held by conduits	**$ 42.9**	$ 61.2
Total commercial paper issued by conduits	**43.1**	62.6
Liquidity and credit enhancements[(a)]		
Deal-specific liquidity facilities (primarily asset purchase agreements)	**55.4**	87.3
Program-wide liquidity facilities	**17.0**	13.2
Program-wide credit enhancements	**3.0**	2.5
Maximum exposure to loss[(b)]	**56.9**	88.9

(a) The accounting for these agreements is further discussed in Note 31 on pages 83–87. The carrying value related to asset purchase agreements was $147 million at December 31, 2008, of which $138 million represented the remaining fair value of the guarantee under FIN 45. JPMorgan Chase Bank, N.A. has recognized this guarantee in other liabilities with an offsetting entry recognized in other assets for the net present value of the future premium receivable under the contracts.

(b) JPMorgan Chase Bank, N.A.'s maximum exposure to loss is limited to the amount of drawn commitments (i.e., sellers' assets held by the multi-seller conduits for which JPMorgan Chase Bank, N.A. provides liquidity support) of $42.9 billion and $61.2 billion at December 31, 2008 and 2007, respectively, plus contractual but undrawn commitments of $14.0 billion and $27.7 billion at December 31, 2008 and 2007, respectively. Since JPMorgan Chase Bank, N.A. provides credit enhancement and liquidity to JPMorgan Chase Bank, N.A.-administered, multi-seller conduits, the maximum exposure is not adjusted to exclude exposure that would be absorbed by third-party liquidity providers.

Assets funded by the multi-seller conduits

JPMorgan Chase Bank, N.A.'s administered multi-seller conduits fund a variety of asset types for JPMorgan Chase Bank, N.A.'s clients. Asset types primarily include credit card receivables, auto loans, trade receivables, student loans, commercial loans, residential mortgages, capital commitments (e.g., loans to private equity, mezzanine and real estate opportunity funds secured by capital commitments of highly rated institutional investors), and various other asset types. It is JPMorgan Chase Bank, N.A.'s intention that the assets funded by its administered multi-seller conduits be sourced only from JPMorgan Chase Bank, N.A.'s clients and not originated by, or transferred from, JPMorgan Chase Bank, N.A.

The following table presents information on the commitments and assets held by JPMorgan Chase Bank, N.A.'s administered multi-seller conduits as of December 31, 2008 and 2007.

Summary of exposure to Chase Bank, N.A.-administered nonconsolidated multi-seller conduits

December 31, (in billions)	2008				2007			
	Unfunded commitments to JPMorgan Chase Bank, N.A.'s clients	Commercial paper funded assets	Liquidity provided by third parties	Liquidity provided by JPMorgan Chase Bank, N.A.	Unfunded commitments to JPMorgan Chase Bank, N.A.'s clients	Commercial paper funded assets	Liquidity provided by third parties	Liquidity provided by JPMorgan Chase Bank, N.A.
Asset types:								
Credit card	**$ 3.0**	**$ 8.9**	**$ 0.1**	**$ 11.8**	$ 3.3	$ 14.2	$ —	$ 17.5
Vehicle loans and leases	**1.4**	**10.0**	**—**	**11.4**	4.5	10.2	—	14.7
Trade receivables	**3.8**	**5.5**	**—**	**9.3**	6.0	6.6	—	12.6
Student loans	**0.7**	**4.6**	**—**	**5.3**	0.8	9.2	—	10.0
Commercial	**1.5**	**4.0**	**0.4**	**5.1**	2.1	4.8	0.4	6.5
Residential mortgage	—	**0.7**	**—**	**0.7**	4.6	3.1	—	7.7
Capital commitments	**1.3**	**3.9**	**0.6**	**4.6**	2.0	5.1	0.6	6.5
Rental car finance	**0.2**	**0.4**	**—**	**0.6**	0.6	0.7	—	1.3
Equipment loans and leases	**0.7**	**1.6**	**—**	**2.3**	1.1	2.5	—	3.6
Floorplan – vehicle	**0.7**	**1.8**	**—**	**2.5**	1.3	1.3	—	2.6
Floorplan – other	**—**	**—**	**—**	**—**	—	0.5	—	0.5
Consumer	**0.1**	**0.7**	**0.1**	**0.7**	0.7	1.7	0.2	2.2
Other	**0.6**	**0.8**	**0.3**	**1.1**	0.7	1.3	0.4	1.6
Total	**$ 14.0**	**$ 42.9**	**$ 1.5**	**$ 55.4**	$ 27.7	$ 61.2	$ 1.6	$ 87.3

December 31, 2008 (in billions)	Ratings profile of VIE assets of the multi-seller conduits[a]					Commercial paper funded assets	Wt. avg. expected life (years)[b]
	Investment-grade				Noninvestment-grade		
	AAA to AAA-	AA+ to AA-	A+ to A-	BBB to BBB-	BB+ and below		
Asset types:							
Credit card	**$ 4.8**	**$ 3.9**	**$ 0.1**	**$ 0.1**	**$ —**	**$ 8.9**	**1.5**
Vehicle loans and leases	**4.1**	**4.1**	**1.8**	**—**	**—**	**10.0**	**2.5**
Trade receivables	**—**	**4.0**	**1.5**	**—**	**—**	**5.5**	**1.0**
Student loans	**3.6**	**0.9**	**—**	**0.1**	**—**	**4.6**	**1.8**
Commercial	**1.1**	**2.0**	**0.6**	**0.3**	**—**	**4.0**	**2.7**
Residential mortgage	**—**	**0.6**	**—**	**0.1**	**—**	**0.7**	**4.0**
Capital commitments	**—**	**3.6**	**0.3**	**—**	**—**	**3.9**	**2.4**
Rental car finance	**—**	**—**	**0.4**	**—**	**—**	**0.4**	**1.5**
Equipment loans and leases	**0.4**	**1.2**	**—**	**—**	**—**	**1.6**	**2.2**
Floorplan – vehicle	**0.1**	**1.0**	**0.7**	**—**	**—**	**1.8**	**1.1**
Floorplan – other	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Consumer	**0.1**	**0.4**	**0.2**	**—**	**—**	**0.7**	**1.6**
Other	**0.5**	**0.3**	**—**	**—**	**—**	**0.8**	**3.7**
Total	**$ 14.7**	**$ 22.0**	**$ 5.6**	**$ 0.6**	**$ —**	**$ 42.9**	**2.0**

December 31, 2007 (in billions)	Ratings profile of VIE assets of the multi-seller conduits[a]					Commercial paper funded assets	Wt. avg. expected life (years)[b]
	Investment-grade				Noninvestment-grade		
	AAA to AAA-	AA+ to AA-	A+ to A-	BBB to BBB-	BB+ and below		
Asset types:							
Credit card	$ 4.2	$ 9.4	$ 0.6	$ —	$ —	$ 14.2	1.5
Vehicle loans and leases	1.8	6.9	1.4	—	0.1	10.2	2.3
Trade receivables	—	4.7	1.7	0.2	—	6.6	1.3
Student loans	1.0	8.1	0.1	—	—	9.2	0.5
Commercial	0.5	3.5	0.7	0.1	—	4.8	2.8
Residential mortgage	1.5	0.8	0.8	—	—	3.1	1.5
Capital commitments	—	5.1	—	—	—	5.1	3.4
Rental car finance	—	0.7	—	—	—	0.7	1.1
Equipment loans and leases	0.4	1.9	—	0.2	—	2.5	2.2
Floorplan – vehicle	0.4	0.7	0.2	—	—	1.3	0.8
Floorplan – other	—	0.5	—	—	—	0.5	0.7
Consumer	—	1.4	0.2	—	0.1	1.7	1.8
Other	1.2	0.1	—	—	—	1.3	3.7
Total	**$ 11.0**	**$ 43.8**	**$ 5.7**	**$ 0.5**	**$ 0.2**	**$ 61.2**	**1.8**

(a) The ratings scale is presented on an S&P equivalent basis.
(b) Weighted average expected life for each asset type is based upon the remaining term of each conduit transaction's committed liquidity plus either the expected weighted average life of the assets should the committed liquidity expire without renewal or the expected time to sell the underlying assets in the securitization market.

The assets held by the multi-seller conduits are structured so that if they were rated, JPMorgan Chase Bank, N.A. believes the majority of them would receive an "A" rating or better by external rating agencies. However, it is unusual for the assets held by the conduits to be explicitly rated by an external rating agency. Instead, JPMorgan Chase Bank, N.A.'s Credit Risk group assigns each asset purchase liquidity facility an internal risk-rating based upon its assessment of the probability of default for the transaction. The ratings provided in the above table reflect the S&P-equivalent ratings of the internal rating grades assigned by JPMorgan Chase Bank, N.A.

The risk ratings are periodically reassessed as information becomes available. As of December 31, 2008 and 2007, 90% and 93%, respectively, of the assets in the conduits were risk-rated "A" or better.

Commercial paper issued by the multi-seller conduits
The weighted average life of commercial paper issued by the multi-seller conduits at December 31, 2008 and 2007, was 27 days and 26 days, respectively, and the average yield on the commercial paper at December 31, 2008 and 2007, was 0.6% and 5.7%, respectively.

In the normal course of business, JPMorgan Chase Bank, N.A. trades and invests in commercial paper, including paper issued by JPMorgan Chase Bank, N.A. -administered conduits. The percentage of commercial paper purchased by JPMorgan Chase Bank, N.A. across all JPMorgan Chase Bank, N.A.-administered conduits during the year ended December 31, 2008, ranged from 0% to approximately 16% on any given day. The largest daily amount of commercial paper outstanding held by JPMorgan Chase Bank, N.A. in any one multi-seller conduit during the years ended December 31, 2008 and 2007, was approximately $2.0 billion, or 23%, for 2008, and $2.2 billion, or 13%, for 2007, of the conduit's commercial paper outstanding. On average, JPMorgan Chase Bank, N.A. held approximately 2% of daily JPMorgan Chase Bank, N.A.-administered conduits issued commercial paper outstanding during 2008. JPMorgan Chase Bank, N.A. did not hold any commercial paper issued by JPMorgan Chase Bank, N.A.- administered conduits at December 31, 2008 and 2007, respectively. JPMorgan Chase Bank, N.A. is not obligated under any agreement (contractual or noncontractual) to purchase the commercial paper issued by JPMorgan Chase Bank, N.A.-administered conduits.

Consolidation analysis
The multi-seller conduits administered by JPMorgan Chase Bank, N.A. were not consolidated at December 31, 2008 and 2007, because each conduit had issued expected loss notes ("ELNs"), the holders of which are committed to absorbing the majority of the expected loss of each respective conduit.

Implied support
JPMorgan Chase Bank, N.A. did not have and continues not to have any intent to protect any ELN holders from potential losses on any of the conduits' holdings and has no plans to remove any assets from any conduit unless required to do so in its role as administrator. Should such a transfer occur, JPMorgan Chase Bank, N.A. would allocate losses on such assets between itself and the ELN holders in accordance with the terms of the applicable ELN.

Expected loss modeling
In determining the primary beneficiary of the conduits JPMorgan Chase Bank, N.A. uses a Monte Carlo–based model to estimate the expected losses of each of the conduits and considers the relative rights and obligations of each of the variable interest holders. JPMorgan Chase Bank, N.A.'s expected loss modeling treats all variable interests, other than the ELNs, as its own to determine consolidation. The variability to be considered in the modeling of expected losses is based on the design of the entity. JPMorgan Chase Bank, N.A.'s traditional multi-seller conduits are designed to pass credit risk, not liquidity risk, to its variable interest holders, as the assets are intended to be held in the conduit for the longer term.

Under FIN 46(R), JPMorgan Chase Bank, N.A. is required to run the Monte Carlo-based expected loss model each time a reconsideration event occurs. In applying this guidance to the conduits, the following events, are considered to be reconsideration events, as they could affect the determination of the primary beneficiary of the conduits:

- New deals, including the issuance of new or additional variable interests (credit support, liquidity facilities, etc);
- Changes in usage, including the change in the level of outstanding variable interests (credit support, liquidity facilities, etc);
- Modifications of asset purchase agreements; and
- Sales of interests held by the primary beneficiary.

From an operational perspective, JPMorgan Chase Bank, N.A. does not run its Monte Carlo-based expected loss model every time there is a reconsideration event due to the frequency of their occurrence. Instead, JPMorgan Chase Bank, N.A. runs its expected loss model each quarter and includes a growth assumption for each conduit to ensure that a sufficient amount of ELNs exists for each conduit at any point during the quarter.

As part of its normal quarterly modeling, JPMorgan Chase Bank, N.A. updates, when applicable, the inputs and assumptions used in the expected loss model. Specifically, risk ratings and loss given default assumptions are continually updated. The total amount of ELNs outstanding at December 31, 2008 and 2007, were $136 million and $130 million, respectively. Management has concluded that the model assumptions used were reflective of market participants' assumptions and appropriately considered the probability of changes to risk ratings and loss given defaults.

Qualitative considerations
The multi-seller conduits are primarily designed to provide an efficient means for clients to access the commercial paper market. JPMorgan Chase Bank, N.A. believes the conduits effectively disperse risk among all parties and that the preponderance of the economic risk in JPMorgan Chase Bank, N.A.'s multi-seller conduits is not held by JPMorgan Chase Bank, N.A.

Consolidated sensitivity analysis on capital
The table below shows the impact on JPMorgan Chase Bank, N.A.'s reported assets, liabilities, Tier 1 capital ratio and Tier 1 leverage ratio if JPMorgan Chase Bank, N.A. were required to consolidate all of the multi-seller conduits that it administers at their current carrying value.

December 31, 2008 (in billions, except ratios)	Reported	Pro forma[(a)(b)]
Assets	$ 1,746.2	$ 1,789.3
Liabilities	1,617.5	1,660.6
Tier 1 capital ratio	8.7%	8.7%
Tier 1 leverage ratio	5.9	5.8

(a) The table shows the impact of consolidating the assets and liabilities of the multi-seller conduits at their current carrying value; as such, there would be no income statement or capital impact at the date of consolidation. If JPMorgan Chase Bank, N.A. were required to consolidate the assets and liabilities of the conduits at fair value, the Tier 1 capital ratio would be approximately 8.6%. The fair value of the assets is primarily based upon pricing for comparable transactions. The fair value of these assets could change significantly because the pricing of conduit transactions is renegotiated with the client, generally, on an annual basis and due to changes in current market conditions.
(b) Consolidation is assumed to occur on the first day of the quarter, at the quarter-end levels, in order to provide a meaningful adjustment to average assets in the denominator of the leverage ratio.

JPMorgan Chase Bank, N.A. could fund purchases of assets from VIEs should it become necessary.

2007 activity
In July 2007, a reverse repurchase agreement collateralized by prime residential mortgages held by a JPMorgan Chase Bank, N.A.-administered multi-seller conduit was put to JPMorgan Chase Bank, N.A. under its deal-specific liquidity facility. The asset was transferred to and recorded by JPMorgan Chase Bank, N.A. at its par value based on the fair value of the collateral that supported the reverse repurchase agreement. During the fourth quarter of 2007, additional information regarding the value of the collateral, including performance statistics, resulted in the determination by JPMorgan Chase Bank, N.A. that the fair value of the collateral was impaired. Impairment losses were allocated to the ELN holder (the party that absorbs the majority of the expected loss from the conduit) in accordance with the contractual provisions of the ELN note.

On October 29, 2007, certain structured CDO assets originated in the second quarter of 2007 and backed by subprime mortgages were transferred to JPMorgan Chase Bank, N.A. from two JPMorgan Chase Bank, N.A.-administered multi-seller conduits. It became clear in October that commercial paper investors and rating agencies were becoming increasingly concerned about CDO assets backed by subprime mortgage exposures. Because of these concerns, and to ensure the continuing viability of the two conduits as financing vehicles for clients and as investment alternatives for commercial paper investors, JPMorgan Chase Bank, N.A., in its role as administrator, transferred the CDO assets out of the multi-seller conduits. The structured CDO assets were transferred to JPMorgan Chase Bank, N.A. at their par value of $1.4 billion. As of December 31, 2008 and 2007, the CDO assets were valued on the Consolidated Balance Sheets at $5 million and $291 million, respectively.

There were no other structured CDO assets backed by subprime mortgages remaining in JPMorgan Chase Bank, N.A.-administered multi-seller conduits as of December 31, 2008 and 2007.

JPMorgan Chase Bank, N.A. does not consider the October 2007 transfer of the structured CDO assets from the multi-seller conduits to JPMorgan Chase Bank, N.A. to be an indicator of JPMorgan Chase Bank, N.A.'s intent to provide implicit support to the ELN holders. This transfer was a one-time, isolated event, limited to a specific type of asset that is not typically funded in JPMorgan Chase Bank, N.A.'s administered multi-seller conduits. In addition, JPMorgan Chase Bank, N.A. has no plans to permit multi-seller conduits to purchase such assets in the future.

Investor intermediation
As a financial intermediary, JPMorgan Chase Bank, N.A. creates certain types of VIEs and also structures transactions, typically derivative structures, with these VIEs to meet investor needs. JPMorgan Chase Bank, N.A. may also provide liquidity and other support. The risks inherent in the derivative instruments or liquidity commitments are managed similarly to other credit, market or liquidity risks to which JPMorgan Chase Bank, N.A. is exposed. The principal types of VIEs

for which JPMorgan Chase Bank, N.A. is engaged in these structuring activities are municipal bond vehicles, credit-linked note vehicles, asset swap vehicles and collateralized debt obligation vehicles.

Municipal bond vehicles

JPMorgan Chase Bank, N.A. has created a series of secondary market trusts that provide short-term investors with qualifying tax-exempt investments, and that allow investors in tax-exempt securities to finance their investments at short-term tax-exempt rates. In a typical transaction, the vehicle purchases fixed-rate longer-term highly rated municipal bonds and funds the purchase by issuing two types of securities: (1) putable floating-rate certificates and (2) inverse floating-rate residual interests ("residual interests"). The maturity of each of the putable floating-rate certificates and the residual interests is equal to the life of the vehicle, while the maturity of the underlying municipal bonds is longer. Holders of the putable floating-rate certificates may "put," or tender, the certificates if the remarketing agent cannot successfully remarket the floating-rate certificates to another investor. A liquidity facility conditionally obligates the liquidity provider to fund the purchase of the tendered floating-rate certificates. Upon termination of the vehicle, if the proceeds from the sale of the underlying municipal bonds are not sufficient to repay the liquidity facility, the liquidity provider has recourse either to excess collateralization in the vehicle or the residual interest holders for reimbursement.

The third-party holders of the residual interests in these vehicles could experience losses if the face amount of the putable floating-rate certificates exceeds the market value of the municipal bonds upon termination of the vehicle. Certain vehicles require a smaller initial investment by the residual interest holders and thus do not result in excess collateralization. For these vehicles there exists a reimbursement obligation which requires the residual interest holders to post, during the life of the vehicle, additional collateral to the vehicle on a daily basis as the market value of the municipal bonds declines.

JPMorgan Chase Bank, N.A. often serves as the sole liquidity provider of the putable floating-rate certificates. As the liquidity provider, JPMorgan Chase Bank, N.A. has an obligation to fund the purchase of the putable floating-rate certificates; this obligation is triggered by the failure to remarket the putable floating-rate certificates. The liquidity provider's obligation to perform is conditional and is limited by certain termination events, which include bankruptcy or failure to pay by the municipal bond issuer or credit enhancement provider, and the immediate downgrade of the municipal bond to below investment grade. A downgrade of JPMorgan Chase Bank, N.A.'s short-term rating does not affect JPMorgan Chase Bank, N.A.'s obligation under the liquidity facility. However, in the event of a downgrade in JPMorgan Chase Bank, N.A.'s credit ratings, holders of the putable floating-rate instruments supported by those liquidity facility commitments might choose to sell their instruments, which could increase the likelihood that the liquidity commitments could be drawn. In vehicles in which third-party investors own the residual interests, in addition to the termination events, JPMorgan Chase Bank, N.A.'s exposure as liquidity provider is further limited by the high credit quality of the underlying municipal bonds, and the excess collateralization in the vehicle or the reimbursement agreements with the residual interest holders. In the fourth quarter of 2008, a drawdown occurred on one liquidity facility as a result of a failure to remarket putable floating-rate certificates. JPMorgan Chase Bank, N.A. was required to purchase $19 million of putable floating-rate certificates. Subsequently, the municipal bond vehicle was terminated and the proceeds from the sales of the municipal bonds, together with the collateral posted by the residual interest holder, were sufficient to repay the putable floating-rate certificates. In 2007, JPMorgan Chase Bank, N.A. did not experience a drawdown on the liquidity facilities.

The long-term credit ratings of the putable floating-rate certificates are directly related to the credit ratings of the underlying municipal bonds, and to the credit rating of any insurer of the underlying municipal bond. A downgrade of a bond insurer would result in a downgrade of the insured municipal bonds, which would affect the rating of the putable floating-rate certificates. This could cause demand for these certificates by investors to decline or disappear, as putable floating-rate certificate holders typically require an "AA-" bond rating. At December 31, 2008 and 2007, 97% and 99%, respectively, of the municipal bonds held by vehicles to which JPMorgan Chase Bank, N.A. served as liquidity provider were rated "AA-" or better, based upon either the rating of the underlying municipal bond itself, or the rating including any credit enhancement. At December 31, 2008 and 2007, $2.6 billion and $12.0 billion, respectively, of the bonds were insured by monoline bond insurers. In addition, the municipal bond vehicles did not experience any bankruptcy or downgrade termination events during 2008 and 2007.

JPMorgan Chase Bank, N.A. sometimes invests in the residual interests of municipal bond vehicles. For VIEs in which JPMorgan Chase Bank, N.A. owns the residual interests, JPMorgan Chase Bank, N.A. consolidates the VIEs.

The likelihood that JPMorgan Chase Bank, N.A. would have to consolidate VIEs where JPMorgan Chase Bank, N.A. does not own the residual interests and that are currently off-balance sheet is remote.

Exposure to nonconsolidated municipal bond VIEs at December 31, 2008 and 2007, including the ratings profile of the VIEs' assets, were as follows.

	2008				2007			
December 31, (in billions)	Fair value of assets held by VIEs	Liquidity facilities[d]	Excess/ (deficit)[e]	Maximum exposure	Fair value of assets held by VIEs	Liquidity facilities[d]	Excess/ (deficit)[e]	Maximum exposure
Nonconsolidated municipal bond vehicles[a][b][c]	**$ 10.0**	**$ 6.9**	**$ 3.1**	**$ 6.9**	$ 19.2	$ 18.1	$ 1.1	$ 18.1

	Ratings profile of VIE assets[f]						
	Investment-grade				Noninvestment-grade		
December 31, (in billions)	AAA to AAA-	AA+ to AA-	A+ to A-	BBB to BBB-	BB+ and below	Fair value of assets held by VIEs	Wt. avg. expected life of assets (years)
Nonconsolidated municipal bond vehicles[a]							
2008	**$ 3.8**	**$ 5.9**	**$ 0.2**	**$ 0.1**	**$ —**	**$ 10.0**	**22.3**
2007	14.6	4.4	0.2	—	—	19.2	10.0

(a) Excluded $340 million and $467 million at December 31, 2008 and 2007, respectively, which were consolidated due to JPMorgan Chase Bank, N.A. owning the residual interests.
(b) Certain of the municipal bond vehicles are structured to meet the definition of a QSPE (as discussed in Note 1 on pages 6–7 of these Consolidated Financial Statements); accordingly, the assets and liabilities of QSPEs are not reflected in JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets (except for retained interests that are reported at fair value). Excluded nonconsolidated amounts of $603 million and $7.1 billion at December 31, 2008 and 2007, respectively, related to QSPE municipal bond vehicles in which JPMorgan Chase Bank, N.A. owned the residual interests.
(c) The decline in balances at December 31, 2008, compared with December 31, 2007, was due to third-party residual interest holders exercising their right to terminate the municipal bond vehicles. The proceeds from the sales of municipal bonds were sufficient to repay the putable floating-rate certificates, and JPMorgan Chase Bank, N.A. did not incur losses as a result of these terminations.
(d) JPMorgan Chase Bank, N.A. may serve as credit enhancement provider in municipal bond vehicles in which it serves as liquidity provider. JPMorgan Chase Bank, N.A. provided insurance on underlying municipal bonds in the form of letters of credit of $10 million and $103 million at December 31, 2008 and 2007, respectively.
(e) Represents the excess (deficit) of municipal bond asset fair value available to repay the liquidity facilities, if drawn.
(f) The ratings scale is based upon JPMorgan Chase Bank, N.A.'s internal risk ratings and presented on an S&P equivalent basis.

Credit-linked note vehicles

JPMorgan Chase Bank, N.A. structures transactions with credit-linked note ("CLN") vehicles in which the VIE purchases highly rated assets, such as asset-backed securities, and enters into a credit derivative contract with JPMorgan Chase Bank, N.A. to obtain exposure to a referenced credit which the VIE otherwise does not hold. The VIE then issues CLNs with maturities predominantly ranging from one to ten years in order to transfer the risk of the referenced credit to the VIE's investors. Clients and investors often prefer using a CLN vehicle since the CLNs issued by the VIE generally carry a higher credit rating than such notes would if issued directly by JPMorgan Chase Bank, N.A. JPMorgan Chase Bank, N.A.'s exposure to the CLN vehicles is generally limited to its rights and obligations under the credit derivative contract with the VIE, as JPMorgan Chase Bank, N.A. does not provide any additional contractual financial support to the VIE. In addition, JPMorgan Chase Bank, N.A. has not historically provided any financial support to the CLN vehicles over and above its contractual obligations. Accordingly, JPMorgan Chase Bank, N.A. typically does not consolidate the CLN vehicles. As a derivative counterparty in a credit-linked note structure, JPMorgan Chase Bank, N.A. has a senior claim on the collateral of the VIE and reports such derivatives on its balance sheet at fair value. The collateral purchased by such VIEs is largely investment-grade, with a majority being rated "AAA". JPMorgan Chase Bank, N.A. divides its credit-linked note structures broadly into two types: static and managed.

In a static credit-linked note structure, the CLNs and associated credit derivative contract either reference a single credit (e.g., a multinational corporation) or all or part of a fixed portfolio of credits. JPMorgan Chase Bank, N.A. generally buys protection from the VIE under the credit derivative. As a net buyer of credit protection, JPMorgan Chase Bank, N.A. pays a premium to the VIE in return for the receipt of a payment (up to the notional amount of the derivative) if one or more of the reference credits defaults, or if the losses resulting from the default of the reference credits exceed specified levels.

In a managed credit-linked note structure, the CLNs and associated credit derivative generally reference all or part of an actively managed portfolio of credits. An agreement exists between a portfolio manager and the VIE that gives the portfolio manager the ability to substitute each referenced credit in the portfolio for an alternative credit. By participating in a structure where a portfolio manager has the ability to substitute credits within pre-agreed terms, the investors who own the CLNs seek to reduce the risk that any single credit in the portfolio will default. JPMorgan Chase Bank, N.A. does not act as portfolio manager; its involvement with the VIE is generally limited to being a derivative counterparty. As a net buyer of credit protection, JPMorgan Chase Bank, N.A. pays a premium to the VIE in return for the receipt of a payment (up to the notional of the derivative) if one or more of the credits within the portfolio defaults, or if the losses resulting from the default of reference credits exceed specified levels.

Exposure to nonconsolidated credit-linked note VIEs at December 31, 2008 and 2007, was as follows.

	2008				2007			
December 31, (in billions)	Derivative receivables	Trading assets[c]	Total exposure[d]	Par value of collateral held by VIEs[e]	Derivative receivables	Trading assets[c]	Total exposure[d]	Par value of collateral held by VIEs[e]
Credit-linked notes[a]								
Static structure	**$ 3.5**	**$ 0.7**	**$ 4.2**	**$ 13.6**	$ 0.8	$ 0.4	$ 1.2	$ 13.5
Managed structure[b]	**6.4**	**0.3**	**6.7**	**12.4**	4.5	0.9	5.4	12.8
Total	**$ 9.9**	**$ 1.0**	**$ 10.9**	**$ 26.0**	$ 5.3	$ 1.3	$ 6.6	$ 26.3

(a) Excluded fair value of collateral of $2.0 billion and $2.5 billion at December 31, 2008 and 2007, respectively, which was consolidated, as JPMorgan Chase Bank, N.A., in its role as secondary market maker, held a majority of the issued CLNs of certain vehicles.
(b) Includes synthetic collateralized debt obligation vehicles, which have similar risk characteristics to managed credit-linked note vehicles. At December 31, 2008 and 2007, trading assets included $7 million and $291 million, respectively, of transactions with subprime collateral.
(c) Trading assets principally comprise notes issued by VIEs, which from time to time are held as part of the termination of a deal or to support limited market-making.
(d) On-balance sheet exposure that includes derivative receivables and trading assets.
(e) JPMorgan Chase Bank, N.A.'s maximum exposure arises through the derivatives executed with the VIEs; the exposure varies over time with changes in the fair value of the derivatives. JPMorgan Chase Bank, N.A. relies upon the collateral held by the VIEs to pay any amounts due under the derivatives; the vehicles are structured at inception so that the par value of the collateral is expected to be sufficient to pay amounts due under the derivative contracts.

Asset Swap Vehicles

JPMorgan Chase Bank, N.A. also structures and executes transactions with asset swap vehicles on behalf of investors. In such transactions, the VIE purchases a specific asset or assets and then enters into a derivative with JPMorgan Chase Bank, N.A. in order to tailor the interest rate or currency risk, or both, of the assets according to investors' requirements. Generally, the assets are held by the VIE to maturity, and the tenor of the derivatives would match the maturity of the assets. Investors typically invest in the notes issued by such VIEs in order to obtain exposure to the credit risk of the specific assets as well as exposure to foreign exchange and interest rate risk that is tailored to their specific needs; for example, an interest rate derivative may add additional interest rate exposure into the VIE in order to increase the return on the issued notes; or to convert an interest-bearing asset into a zero-coupon bond.

JPMorgan Chase Bank, N.A.'s exposure to the asset swap vehicles is generally limited to its rights and obligations under the interest rate and/or foreign exchange derivative contracts, as JPMorgan Chase Bank, N.A. does not provide any contractual financial support to the VIE. In addition, JPMorgan Chase Bank, N.A. historically has not provided any financial support to the asset swap vehicles over and above its contractual obligations. Accordingly, JPMorgan Chase Bank, N.A. typically does not consolidate the asset swap vehicles. As a derivative counterparty, JPMorgan Chase Bank, N.A. has a senior claim on the collateral of the VIE and reports such derivatives on its balance sheet at fair value. Substantially all of the assets purchased by such VIEs are investment-grade.

Exposure to nonconsolidated asset swap VIEs at December 31, 2008 and 2007, was as follows.

December 31, (in billions)	**2008** Derivative receivables (payables)	Trading assets[a]	Total exposure[b]	Par value of collateral held by VIEs[c]	2007 Derivative receivables (payables)	Trading assets[a]	Total exposure[b]	Par value of collateral held by VIEs[c]
Nonconsolidated								
Asset swap vehicles[d]	**$ (0.2)**	**$ —**	**$ (0.2)**	**$ 7.0**	$ 0.2	$ —	$ 0.2	$ 5.6

(a) Trading assets principally comprise notes issued by VIEs, which from time to time are held as part of the termination of a deal or to support limited market-making.
(b) On-balance sheet exposure that includes derivative receivables (payables) and trading assets.
(c) JPMorgan Chase Bank, N.A.'s maximum exposure arises through the derivatives executed with the VIEs; the exposure varies over time with changes in the fair value of the derivatives. JPMorgan Chase Bank, N.A. relies upon the collateral held by the VIEs to pay any amounts due under the derivatives; the vehicles are structured at inception so that the par value of the collateral is expected to be sufficient to pay amounts due under the derivative contracts.
(d) Excluded fair value of collateral of $1.0 billion and $976 million at December 31, 2008 and 2007, respectively, which was consolidated as JPMorgan Chase Bank, N.A., in its role as secondary market maker, held a majority of the issued notes of certain vehicles.

Collateralized Debt Obligations vehicles

A CDO typically refers to a security that is collateralized by a pool of bonds, loans, equity, derivatives or other assets. JPMorgan Chase Bank, N.A.'s involvement with a particular CDO vehicle may take one or more of the following forms: arranger, warehouse funding provider, placement agent or underwriter, secondary market-maker for securities issued, or derivative counterparty.

Prior to the formal establishment of a CDO vehicle, there is a warehousing period where a VIE may be used to accumulate the assets which will be subsequently securitized and serve as the collateral for the securities to be issued to investors. During this warehousing period, JPMorgan Chase Bank, N.A. may provide all or a portion of the financing to the VIE, for which JPMorgan Chase Bank, N.A. earns interest on the amounts it finances. A third-party asset manager that will serve as the manager for the CDO vehicle uses the warehouse funding provided by JPMorgan Chase Bank, N.A. to purchase the financial assets. The funding commitments generally are one year in duration. In the event that the securitization of assets does not occur within the committed financing period, the warehoused assets are generally liquidated.

Because of the varied levels of support provided by JPMorgan Chase Bank, N.A. during the warehousing period, which typically averages six to nine months, each CDO warehouse VIE is assessed in accordance with FIN 46(R) to determine whether JPMorgan Chase Bank, N.A. is considered the primary beneficiary that should consolidate the VIE. In general, JPMorgan Chase Bank, N.A. would consolidate the warehouse VIE unless another third party, typically the asset manager, provides significant protection for potential declines in the value of the assets held by the VIE. In those cases, the third party that provides the protection to the warehouse VIE would consolidate the VIE.

Once the portfolio of warehoused assets is large enough, the VIE will issue securities where market conditions permit. The proceeds from the issuance of securities will be used to repay the warehouse financing obtained from JPMorgan Chase Bank, N.A. and other counterparties. In connection with the establishment of the CDO vehicle, JPMorgan Chase Bank, N.A. typically earns a fee for arranging the CDO vehicle and distributing the securities (as placement agent and/or underwriter) and does not typically own any equity tranches issued. Once the CDO vehicle closes and issues securities, JPMorgan Chase Bank, N.A. has no further obligation to provide further support to the vehicle. At the time of closing, JPMorgan Chase Bank, N.A. may hold unsold securities that JPMorgan Chase Bank, N.A. was not able to place with third-party investors. The amount of unsold securities at December 31, 2008 and 2007, was insignificant. In addition, JPMorgan Chase Bank, N.A. may on occasion hold some of the CDO vehicles' securities including equity interests, as a secondary market-maker or as a principal investor, or it may be a derivative counterparty to the vehicles. At December 31, 2008 and 2007, these amounts were not significant. Exposures to CDO warehouse VIEs at December 31, 2008 and 2007, were as follows.

December 31, 2008 (in billions)	Funded loans	Unfunded commitments[a]	Maximum exposure[b]
CDO warehouse VIEs			
Consolidated	**$ 0.2**	**$ —**	**$ 0.2**
Nonconsolidated	**0.4**	**0.7**	**1.1**
Total	**$ 0.6**	**$ 0.7**	**$ 1.3**

December 31, 2007 (in billions)	Funded loans	Unfunded commitments[a]	Maximum exposure[b]
CDO warehouse VIEs			
Consolidated	$ 1.8	$ 1.2	$ 3.0
Nonconsolidated	2.2	3.0	5.2
Total	$ 4.0	$ 4.2	$ 8.2

	Ratings profile of VIE assets[c]					
December 31,	Investment-grade				Noninvestment-grade	Total
(in billions)	AAA to AAA-	AA+ to AA-	A+ to A-	BBB to BBB-	BB+ and below	exposure
Nonconsolidated CDO warehouse VIEs						
2008	**$ —**	**$ —**	**$ —**	**$ —**	**$ 0.4**	**$ 0.4**
2007	—	—	—	—	2.2	2.2

(a) Typically contingent upon certain asset-quality conditions being met by asset managers.
(b) The aggregate of the fair value of loan exposure and any unfunded, contractually committed financing.
(c) The ratings scale is based upon JPMorgan Chase Bank, N.A.'s internal risk ratings and presented on an S&P equivalent basis.

VIEs sponsored by third parties

Investment in a third-party credit card securitization trust

JPMorgan Chase Bank, N.A. holds a note in a third-party-sponsored VIE, which is a credit card securitization trust (the "Trust"), that owns credit card receivables issued by a national retailer. The note is structured so that the principal amount can float up to 47% of the principal amount of the receivables held by the Trust not to exceed $4.2 billion. JPMorgan Chase Bank, N.A. is not the primary beneficiary of the Trust and accounts for its investment as an AFS security, which is recorded at fair value. At December 31, 2008, the amortized cost of the note was $3.6 billion and the fair value was $2.6 billion. For more information on accounting for AFS securities, see Note 13 on pages 38–41 of these Consolidated Financial Statements.

Other VIEs sponsored by third parties

JPMorgan Chase Bank, N.A. enters into transactions with VIEs structured by other parties. These transactions include, for example, acting as a derivative counterparty, liquidity provider, investor, underwriter, placement agent, trustee or custodian. These transactions are conducted at arm's length, and individual credit decisions are based upon the analysis of the specific VIE, taking into consideration the quality of the underlying assets. Where these activities do not cause JPMorgan Chase Bank, N.A. to absorb a majority of the expected losses of the VIEs or to receive a majority of the residual returns of the VIEs, JPMorgan Chase Bank, N.A. records and reports these positions on its Consolidated Balance Sheets similar to the way it would record and report positions from any other third-party transaction. These transactions are not considered significant for disclosure purposes under FIN 46(R).

Consolidated VIE assets and liabilities

The following table presents information on assets, liabilities and commitments related to VIEs that are consolidated by JPMorgan Chase Bank, N.A.

December 31, 2008 (in billions)	Consolidated VIEs – Assets: Trading debt and equity	Loans	Other[b]	Total assets[c]
VIE program type				
Municipal bond vehicles	**$ 0.3**	**$ —**	**$ —**	**$ 0.3**
Credit-linked notes	**1.9**	**—**	**0.1**	**2.0**
CDO warehouses[a]	**—**	**—**	**—**	**—**
Student loans	**—**	**4.0**	**0.1**	**4.1**
Employee funds	**—**	**—**	**—**	**—**
Energy investments	**—**	**—**	**—**	**—**
Other	**1.5**	**0.7**	**0.1**	**2.3**
Total	**$ 3.7**	**$ 4.7**	**$ 0.3**	**$ 8.7**

December 31, 2007 (in billions)	Consolidated VIEs – Assets: Trading debt and equity	Loans	Other[b]	Total assets[c]
VIE program type				
Municipal bond vehicles	$ 0.5	$ —	$ —	$ 0.5
Credit-linked notes	2.3	—	0.2	2.5
CDO warehouses[a]	1.5	0.3	—	1.8
Student loans	—	4.1	—	4.1
Employee funds	—	—	—	—
Energy investments	—	—	—	—
Other	2.9	—	0.5	3.4
Total	$ 7.2	$ 4.4	$ 0.7	$ 12.3

December 31, 2008 (in billions)	Liabilities: Beneficial interests in VIE Assets[d]	Other[e]	Total liabilities
VIE program type			
Municipal bond vehicles	**$ —**	**$ 0.3**	**$ 0.3**
Credit-linked notes	**1.0**	**2.0**	**3.0**
CDO warehouses	**—**	**—**	**—**
Student loans	**2.8**	**1.1**	**3.9**
Employee funds	**—**	**—**	**—**
Energy investments	**—**	**—**	**—**
Other	**0.4**	**1.1**	**1.5**
Total	**$ 4.2**	**$ 4.5**	**$ 8.7**

December 31, 2007 (in billions)	Liabilities: Beneficial interests in VIE Assets[d]	Other[e]	Total liabilities
VIE program type			
Municipal bond vehicles	$ —	$ 0.5	$ 0.5
Credit-linked notes	2.1	1.3	3.4
CDO warehouses	—	—	—
Student loans	4.1	—	4.1
Employee funds	—	—	—
Energy investments	—	—	—
Other	0.7	1.2	1.9
Total	$ 6.9	$ 3.0	$ 9.9

(a) Excluded from total assets was $1.2 billion of unfunded commitments at December 31, 2007. There were no unfunded commitments at December 31, 2008.
(b) Included assets classified as resale agreements and other assets within the Consolidated Balance Sheets.
(c) Assets of each consolidated VIE included in the program types above are generally used to satisfy the liabilities to third parties. The difference between total assets and total liabilities recognized for consolidated VIEs represents JPMorgan Chase Bank, N.A.'s interest in the consolidated VIEs for each program type.
(d) The interest-bearing beneficial interest liabilities issued by consolidated VIEs are classified in the line item titled, "Beneficial interests issued by consolidated variable interest entities" on the Consolidated Balance Sheets. The holders of these beneficial interests do not have recourse to the general credit of JPMorgan Chase Bank, N.A. Included in beneficial interests in VIE assets are long-term beneficial interests of $4.2 billion and $6.9 billion at December 31, 2008 and 2007, respectively. See Note 23 on page 71 of these Consolidated Financial Statements for the maturity profile of FIN 46 long-term beneficial interests.
(e) Included liabilities classified as other borrowed funds, long-term debt and other liabilities in the Consolidated Balance Sheets.

Note 19 – Goodwill and other intangible assets

Goodwill is not amortized. Instead, it is tested for impairment in accordance with SFAS 142. Goodwill is tested annually (during the fourth quarter) or more often if events or circumstances, such as adverse changes in the business climate, indicate there may be impairment. Intangible assets determined to have indefinite lives are not amortized but are tested for impairment at least annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the fair value of the indefinite-lived intangible asset to its carrying amount. Other acquired intangible assets determined to have finite lives, such as core deposits and credit card relationships, are amortized over their estimated useful lives in a manner that best reflects the economic benefits of the intangible asset; impairment testing is performed periodically on these amortizing intangible assets.

Goodwill and other intangible assets consist of the following.

December 31, (in millions)	**2008**	2007
Goodwill	**$ 27,371**	$ 25,819
Mortgage servicing rights	**9,236**	8,632
Purchased credit card relationships	**128**	189
All other intangibles:		
Other credit card–related intangibles	**$ 698**	$ 291
Core deposit intangibles	**1,597**	2,066
Other intangibles	**1,051**	985
Total all other intangible assets	**$ 3,346**	$ 3,342

Goodwill

The $1.6 billion increase in goodwill from the prior year primarily resulted from the dissolution of the Chase Paymentech Solutions joint venture and the tax-related purchase accounting adjustments associated with the Bank One merger. Goodwill was not impaired at December 31, 2008, or 2007, nor was any goodwill written off due to impairment during 2008 and 2007.

Mortgage servicing rights

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

As permitted by SFAS 156, JPMorgan Chase Bank, N.A. elected to fair value MSRs as one class of servicing assets. JPMorgan Chase Bank, N.A. defined MSRs as one class based on the availability of market inputs to measure MSR fair value and its treatment of MSRs as one aggregate pool for risk management purposes.

JPMorgan Chase Bank, N.A. initially capitalizes MSRs based on the estimated fair value at the time of initial recognition. JPMorgan Chase Bank, N.A. estimates the fair value of MSRs for initial capitalization and ongoing valuation using an option-adjusted spread model, which projects MSR cash flows over multiple interest rate scenarios in conjunction with JPMorgan Chase Bank, N.A.'s proprietary prepayment model and then discounts these cash flows at risk-adjusted rates. The model considers portfolio characteristics, contractually specified servicing fees, prepayment assumptions, delinquency rates, late charges, other ancillary revenue and costs to service, and other economic factors. JPMorgan Chase Bank, N.A. reassesses and periodically adjusts the underlying inputs and assumptions used in the OAS model to reflect market conditions and assumptions that a market participant would consider in valuing the MSR asset. During 2007 and 2008, JPMorgan Chase Bank, N.A. continued to refine its proprietary payment model based upon a number of market-related factors, including a downward trend in home prices, general tightening of credit underwriting standards and the associated impact on refinancing activity. JPMorgan Chase Bank, N.A. compares fair value estimates and assumptions to observable market data where available and to recent market activity and actual portfolio experience.

The fair value of MSRs is sensitive to changes in interest rates, including their effect on prepayment speeds. JPMorgan Chase Bank, N.A. uses or has used combinations of derivatives and trading instruments to manage changes in the fair value of MSRs. The intent is to offset any changes in the fair value of MSRs with changes in the fair value of the related risk management instruments. MSRs decrease in value when interest rates decline. Conversely, securities (such as mortgage-backed securities), principal-only certificates and certain derivatives (when JPMorgan Chase Bank, N.A. receives fixed-rate interest payments) increase in value when interest rates decline.

The following table summarizes MSR activity for the years ended December 31, 2008, 2007 and 2006.

Year ended December 31, (in millions, except where otherwise noted)	2008	2007	2006
Balance at beginning of period after valuation allowance	**$ 8,632**	$ 7,546	$ 6,452
Cumulative effect of change in accounting principle	**—**	—	230
Fair value at beginning of period	**8,632**	7,546	6,682
MSR activity			
Originations of MSRs	**3,021**	2,335	1,512
Purchase of MSRs	**6,382**[(c)]	798	627
Total additions	**9,403**	3,133	2,139
Change in valuation due to inputs and assumptions[(a)]	**(6,772)**	(516)	165
Other changes in fair value[(b)]	**(2,027)**	(1,531)	(1,440)
Total change in fair value of MSRs	**(8,799)**[(d)]	(2,047)	(1,275)
Fair value at December 31	**$ 9,236**	$ 8,632	$ 7,546
Change in unrealized gains (losses) included in income related to MSRs held at December 31	**$ (6,772)**	$ (516)	NA
Contractual service fees, late fees and other ancillary fees included in income	**$ 3,111**	$ 2,429	$ 2,038
Third-party mortgage loans serviced at December 31, (in billions)	**$ 1,112.0**	$ 614.7	$ 526.7

(a) Represents MSR asset fair value adjustments due to changes in inputs, such as interest rates and volatility, as well as updates to assumptions used in the valuation model. This caption also represents total realized and unrealized gains (losses) included in net income per the SFAS 157 disclosure for fair value measurement using significant unobservable inputs (level 3).
(b) Includes changes in the MSR value due to modeled servicing portfolio runoff (or time decay). This caption represents the impact of cash settlements per the SFAS 157 disclosure for fair value measurement using significant unobservable inputs (level 3).
(c) Includes MSRs acquired as a result of the Washington Mutual transaction (of which $59 million related to commercial real estate). For further discussion, see Note 3 on pages 10–12 of these Consolidated Financial Statements.
(d) Includes $4 million related to commercial real estate.

The table below outlines the key economic assumptions used to determine the fair value of JPMorgan Chase Bank, N.A.'s MSRs at December 31, 2008 and 2007, respectively; and it outlines the sensitivities of those fair values to immediate 10% and 20% adverse changes in those assumptions.

Year ended December 31 (in millions, except rates)	2008	2007
Weighted-average prepayment speed assumption (CPR)	**35.10%**	12.49%
Impact on fair value of 10% adverse change	**$ (1,021)**	$ (481)
Impact on fair value of 20% adverse change	**(1,936)**	(926)
Weighted-average option adjusted spread	**3.80%**	3.00%
Impact on fair value of 100 basis points adverse change	**$ (308)**	$ (311)
Impact on fair value of 200 basis points adverse change	**(601)**	(599)

CPR: Constant prepayment rate.

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

Purchased credit card relationships and all other intangible assets

During 2008, purchased credit card relationships and all other intangibles decreased $57 million, primarily as a result of amortization expense, partially offset by an increase in intangibles recognized related to the dissolution of the Chase Paymentech Solutions joint venture as well as the acquisition of an institutional global custody portfolio.

Except for $315 million of indefinite-lived intangibles related to asset management advisory contracts, which are not amortized but are tested for impairment at least annually, the remainder of JPMorgan Chase Bank, N.A.'s other acquired intangible assets are subject to amortization.

Purchased credit card relationships and the components of all other intangible assets were as follows.

	2008			2007		
December 31, (in millions)	Gross amount	Accumulated amortization	Net carrying value	Gross amount	Accumulated amortization	Net carrying value
Purchased credit card relationships	**$ 224**	**$ 96**	**$ 128**	$ 256	$ 67	$ 189
All other intangibles:						
Other credit card-related intangibles	**$ 773**	**$ 75**	**$ 698**	$ 343	$ 52	$ 291
Core deposit intangibles	**4,280**	**2,683**	**1,597**	4,280	2,214	2,066
Other intangibles	**1,539**	**488**(a)	**1,051**	1,378	393(a)	985

(a) Includes amortization expense related to servicing assets on securitized automobile loans, which is recorded in lending & deposit-related fees, of $4 million and $8 million for the years ended December 31, 2008 and 2007, respectively.

Amortization expense

The following table presents amortization expense related to credit card relationships, core deposits and all other intangible assets.

Year ended December 31, (in millions)	**2008**	2007	2006
Purchased credit card relationships	**$ 29**	$ 32	$ 33
All other intangibles:			
Other credit card-related intangibles	**23**	3	(1)
Core deposit intangibles	**469**	554	568
Other intangibles	**91**	90	95(a)
Total amortization expense	**$ 612**	$ 679	$ 695

(a) Amortizing expense related to the aforementioned selected corporate trust businesses were reported in income from discontinued operations for 2006.

Future amortization expense

The following table presents estimated future amortization expense related to credit card relationships, core deposits and all other intangible assets at December 31, 2008.

Year ended December 31, (in millions)	Purchased credit card relationships	Other credit card-related intangibles	Core deposit intangibles	All other intangible assets	**Total**
2009	$ 23	$ 83	$ 390	$ 83	$ 579
2010	21	89	329	70	509
2011	19	89	285	61	454
2012	19	91	239	58	407
2013	17	91	196	57	361

Note 20 – Premises and equipment

Premises and equipment, including leasehold improvements, are carried at cost less accumulated depreciation and amortization. JPMorgan Chase Bank, N.A. computes depreciation using the straight-line method over the estimated useful life of an asset. For leasehold improvements, JPMorgan Chase Bank, N.A. uses the straight-line method computed over the lesser of the remaining term of the leased facility or the estimated useful life of the leased asset.

JPMorgan Chase Bank, N.A. has recorded immaterial asset retirement obligations related to asbestos remediation under SFAS 143 and FIN 47 in those cases where it has sufficient information to estimate the obligations' fair value.

JPMorgan Chase Bank, N.A. capitalizes certain costs associated with the acquisition or development of internal-use software under SOP 98-1. Once the software is ready for its intended use, these costs are amortized on a straight-line basis over the software's expected useful life and reviewed for impairment on an ongoing basis.

Note 21 – Deposits

At December 31, 2008 and 2007, noninterest-bearing and interest-bearing deposits were as follows.

December 31, (in millions)	2008	2007
U.S. offices:		
Noninterest-bearing	**$ 213,115**	$ 131,357
Interest-bearing (included $1,849 and $1,909 at fair value at December 31, 2008 and 2007,respectively)	**482,382**	335,907
Non-U.S. offices:		
Noninterest-bearing	**8,026**	6,475
Interest-bearing (included $3,756 and $4,547 at fair value at December 31, 2008 and 2007, respectively)	**352,242**	298,348
Total	**$ 1,055,765**	$ 772,087

At December 31, 2008 and 2007, time deposits in denominations of $100,000 or more were as follows.

December 31, (in millions)	2008	2007
U.S.	**$ 120,502**	$ 95,583
Non-U.S.	**72,376**	79,058
Total	**$ 192,878**	$174,641

At December 31, 2008, the maturities of time deposits were as follows.

December 31, 2008 (in millions)	U.S.	Non-U.S.	**Total**
2009	$ 172,230	$ 78,573	$ 250,803
2010	5,388	1,623	7,011
2011	4,299	5,054	9,353
2012	4,418	1,800	6,218
2013	2,767	4,202	6,969
After 5 years	802	3,762	4,564
Total	$ 189,904	$ 95,014	$ 284,918

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 was signed into law. The Act increased FDIC deposit insurance from $100,000 to $250,000 per depositor through December 31, 2009. In addition, on November 21, 2008, the FDIC released the Final Rule for the FDIC Temporary Liquidity Guarantee Program ("TLG Program"), which provides unlimited deposit insurance through December 31, 2009, for noninterest-bearing transaction deposit accounts at FDIC-insured participating institutions. JPMorgan Chase Bank, N.A. elected to continue to participate in the TLG Program and, as a result, will be required to pay additional insurance premiums to the FDIC in an amount equal to an annualized 10-basis points on balances in noninterest-bearing transaction accounts that exceed the $250,000 FDIC deposit insurance limits, as determined on a quarterly basis.

Note 22 – Other borrowed funds

The following table details the components of other borrowed funds.

December 31, (in millions)	2008	2007
Advances from Federal Home Loan Banks[a]	**$ 70,187**	$ 450
Nonrecourse advances – FRBB[b]	**130**	—
Other	**24,636**[c]	22,826
Total	**$ 94,953**	$ 23,276

(a) Maturities of advances from the Federal Home Loan Banks were $47.4 billion, $18.5 billion, $2.6 billion, and $714 million in each of the 12-month periods ending December 31, 2009, 2010, 2011, and 2013, respectively, and $1.0 billion maturing after December 31, 2013. Maturities for the 12-month period ending December 31, 2012 were not material.

(b) On September 19, 2008, the Federal Reserve Board established a temporary lending facility, the AML Facility, to provide liquidity to eligible U.S. money market mutual funds ("MMMFs"). Under the AML Facility, banking organizations must use the loan proceeds to finance their purchases of eligible high-quality asset-backed commercial paper ("ABCP") investments from MMMFs, which are pledged to secure nonrecourse advances from the Federal Reserve Bank of Boston ("FRBB"). Participating banking organizations do not bear any credit or market risk related to the ABCP investments they hold under this facility; therefore, the ABCP investments held are not assessed any regulatory capital. The AML Facility will be in effect until October 30, 2009. The nonrecourse advances from the FRBB were elected under the fair value option and recorded in other borrowed funds; the corresponding ABCP investments were also elected under the fair value option and recorded in other assets.

(c) Includes $15.0 billion of advances from the Federal Reserve under the Federal Reserve's Term Auction Facility ("TAF"), pursuant to which the Federal Reserve auctions term funds to depository institutions that are eligible to borrow under the primary credit program. The TAF allows all eligible depository institutions to place a bid for an advance from its local Federal Reserve Bank at an interest rate set by an auction. All advances are required to be fully collateralized. The TAF is designed to improve liquidity by making it easier for sound institutions to borrow when the markets are not operating efficiently. The TAF does not have a fixed expiration date.

Note 23 – Long-term debt

JPMorgan Chase Bank, N.A. issues long-term debt denominated in various currencies, although predominantly U.S. dollars, with both fixed and variable interest rates. The following table is a summary of long-term debt carrying values (including unamortized original issue discount, SFAS 133 valuation adjustments and fair value adjustments, where applicable) by contractual maturity as of December 31, 2008.

By remaining maturity at **December 31,** (in millions, except rates)		2008				2007
		Under 1 year	1–5 years	After 5 years	**Total**	Total
Long-term debt issued to unrelated parties						
Senior debt:[a]	Fixed rate	**$ 862**	**$ 1,247**	**$ 2,196**	**$ 4,305**	$ 6,288
	Variable rate[c]	**4,588**	**22,041**	**12,552**	**39,181**	54,575
	Interest rates[b]	**4.38%**	**0.42%**	**0.44-14.21%**	**0.42-14.21%**	3.70-14.21%
Subordinated debt:	Fixed rate	**$ —**	**$ 2**	**$ 8,698**	**$ 8,700**	$ 9,169
	Variable rate	**—**	**—**	**1,150**	**1,150**	1,150
	Interest rates[b]	**—%**	**6.25%**	**2.33-8.25%**	**2.33-8.25%**	4.38-8.25%
	Subtotal	**$ 5,450**	**$ 23,290**	**$ 24,596**	**$ 53,336**	$ 71,182
Long-term debt payable to JPMorgan Chase and affiliates						
	Fixed rate	**$ —**	**$ —**	**$ 4,517**	**$ 4,517**	$ 4,493
	Variable rate	**—**	**—**	**14,009**	**14,009**	11,900
	Interest rates[b]	**—%**	**—%**	**2.48-5.75%**	**2.48-5.75%**	5.27-6.03%
	Subtotal	**$ —**	**$ —**	**$ 18,526**	**$ 18,526**	$ 16,393
Total long-term debt[d]		**$ 5,450**	**$ 23,290**	**$ 43,122**	**$ 71,862**[f][g][h]	$ 87,575[h]
FIN 46R long-term beneficial interests:						
	Fixed rate	**$ —**	**$ 319**	**$ 55**	**$ 374**	$ 514
	Variable rate	**33**	**908**	**2,841**	**3,782**	6,359
	Interest rates	**3.51-4.45%**	**4.04-8.75%**	**3.40-9.16%**	**3.40-9.16%**	1.73-12.79%
Total FIN 46R long-term beneficial interests[e]		**$ 33**	**$ 1,227**	**$ 2,896**	**$ 4,156**	$ 6,873

(a) Included are various equity-linked or other indexed instruments. Embedded derivatives, separated from hybrid securities in accordance with SFAS 133, are reported at fair value and shown net with the host contract on the Consolidated Balance Sheets. Changes in fair value of separated derivatives are recorded in principal transactions revenue. Hybrid securities which JPMorgan Chase Bank, N.A. has elected to measure at fair value are classified in the line item of the host contract on the Consolidated Balance Sheets; changes in fair value are recorded in principal transactions revenue in the Consolidated Statements of Income.

(b) The interest rates shown are the range of contractual rates in effect at year-end, including non-U.S. dollar fixed- and variable-rate issuances, which excludes the effects of the associated derivative instruments used in SFAS 133 hedge accounting relationships, if applicable. The use of these derivative instruments modifies JPMorgan Chase Bank, N.A.'s exposure to the contractual interest rates disclosed in the table above. Including the effects of the SFAS 133 hedge accounting derivatives, the range of modified rates in effect at December 31, 2008, for total long-term debt of 0.42% to 14.21%, was the same as the contractual range presented in the table above. The interest rate ranges shown exclude structured notes accounted for at fair value under SFAS 155 or SFAS 159.

(c) Included $7.8 billion principal amount of U.S. dollar-denominated floating-rate mortgage bonds issued to an unaffiliated statutory trust, which in turn issued €6.0 billion in covered bonds secured by mortgage loans at December 31, 2008.

(d) Included $34.9 billion and $56.9 billion of outstanding structured notes accounted for at fair value at December 31, 2008 and 2007, respectively.

(e) Included on the Consolidated Balance Sheets in beneficial interests issued by consolidated VIEs. Also included $1.4 billion and $2.7 billion of outstanding structured notes accounted for at fair value at December 31, 2008 and 2007, respectively. Excluded $56 million of short-term beneficial interests issued by consolidated VIEs that are reported on the Consolidated Balance Sheet at December 31, 2007.

(f) At December 31, 2008, long-term debt aggregating $3.5 billion was redeemable at the option of JPMorgan Chase Bank, N.A., in whole or in part, prior to maturity, based upon the terms specified in the respective notes.

(g) The aggregate principal amount of debt that matures in each of the five years subsequent to 2008 is $5.5 billion in 2009, $6.8 billion in 2010, $7.4 billion in 2011, $5.4 billion in 2012 and $3.6 billion in 2013.

(h) Included $2.8 billion and $3.8 billion of outstanding zero-coupon notes at December 31, 2008 and 2007, respectively. The aggregate principal amount of these notes at their respective maturities was $5.8 billion and $6.3 billion, respectively.

The weighted-average contractual interest rate for total long-term debt was 3.84% and 5.49% as of December 31, 2008 and 2007, respectively. In order to modify exposure to interest rate and currency exchange rate movements, JPMorgan Chase Bank, N.A. utilizes derivative instruments, primarily interest rate and cross-currency interest rate swaps, in conjunction with some of its debt issues. The use of these instruments modifies JPMorgan Chase Bank, N.A.'s interest expense on the associated debt. The modified weighted-average interest rate for total long-term debt, including the effects of related derivative instruments, was 3.47% and 5.52% as of December 31, 2008 and 2007, respectively.

JPMorgan Chase Bank, N.A. has guaranteed certain debt of its subsidiaries, including both long-term debt and structured notes sold as part of JPMorgan Chase Bank, N.A.'s market-making activities. These guarantees rank on a parity with all of JPMorgan Chase Bank, N.A.'s other unsecured and unsubordinated indebtedness. Guaranteed liabilities totaled $23.5 billion and $42.7 billion at December 31, 2008 and 2007, respectively.

Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities

At December 31, 2008, JPMorgan Chase Bank, N.A. had established two wholly-owned Delaware statutory business trusts ("issuer trusts") that had issued guaranteed capital debt securities.

The junior subordinated deferrable interest debentures issued by JPMorgan Chase Bank, N.A. to the issuer trusts were reflected in JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets in the liabilities section under the caption "Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities" (i.e., trust preferred capital debt securities). JPMorgan Chase Bank, N.A. also records the common capital securities issued by the issuer trusts in other assets in its Consolidated Balance Sheets at December 31, 2008 and 2007.

The debentures issued to the issuer trusts by JPMorgan Chase Bank, N.A., less the common capital securities of the issuer trusts, qualify as Tier 1 capital. The following is a summary of the outstanding trust preferred capital debt securities, including unamortized original issue discount, issued by each trust, and the junior subordinated deferrable interest debenture issued to each trust as of December 31, 2008.

December 31, 2008 (in millions)	Amount of capital debt securities issued by trust[(a)]	Issue date	Stated maturity of capital securities and debentures	Earliest redemption date	Interest rate of capital securities and debentures	Interest payment/ distribution dates
Bank One Capital I, LLC	$ 300	2000	2030	Any time	8.20%	Semiannually
Bank One Capital II, LLC	300	2002	2032	Any time	7.00%	Semiannually
Total	$ 600					

(a) Represents the amount of capital securities issued to the public by each trust, including unamortized original issue discount.

Note 24 – Related party transactions

JPMorgan Chase Bank, N.A. regularly enters into transactions with JPMorgan Chase and its various subsidiaries.

Significant revenue- and expense-related transactions with related parties are listed below.

Year ended December 31, (in millions)	2008	2007	2006
Interest income from affiliates			
Deposits with affiliated banks	**$ 18**	$ 18	$ 9
Federal funds sold and securities purchased under resale agreements, and securities borrowed with affiliates	**1,759**	4,810	4,849
Loans to affiliates	**53**	101	181
Interest expense to affiliates			
Interest-bearing deposits of affiliates	**2,117**	2,020	1,507
Federal funds purchased and securities loaned or sold under repurchase agreements, and other borrowed funds due to affiliates	**2,415**	3,283	2,865
Long-term debt payable to JPMorgan Chase and affiliates	**772**	1,017	975
Junior subordinated deferred interest debentures held by trusts that issued guaranteed capital debt securities to nonbank affiliates	**46**	47	47
Servicing agreements with affiliates			
Noninterest revenue	**3,534**	3,198	3,028
Noninterest expense	**4,638**	4,606	4,386

Significant balances with related parties are listed below.

December 31, (in millions)	2008	2007
Assets		
Deposits with affiliated banks	**$ 661**	$ 651
Federal funds sold and securities purchased under resale agreements, and securities borrowed with affiliates	**65,948**	80,397
Loans to affiliates	**87**	475
Accrued interest and accounts receivable, and other assets due from affiliates	**13,623**	9,699
Liabilities		
Noninterest-bearing deposits of affiliates	**3,151**	2,417
Interest-bearing deposits of affiliates	**86,481**	74,606
Federal funds purchased and securities loaned or sold with affiliates under repurchase agreements, and other borrowed funds due to affiliates	**121,049**	53,374
Accounts payable and other liabilities payable to affiliates	**6,365**	4,939
Long-term debt payable to JPMorgan Chase and affiliates	**18,526**	16,393
Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities to nonbank affiliates	**600**	600

At December 31, 2008 and 2007, net derivative payables to affiliates were $2.8 billion and $4.3 billion, respectively.

Note 25 – Accumulated other comprehensive income (loss)

Accumulated other comprehensive income (loss) includes the after-tax change in unrealized gains and losses on AFS securities, SFAS 52 foreign currency translation adjustments (including the impact of related derivatives), SFAS 133 cash flow hedging activities and SFAS 158 net loss and prior service cost (credit) related to JPMorgan Chase Bank, N.A.'s defined benefit pension and OPEB plans.

(in millions)	Unrealized gains (losses) on AFS securities[a]	Translation adjustments, net of hedges	Cash flow hedges	Net loss and prior service costs (credit) of defined benefit pension and OPEB plans[e]	Accumulated other comprehensive income (loss)
Balance at December 31, 2005	$ (225)	$ 1	$ (426)	$ —	$ (650)
Net change	201[b]	16	(63)	—	154
Adjustment to initially apply SFAS 158, net of taxes	—	—	—	(431)	(431)
Balance at December 31, 2006	(24)	17	(489)	(431)	(927)
Cumulative effect of changes in accounting principles (SFAS 159)	(1)	—	—	—	(1)
Balance at January 1, 2007, adjusted	(25)	17	(489)	(431)	(928)
Net change	401[c]	—	(327)	168	242
Balance at December 31, 2007	376	17	(816)	(263)	(686)
Net change	**(2,191)[d]**	**(237)**	**577**	**(44)**	**(1,895)**
Balance at December 31, 2008	**$ (1,815)**	**$ (220)**	**$ (239)**	**$ (307)**	**$ (2,581)**

(a) Represents the after-tax difference between the fair value and amortized cost of the AFS securities portfolio and retained interests in securitizations recorded in other assets.
(b) The net change during 2006 was due primarily to the reversal of unrealized losses from securities sales.
(c) The net change during 2007 was due primarily to a decline in interest rates.
(d) The net change during 2008 was due primarily to spread widening in credit card asset-backed securities, non-agency mortgage-backed securities and collateralized loan obligations.
(e) For further discussion of SFAS 158, see Note 10 on pages 30–34 of these Consolidated Financial Statements.

The following table presents the after-tax changes in net unrealized gains (losses); and reclassification adjustments for realized (gains) losses on AFS securities and cash flow hedges; changes resulting from foreign currency translation adjustments (including the impact of related derivatives); net gains (losses) and prior service costs from pension and OPEB plans; and amortization of pension and OPEB amounts into net income. The table also reflects the adjustment to accumulated other comprehensive income (loss) resulting from the initial application of SFAS 158 to JPMorgan Chase Bank, N.A.'s defined benefit pension and OPEB plans. Reclassification adjustments include amounts recognized in net income that had been recorded previously in other comprehensive income (loss).

Year ended December 31, (in millions)	2008 Before tax	2008 Tax effect	2008 After tax	2007 Before tax	2007 Tax effect	2007 After tax	2006 Before tax	2006 Tax effect	2006 After tax
Unrealized gains (losses) on AFS securities:									
Net unrealized gains (losses) arising during the period	**$ (2,599)**	**$ 996**	**$ (1,603)**	$ 714	$ (283)	$ 431	$ (240)	$ 98	$ (142)
Reclassification adjustment for realized (gains) losses included in net income	**(977)**	**389**	**(588)**	(50)	20	(30)	576	(233)	343
Net change	**(3,576)**	**1,385**	**(2,191)**	664	(263)	401	336	(135)	201
Translation adjustments:									
Translation	**(1,109)**	**416**	**(693)**	585	(219)	366	450	(181)	269
Hedges	**758**	**(302)**	**456**	(608)	242	(366)	(416)	163	(253)
Net change	**(351)**	**114**	**(237)**	(23)	23	—	34	(18)	16
Cash flow hedges:									
Net unrealized gains (losses) arising during the period	**570**	**(227)**	**343**	(750)	300	(450)	(184)	73	(111)
Reclassification adjustment for realized (gains) losses included in net income	**389**	**(155)**	**234**	204	(81)	123	79	(31)	48
Net change	**959**	**(382)**	**577**	(546)	219	(327)	(105)	42	(63)
Net loss and prior service cost (credit) of defined benefit pension and OPEB plans:[(a)]									
Net gains (losses) and prior service credits arising during the period	**(101)**	**41**	**(60)**	214	(83)	131	NA	NA	NA
Reclassification adjustment for net loss and prior service credit included in net income	**27**	**(11)**	**16**	59	(22)	37	NA	NA	NA
Net change	**(74)**	**30**	**(44)**	273	(105)	168	NA	NA	NA
Total other comprehensive income (loss)	**$ (3,042)**	**$ 1,147**	**$ (1,895)**	$ 368	$ (126)	$ 242	$ 265	$ (111)	$ 154
Net loss and prior service cost (credit) of defined benefit pension and OPEB plans:									
Adjustments to initially apply SFAS 158[(a)]	**NA**	**NA**	**NA**	NA	NA	NA	$ (713)	$ 282	$ (431)

(a) For further discussion of SFAS 158 and details of changes to accumulated other comprehensive income (loss), see Note 10 on pages 30–34 of these Consolidated Financial Statements.

Note 26 – Income taxes

The results of operations of JPMorgan Chase Bank, N.A. are included in the consolidated federal, combined New York State and New York City, and certain other state income tax returns filed by JPMorgan Chase. An informal tax sharing arrangement between JPMorgan Chase and JPMorgan Chase Bank, N.A. requires intercompany payments to or from JPMorgan Chase for outstanding current tax assets and liabilities. JPMorgan Chase allocates to JPMorgan Chase Bank, N.A. its share of the consolidated and combined income tax expense or benefit based upon statutory rates applied to JPMorgan Chase Bank, N.A.'s earnings as if it were filing separate income tax returns.

JPMorgan Chase Bank, N.A. uses the asset-and-liability method required by SFAS 109 as amended by FIN 48 to provide income taxes on all transactions recorded in the consolidated financial statements. This method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for book and tax purposes. Accordingly, a deferred tax liability or asset for each temporary difference is determined based upon the tax rates that JPMorgan Chase Bank, N.A. expects to be in effect when the underlying items of income and expense are realized. JPMorgan Chase Bank, N.A.'s expense for income taxes includes the current and deferred portions of that expense. A valuation allowance is established to reduce deferred tax assets to the amount JPMorgan Chase Bank, N.A. expects to realize.

Due to the inherent complexities arising from the nature of JPMorgan Chase Bank, N.A.'s businesses, and from conducting business and being taxed in a substantial number of jurisdictions, significant judgments and estimates are required to be made. Agreement of tax liabilities between JPMorgan Chase Bank, N.A. and the many tax jurisdictions in which JPMorgan Chase Bank, N.A. files tax returns may not be finalized for several years. Thus, JPMorgan Chase Bank, N.A.'s final tax-related assets and liabilities may ultimately be different than those currently reported.

The components of income tax expense (benefit) included in the Consolidated Statements of Income were as follows.

Year ended December 31, (in millions)	2008	2007	2006
Current income tax expense			
U.S. federal	**$ 4,034**	$ 2,328	$ 4,150
Non-U.S.	**792**	2,591	1,354
U.S. state and local	**815**	559	538
Total current income tax expense	**5,641**	5,478	6,042
Deferred income tax expense (benefit)			
U.S. federal	**(3,164)**	325	(1,516)
Non-U.S.	**10**	(184)	194
U.S. state and local	**224**	(254)	(233)
Total deferred income tax expense (benefit)	**(2,930)**	(113)	(1,555)
Total income tax expense (benefit) from continuing operations	**2,711**	5,365	4,487
Total income tax expense from discontinued operations	**—**	—	574
Total income tax expense (benefit)	**$ 2,711**	$ 5,365	$ 5,061

Total income tax expense includes $55 million, $74 million, and $367 million of tax benefits recorded in 2008, 2007 and 2006, respectively, as a result of tax audit resolutions.

The preceding table does not reflect the tax effect of certain items that are recorded each period directly in stockholder's equity. The table does not reflect the cumulative tax effects of initially implementing new accounting pronouncements in 2007 and 2006. The tax effect of all items recorded directly to stockholder's equity was an increase in stockholder's equity of $1.1 billion, $149 million and $89 million in 2008, 2007 and 2006, respectively.

U.S. federal income taxes have not been provided on the undistributed earnings of certain non-U.S. subsidiaries, to the extent that such earnings have been reinvested abroad for an indefinite period of time. During 2008, as part of JPMorgan Chase Bank, N.A.'s periodic review of the business requirements and capital needs of its non-U.S. subsidiaries, combined with the formation of specific strategies and steps taken to fulfill these requirements and needs, JPMorgan Chase Bank, N.A. determined that the undistributed earnings of certain of its subsidiaries, for which U.S. federal income taxes had been provided, will remain indefinitely reinvested to fund the current and future growth of the related businesses. As management does not intend to use the earnings of these subsidiaries as a source of funding for its U.S. operations, such earnings will not be distributed to the U.S. in the foreseeable future. This determination resulted in the release of deferred tax liabilities and the recognition of an income tax benefit of $1.1 billion associated with these undistributed earnings. For 2008, pretax earnings of approximately $2.5 billion were generated that will remain indefinitely invested in these subsidiaries. At December 31, 2008, the cumulative amount of undistributed pretax earnings in these subsidiaries approximated $12.9 billion. If JPMorgan Chase Bank, N.A. were to record a deferred tax liability associated with these undistributed earnings, the amount would be $2.9 billion at December 31, 2008.

The tax expense (benefit) applicable to securities gains and losses for the years 2008, 2007 and 2006 was $529 million, $19 million and $(221) million, respectively.

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

Year ended December 31,	2008	2007	2006
Statutory U.S. federal tax rate	**35.0%**	35.0%	35.0%
Increase (decrease) in tax rate resulting from:			
U.S. state and local income taxes, net of federal income tax benefit	**6.0**	3.0	2.5
Tax-exempt income	**(0.8)**	(1.1)	(0.9)
Non-U.S. subsidiary earnings	**(13.2)**	(1.6)	(0.8)
Business tax credits	**(3.4)**	(1.7)	(1.6)
Other, net	**0.6**	(0.3)	(1.2)
Effective tax rate	**24.2%**	33.3%	33.0%

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

December 31, (in millions)	2008	2007
Deferred tax assets		
Allowance for loan losses	**$ 6,415**	$ 3,013
Fair value adjustments	**2,379**	169
Allowance for other than loan losses	**1,806**	2,127
Non-U.S. operations	**1,473**	217
Employee benefits	**1,215**	1,175
Tax attribute carryforwards	**155**	—
Gross deferred tax assets	**$13,443**	$ 6,701
Deferred tax liabilities		
Depreciation and amortization	**$ 3,790**	$ 2,260
Leasing transactions	**1,441**	1,741
Non-U.S. operations	**835**	1,335
Fee income	**764**	381
Other, net	**162**	301
Gross deferred tax liabilities	**$ 6,992**	$ 6,018
Valuation allowance	**615**	220
Net deferred tax asset	**$ 5,836**	$ 463

A valuation allowance has been recorded relating to losses associated with non-U.S. subsidiaries and losses associated with certain portfolio investments.

JPMorgan Chase Bank, N.A. adopted and applied FIN 48, which addresses the recognition and measurement of tax positions taken or expected to be taken, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure, to all of its income tax positions at the required effective date of January 1, 2007, resulting in a $531 million cumulative effect increase to retained earnings, a reduction in goodwill of $113 million and a $644 million decrease in the liability for income taxes.

At December 31, 2008 and 2007, JPMorgan Chase Bank, N.A.'s unrecognized tax benefits, excluding related interest expense and penalties, were $3.7 billion and $3.3 billion, respectively, of which $1.5 billion and $900 million, if recognized, would reduce the annual effective tax rate. As JPMorgan Chase Bank, N.A. is presently under audit by a number of tax authorities, it is reasonably possible that unrecognized tax benefits could significantly change over the next 12 months, which could also significantly impact JPMorgan Chase Bank, N.A.'s quarterly and annual effective tax rates.

The following table presents a reconciliation of the beginning and ending amount of unrecognized tax benefits for the years 2008 and 2007.

Unrecognized tax benefits **Year ended December 31,** (in millions)	**2008**	2007
Balance at January 1,	**$3,255**	$ 2,564
Increases based on tax positions related to the current period	**676**	355
Decreases based on tax positions related to the current period	**(57)**	—
Increases based on tax positions related to prior periods	**319**	790
Decreases based on tax positions related to prior periods	**(501)**	(287)
Decreases related to settlements with taxing authorities	**(19)**	(154)
Decreases related to a lapse of applicable statute of limitations	**(12)**	(13)
Balance at December 31,	**$3,661**	$ 3,255

Pretax interest expense and penalties related to income tax liabilities recognized in income tax expense were $347 million ($209 million after-tax) in 2008 and $303 million ($182 million after-tax) in 2007. Included in accounts payable and other liabilities at December 31, 2008 and 2007, in addition to JPMorgan Chase Bank, N.A.'s liability for unrecognized tax benefits, was $1.2 billion and $800 million, respectively, for income tax-related interest and penalties, of which the penalty component was insignificant.

JPMorgan Chase is subject to ongoing tax examinations by the tax authorities of the various jurisdictions in which it operates, including U.S. federal and state and non-U.S. jurisdictions. JPMorgan Chase's consolidated federal income tax returns are presently under examination by the Internal Revenue Service ("IRS") for the years 2003, 2004 and 2005. The consolidated federal income tax returns of Bank One Corporation, which merged with and into JPMorgan Chase on July 1, 2004, are under examination for the years 2000 through 2003, and for the period January 1, 2004, through July 1, 2004. The examinations are expected to conclude in 2009. The IRS audits of the consolidated federal income tax returns of JPMorgan Chase for the years 2006 and 2007 are expected to commence in 2009. Administrative appeals are pending with the IRS relating to prior examination periods. For 2002 and prior years, refund claims relating to income and credit adjustments, and to tax attribute carrybacks, for JPMorgan Chase and its predecessor entities, including Bank One, have been filed.

The following table presents the U.S. and non-U.S. components of income from continuing operations before income tax expense (benefit).

Year ended December 31, (in millions)	**2008**	2007	2006
U.S.	**$ 4,218**	$ 9,391	$ 8,054
Non-U.S.[(a)]	**7,006**	6,706	5,554
Income from continuing operations before income tax expense (benefit)	**$ 11,224**	$ 16,097	$ 13,608

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

Note 27 – Restrictions on cash and intercompany funds transfers

The business of JPMorgan Chase Bank, N.A. is subject to examination and regulation by the OCC. JPMorgan Chase Bank, N.A. is a member of the U.S. Federal Reserve System, and its deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") as discussed in Note 21 on page 70 of these Consolidated Financial Statements.

The Board of Governors of the Federal Reserve System (the "Federal Reserve Board" or the "FRB") requires depository institutions to maintain cash reserves with a Federal Reserve Bank. The average amount of reserve balances deposited by JPMorgan Chase Bank, N.A. with various Federal Reserve Banks was approximately $1.6 billion in 2008 and 2007.

Restrictions imposed by U.S. federal law prohibit JPMorgan Chase Bank, N.A. and certain of its affiliates from borrowing from banking subsidiaries unless the loans are secured in specified amounts. Such secured loans are generally limited to 10% of the banking subsidiary's total capital, as determined by the risk-based capital guidelines; the aggregate amount of all such loans is limited to 20% of the banking subsidiary's total capital.

In addition to dividend restrictions set forth in statutes and regulations, the OCC, FDIC and the Federal Reserve have authority under the Financial Institutions Supervisory Act to prohibit or to limit the payment of dividends by the banking organizations they supervise, including JPMorgan Chase Bank, N.A., if, in the banking regulator's opinion, payment of a dividend would constitute an unsafe or unsound practice in light of the financial condition of the banking organization.

At January 1, 2009 and 2008, JPMorgan Chase Bank, N.A. could pay, in the aggregate, $16.7 billion and $16.2 billion, respectively, in dividends to JPMorgan Chase without the prior approval of its relevant banking regulators. The capacity to pay dividends in 2009 will be supplemented by JPMorgan Chase Bank, N.A.'s earnings during the year.

In compliance with rules and regulations established by U.S. and non-U.S. regulators, as of December 31, 2008 and 2007, cash in the amount of $18.3 billion and $16.0 billion, respectively, and securities with a fair value of $2.1 million and $2.1 million, respectively, were segregated in special bank accounts for the benefit of securities and futures brokerage customers.

Note 28 – Capital

JPMorgan Chase Bank, N. A.'s banking regulator, the OCC, establishes capital requirements, including well-capitalized standards for national banks.

There are two categories of risk-based capital: Tier 1 capital and Tier 2 capital. Tier 1 capital includes common stockholder's equity, qualifying preferred stock and minority interest less goodwill and other adjustments. Tier 2 capital consists of preferred stock not qualifying as Tier 1, subordinated long-term debt and other instruments qualifying as Tier 2, and the aggregate allowance for credit losses up to a certain percentage of risk-weighted assets. Total regulatory capital is subject to deductions for investments in certain subsidiaries. Under the risk-based capital guidelines, JPMorgan Chase Bank, N.A. is required to maintain minimum ratios of Tier 1 and Total (Tier 1 plus Tier 2) capital to risk weighted assets, as well as minimum leverage ratios (which are defined as Tier 1 capital to average adjusted on–balance sheet assets). Failure to meet these minimum requirements could cause the OCC to take action. As of December 31, 2008 and 2007, JPMorgan Chase Bank, N.A. was well-capitalized and met all capital requirements to which it was subject.

The OCC granted JPMorgan Chase Bank, N.A., for a period of 18 months ending October 1, 2009, relief up to a certain specified amount and subject to certain conditions from the OCC's risk-based capital and leverage requirements with respect to Bear Stearns' risk-weighted assets (and other exposures) acquired by JPMorgan Chase Bank, N.A. in connection with the Bear Stearns' merger. The amount of such relief is subject to reduction in each quarter such that the total benefit of the relief expires on October 1, 2009.

Basel II

The minimum risk-based capital requirements adopted by the U.S. federal banking agencies follow the Capital Accord of the Basel Committee on Banking Supervision. In 2004, the Basel Committee published a revision to the Accord ("Basel II"). The goal of the new Basel II Framework is to provide more risk-sensitive regulatory capital calculations and promote enhanced risk management practices among large, internationally active banking organizations. U.S. banking regulators published a final Basel II rule in December 2007, which will require JPMorgan Chase Bank, N. A. to implement Basel II.

Prior to full implementation of the new Basel II Framework, JPMorgan Chase will be required to complete a qualification period of four consecutive quarters during which it will need to demonstrate that it meets the requirements of the new rule to the satisfaction of its primary U.S. banking regulators. The U.S. implementation timetable consists of the qualification period, starting any time between April 1, 2008, and April 1, 2010, followed by a minimum transition period of three years. During the transition period, Basel ll risk-based capital requirements cannot fall below certain floors based on current ("Basel l") regulations. JPMorgan Chase Bank, N. A. expects to be in compliance with all relevant Basel II rules within the established timelines.

The following table presents the risk-based capital ratios for JPMorgan Chase Bank, N.A. at December 31, 2008 and 2007.

(in millions, except ratios)	Tier 1 capital	Total capital	Risk-weighted assets[b]	Adjusted average assets[c]	Tier 1 capital ratio	Total capital ratio	Tier 1 leverage ratio
December 31, 2008	**$100,594**	**$ 143,854**	**$ 1,153,039**	**$ 1,705,750**	**8.7%**	**12.5%**	**5.9%**
December 31, 2007	78,453	112,253	950,001	1,268,304	8.3	11.8	6.2
Well-capitalized ratios[a]					6.0%	10.0%	5.0%[d]
Minimum capital ratios[a]					4.0	8.0	3.0[e]

(a) As defined by the regulations issued by the OCC, FDIC and FRB.
(b) Includes off-balance sheet risk-weighted assets in the amount of $332.2 billion and $336.8 billion at December 31, 2008 and 2007, respectively.
(c) Adjusted average assets, for purposes of calculating the leverage ratio, includes total average assets adjusted for unrealized gains/losses on securities, less deductions for disallowed goodwill and other intangible assets, investments in certain subsidiaries and the total adjusted carrying value of nonfinancial equity investments that are subject to deductions from Tier 1 capital.
(d) Represents requirements for banking subsidiaries pursuant to regulations issued under the Federal Deposit Insurance Corporation Improvement Act.
(e) The minimum Tier 1 leverage ratio for banks is 3% or 4% depending on factors specified in regulations issued by the OCC and FRB.

Note: Rating agencies allow measures of capital to be adjusted upward for deferred tax liabilities which have resulted from both nontaxable business combinations and from tax-deductible goodwill. JPMorgan Chase Bank, N.A. had deferred tax liabilities resulting from nontaxable business combinations totaling $965 million and $1.2 billion at December 31, 2008 and 2007, respectively. Additionally, JPMorgan Chase Bank, N.A. had deferred tax liabilities resulting from tax-deductible goodwill of $838 million and $299 million at December 31, 2008 and 2007, respectively.

The following table shows the components of JPMorgan Chase Bank, N.A.'s Tier 1 and Total capital.

December 31, (in millions)	2008	2007
Tier 1 capital		
Total stockholder's equity	**$128,767**	$106,346
Effect of certain items in accumulated other comprehensive income (loss) excluded from Tier 1 capital	**2,355**	702
Adjusted stockholder's equity	**131,122**	107,048
Minority interest[(a)]	**1,023**	1,127
Less: Goodwill	**27,371**	25,819
SFAS 157 DVA	**1,802**	783
Investments in certain subsidiaries	**1**	15
Nonqualifying intangible assets	**2,377**	3,105
Tier 1 capital	**100,594**	78,453
Tier 2 capital		
Long-term debt and other instruments qualifying as Tier 2	**28,469**	25,913
Qualifying allowance for credit losses	**14,791**	7,864
Adjustment for investments in certain subsidiaries and other	**—**	23
Tier 2 capital	**43,260**	33,800
Total qualifying capital	**$143,854**	$112,253

(a) Primarily includes trust preferred capital debt securities of certain business trusts.

Note 29 – Commitments and contingencies

At December 31, 2008, JPMorgan Chase Bank, N.A. and its subsidiaries were obligated under a number of noncancelable operating leases for premises and equipment used primarily for banking purposes. Certain leases contain renewal options or escalation clauses providing for increased rental payments based upon maintenance, utility and tax increases or require JPMorgan Chase Bank, N.A. to perform restoration work on leased premises. No lease agreement imposes restrictions on JPMorgan Chase Bank, N.A.'s ability to pay dividends, engage in debt or equity financing transactions or enter into further lease agreements.

The following table presents required future minimum rental payments under operating leases with noncancelable lease terms that expire after December 31, 2008.

Year ended December 31, (in millions)	
2009	$ 1,243
2010	1,242
2011	1,128
2012	1,044
2013	972
After 2013	6,500
Total minimum payments required[(a)]	12,129
Less: Sublease rentals under noncancelable subleases	(1,089)
Net minimum payment required	$ 11,040

(a) Lease restoration obligations are accrued in accordance with SFAS 13, and are not reported as a required minimum lease payment.

Total rental expense was as follows.

Year ended December 31, (in millions)	2008	2007	2006
Gross rental expense	**$1,395**	$1,212	$1,163
Sublease rental income	**(138)**	(147)	(178)
Net rental expense	**$1,257**	$1,065	$ 985

At December 31, 2008, assets were pledged to secure public deposits and for other purposes. The significant components of the assets pledged were as follows.

December 31, (in billions)	2008	2007
Reverse repurchase/securities borrowing agreements	**$ 249.0**	$ 253.4
Securities	**31.3**	10.6
Loans	**304.7**	111.2
Trading assets and other	**119.8**	93.3
Total assets pledged[(a)]	**$ 704.8**	$ 468.5

(a) Total assets pledged do not include assets of consolidated VIEs. These assets are generally used to satisfy liabilities to third parties. See Note 18 on pages 56–66 of these Consolidated Financial Statements for additional information on assets and liabilities of consolidated VIEs.

JPMorgan Chase Bank, N.A. has resolved with the IRS issues related to compliance with reporting and withholding requirements for certain accounts transferred to The Bank of New York in connection with JPMorgan Chase Bank, N.A.'s sale to The Bank of New York of its corporate trust business. The resolution of these issues did not have a material effect on JPMorgan Chase Bank, N.A.

Litigation reserve

JPMorgan Chase Bank, N.A. maintains litigation reserves for certain of its outstanding litigation. In accordance with the provisions of SFAS 5, JPMorgan Chase Bank, N.A. accrues for a litigation-related liability when it is probable that such a liability has been incurred and the amount of the loss can be reasonably estimated. When JPMorgan Chase Bank, N.A. is named a defendant in a litigation and may be subject to joint and several liability and a judgment sharing agreement is in place, JPMorgan Chase Bank, N.A. recognizes expense and obligations net of amounts expected to be paid by other signatories to the judgment sharing agreement.

While the outcome of litigation is inherently uncertain, management believes, in light of all information known to it at December 31, 2008, JPMorgan Chase Bank, N.A.'s litigation reserves were adequate at such date. Management reviews litigation reserves periodically, and the reserves may be increased or decreased in the future to reflect further relevant developments. JPMorgan Chase Bank, N.A. believes it has meritorious defenses to the claims asserted against it in its currently outstanding litigation and, with respect to such litigation, intends to continue to defend itself vigorously, litigating or settling cases according to management's judgment as to what is in the best interests of JPMorgan Chase and its stockholders.

Note 30 – Accounting for derivative instruments and hedging activities

Derivative instruments enable end-users to increase, reduce or alter exposure to credit or market risks. The value of a derivative is derived from its reference to an underlying variable or combination of variables such as equity, foreign exchange, credit, commodity or interest rate prices or indices. JPMorgan Chase Bank, N.A. makes markets in derivatives for customers and also is an end-user of derivatives in order to hedge or manage risks of market exposures, modify the interest rate characteristics of related balance sheet instruments or meet longer-term investment objectives. The majority of JPMorgan Chase Bank, N.A.'s derivatives are entered into for market-making purposes. SFAS 133, as amended by SFAS 138, SFAS 149, SFAS 155 and FSP FAS 133-1, establishes accounting and reporting standards for derivative instruments, including those used for trading and hedging activities and derivative instruments embedded in other contracts. All free-standing derivatives are required to be recorded on the Consolidated Balance Sheets at fair value. The accounting for changes in value of a derivative depends on whether or not the contract has been designated and qualifies for hedge accounting. Derivative receivables and payables, whether designated for hedging relationships or not, are recorded in trading assets and trading liabilities as set forth in Note 7 on pages 27–28 of these Consolidated Financial Statements.

Derivatives used for trading purposes

JPMorgan Chase Bank, N.A. makes markets in derivatives for customers seeking to modify, or reduce interest rate, credit, foreign exchange, equity and commodity and other market risks or for risk-taking purposes. JPMorgan Chase Bank, N.A. typically manages its exposure from such derivatives by entering into derivatives or other financial instruments that partially or fully offset the exposure from the client transaction. JPMorgan Chase Bank, N.A. actively manages any residual exposure and seeks to earn a spread between the client derivatives and offsetting positions. For JPMorgan Chase Bank, N.A.'s own account, JPMorgan Chase Bank, N.A. uses derivatives to take risk positions or to benefit from differences in prices between derivative markets and markets for other financial instruments.

Derivatives used for risk management purposes

Interest rate contracts, which are generally interest rate swaps, forwards and futures are utilized in JPMorgan Chase Bank, N.A.'s risk management activities to minimize fluctuations in earnings caused by interest rate volatility. As a result of interest rate fluctuations, fixed-rate assets and liabilities appreciate or depreciate in market value. Gains or losses on the derivative instruments that are linked to fixed-rate assets and liabilities and forecasted transactions are expected to offset substantially this unrealized appreciation or depreciation. Interest income and interest expense on variable-rate assets and liabilities and on forecasted transactions increase or decrease as a result of interest rate fluctuations. Gains and losses on the derivative instruments that are linked to assets and liabilities and forecasted transactions are expected to offset substantially this variability in earnings. Interest rate swaps involve the exchange of fixed-rate and variable-rate interest payments based on the contracted notional amount. Forward contracts used for JPMorgan Chase Bank, N.A.'s interest rate risk management activities are primarily arrangements to exchange cash in the future based on price movements of specified financial instruments. Futures contracts used are primarily index futures which provide for cash payments based upon the movements of an underlying rate index.

JPMorgan Chase Bank, N.A. uses foreign currency contracts to manage the foreign exchange risk associated with certain foreign currency-denominated (i.e., non-U.S.) assets and liabilities and forecasted transactions denominated in a foreign currency, as well as JPMorgan Chase Bank, N.A.'s equity investments in foreign subsidiaries. As a result of foreign currency fluctuations, the U.S. dollar equivalent values of the foreign currency-denominated assets and liabilities or forecasted transactions change. Gains or losses on the derivative instruments that are linked to the foreign currency denominated assets or liabilities or forecasted transactions are expected to offset substantially this variability. Foreign exchange forward contracts represent agreements to exchange the currency of one country for the currency of another country at an agreed-upon price on an agreed-upon settlement date.

JPMorgan Chase Bank, N.A. uses forward contracts to manage the overall price risk associated with the gold inventory in its commodities portfolio. As a result of gold price fluctuations, the fair value of the gold inventory changes. Gains or losses on the derivative instruments that are linked to gold inventory are expected to substantially offset this unrealized appreciation or depreciation. Forward contracts used for JPMorgan Chase Bank, N.A.'s gold inventory risk management activities are arrangements to deliver gold in the future.

JPMorgan Chase Bank, N.A. uses credit derivatives to manage the credit risk associated with loans, lending-related commitments and derivative receivables, as well as exposure to residential and commercial mortgages. Credit derivatives compensate the purchaser when the entity referenced in the contract experiences a credit event such as bankruptcy or a failure to pay an obligation when due. For a further discussion of credit derivatives, see the discussion below.

In order to qualify for hedge accounting, a derivative must be considered highly effective at reducing the risk associated with the exposure being hedged. In order for a derivative to be designated as a hedge, there must be documentation of the risk management objective and strategy, including identification of the hedging instrument, the hedged item and the risk exposure, and how effectiveness is to be assessed prospectively and retrospectively. To assess effectiveness, JPMorgan Chase Bank, N.A. uses statistical methods such as regression analysis, as well as nonstatistical methods including dollar value comparisons of the change in the fair value of the derivative to the change in the fair value or cash flows of the hedged item. The extent to which a hedging instrument has been and is expected to continue to be effective at achieving offsetting changes in fair value or cash flows must be assessed and documented at least quarterly. Any ineffectiveness must be reported in current-period earnings. If it is determined that a derivative is not highly effective at hedging the designated exposure, hedge accounting is discontinued.

For qualifying fair value hedges, all changes in the fair value of the derivative and in the fair value of the hedged item for the risk being

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

JPMorgan Chase Bank, N.A.'s fair value hedges primarily include hedges of the interest rate risk inherent in fixed-rate long-term debt, warehouse loans, AFS securities, and the overall price of gold inventory. All changes in the hedging derivative's fair value are included in earnings consistent with the classification of the hedged item, primarily net interest income for long-term debt and AFS securities; other income for warehouse loans; and principal transactions revenue for gold inventory. JPMorgan Chase Bank, N.A. did not recognize any gains or losses during 2008, 2007 or 2006 on firm commitments that no longer qualified as fair value hedges.

JPMorgan Chase Bank, N.A. also enters into derivative contracts to hedge exposure to variability in cash flows from floating-rate financial instruments and forecasted transactions, primarily the rollover of short-term assets and liabilities, and foreign currency–denominated revenue and expense. All hedging derivative amounts affecting earnings are recognized consistent with the classification of the hedged item, primarily net interest income.

JPMorgan Chase Bank, N.A. uses forward foreign exchange contracts and foreign currency–denominated debt instruments to protect the value of net investments in subsidiaries whose functional currency is not the U.S. dollar. The portion of the hedging derivative excluded from the assessment of hedge effectiveness (i.e., forward points) is recorded in net interest income.

JPMorgan Chase Bank, N.A. does not seek to apply hedge accounting to all of JPMorgan Chase Bank, N.A.'s economic hedges. For example, JPMorgan Chase Bank, N.A. does not apply hedge accounting to purchased credit default swaps used to manage the credit risk of loans and commitments because of the difficulties in qualifying such contracts as hedges under SFAS 133. Similarly, JPMorgan Chase Bank, N.A. does not apply hedge accounting to certain interest rate derivatives used as economic hedges.

The following table presents derivative instrument hedging-related activities for the periods indicated.

Year ended December 31, (in millions)	**2008**	2007	2006
Fair value hedge ineffective net gains/(losses)[a]	**$ 1**	$ 38	$ (44)
Cash flow hedge ineffective net gains[a]	**18**	29	2
Cash flow hedging net gains/(losses) on forecasted transactions that failed to occur	**—**	15[b]	—

(a) Includes ineffectiveness and the components of hedging instruments that have been excluded from the assessment of hedge effectiveness.
(b) During the second half of 2007, JPMorgan Chase Bank, N.A. did not issue short-term fixed rate Canadian dollar denominated notes due to the weak credit market for Canadian short-term debt.

Over the next 12 months, it is expected that $348 million (after-tax) of net losses recorded in accumulated other comprehensive income (loss) at December 31, 2008, will be recognized in earnings. The maximum length of time over which forecasted transactions are hedged is ten years, and such transactions primarily relate to core lending and borrowing activities.

Credit derivatives

Credit derivatives are financial instruments whose value is derived from the credit risk associated with the debt of a third party issuer (the reference entity) and which allow one party (the protection purchaser) to transfer that risk to another party (the protection seller). Credit derivatives expose the protection purchaser to the creditworthiness of the protection seller, as the protection seller is required to make payments under the contract when the reference entity experiences a credit event, such as a bankruptcy, failure to pay its obligation, or a restructuring. The seller of credit protection receives a premium for providing protection, but has the risk that the underlying instrument referenced in the contract will be subjected to a credit event.

JPMorgan Chase Bank, N.A. is both a purchaser and seller of credit protection in the credit derivatives market and uses credit derivatives for two primary purposes. First, in its capacity as a market-maker in the dealer/client business, JPMorgan Chase Bank, N.A. actively risk manages a portfolio of credit derivatives by purchasing and selling credit protection, predominantly on corporate debt obligations, to meet the needs of customers. As a seller of protection, JPMorgan Chase Bank, N.A.'s exposure to a given reference entity may be offset partially, or entirely, with a contract to purchase protection from another counterparty on the same or similar reference entity. Second, JPMorgan Chase Bank, N.A. uses credit derivatives in order to mitigate JPMorgan Chase Bank, N.A.'s credit risk associated with the overall derivative receivables and traditional commercial credit lending exposures (loans and unfunded commitments) as well as to manage its exposure to residential and commercial mortgages. In accomplishing the above, JPMorgan Chase Bank, N.A. uses different types of credit derivatives. Following is a summary of various types of credit derivatives.

Credit default swaps

Credit derivatives may reference the credit of either a single reference entity ("single-name") or a broad-based index, as described further below. JPMorgan Chase Bank, N.A. purchases and sells protection on both single-name and index-reference obligations. Single-name credit default swaps ("CDS") and index CDS contracts are both OTC derivative contracts. Single-name CDS are used to manage the default risk of a single reference entity, while CDS index are used to manage credit risk associated with the broader credit markets or credit market segments. Like the S&P 500 and other market indices, a CDS index is comprised of a portfolio of CDS across many reference entities. New series of CDS indices are established approximately every six months with a new underlying portfolio of reference entities to reflect changes in the credit markets. If one of the reference entities in the index experiences a credit event, then the reference entity that defaulted is removed from the index and is replaced with another reference entity. CDS can also be referenced against specific portfolios of reference names or against customized exposure levels based on specific client demands: for example, to provide protection against the first $1 million of realized credit losses in a $10 million portfolio of exposure. Such structures are commonly known as tranche CDS.

For both single-name CDS contracts and index CDS, upon the occurrence of a credit event, under the terms of a CDS contract neither party to the CDS contract has recourse to the reference entity. The protection purchaser has recourse to the protection seller for the difference between the face value of the CDS contract and the fair value of the reference obligation at the time of settling the credit derivative contract, also known as the recovery value. The protection purchaser does not need to hold the debt instrument of the underlying reference entity in order to receive amounts due under the CDS contract when a credit event occurs.

Credit-linked notes

A credit linked note ("CLN") is a funded credit derivative where the issuer of the CLN purchases credit protection on a referenced entity from the note investor. Under the contract, the investor pays the issuer par value of the note at the inception of the transaction, and in return, the issuer pays periodic payments to the investor, based on the credit risk of the referenced entity. The issuer also repays the investor the par value of the note at maturity unless the reference entity experiences a specified credit event. In that event, the issuer is not obligated to repay the par value of the note, but rather, the issuer pays the investor the difference between the par value of the note and the fair value of the defaulted reference obligation at the time of settlement. Neither party to the CLN has recourse to the defaulting reference entity. For a further discussion of CLNs, see Note 18 on pages 62–63 of these Consolidated Financial Statements.

The following table presents a summary of the notional amounts of credit derivatives and credit-linked notes JPMorgan Chase Bank, N.A. sold and purchased, and the net position as of December 31, 2008. Upon a credit event, JPMorgan Chase Bank, N.A. as seller of protection would typically pay out only a percentage of the full notional of net protection sold; as the amount that is actually required to be paid on the contracts take into account the recovery value of the reference obligation at the time of settlement. JPMorgan Chase Bank, N.A. manages the credit risk on contracts to sell protection by purchasing protection with identical or similar underlying reference entities; as such other protection purchased referenced in the following table includes credit derivatives bought on related, but not identical reference positions, including indices, portfolio coverage and other reference points, which further mitigates the risk associated with the net protection sold.

Total credit derivatives and credit-linked notes

	Maximum payout/Notional amount			
December 31, 2008 (in millions)	Protection sold	Protection purchased with identical underlyings[b]	Net protection (sold)/purchased[c]	Other protection purchased[d]
Credit derivatives				
Credit default swaps	$ (4,199,104)	$ 3,887,412	$ (311,692)	$ 291,119
Other credit derivatives[a]	(3,726)	—	(3,726)	10,268
Total credit derivatives	(4,202,830)	3,887,412	(315,418)	301,387
Credit-linked notes	(1,263)	141	(1,122)	1,792
Total	$ (4,204,093)	$ 3,887,553	$ (316,540)	$ 303,179

(a) Primarily consists of total return swaps and options to enter into credit default swap contracts.
(b) Represents the notional amount of purchased credit derivatives where the underlying reference instrument is identical to the reference instrument on which JPMorgan Chase Bank, N.A. has sold credit protection.
(c) Does not take into account the fair value of the reference obligation at the time of settlement, which would generally reduce the amount the seller of protection pays to the buyer of protection in determining settlement value.
(d) Represents single-name and index CDS protection JPMorgan Chase Bank, N.A. purchased primarily to risk manage the net protection sold.

The following table summarizes the notional and fair value amounts of credit derivatives and credit-linked notes as of December 31, 2008, where JPMorgan Chase Bank, N.A. is the seller of protection. The maturity profile presents the years to maturity based upon the remaining contractual maturity of the credit derivative contracts. The ratings profile is based on the rating of the reference entity on which the credit derivative contract is based. The ratings and maturity profile of protection purchased is comparable to the profile reflected in the following table.

Protection sold – credit derivatives and credit-linked notes ratings/maturity profile[a]

December 31, 2008 (in millions)	< 1 year	1-5 years	> 5 years	Total notional amount	Fair value[c]
Risk rating of reference entity					
Investment grade (AAA to BBB-)[b]	$ (179,396)	$ (1,769,127)	$ (710,642)	$ (2,659,165)	$ (215,638)
Noninvestment grade (BB+ and below)[b]	(123,200)	(1,000,602)	(421,126)	(1,544,928)	(245,455)
Total	$ (302,596)	$ (2,769,729)	$ (1,131,768)	$ (4,204,093)	$ (461,093)

(a) The contractual maturity for single-name CDS contract generally ranges from three months to ten years and the contractual maturity for index CDS is generally five years. The contractual maturity for CLNs typically ranges from three to five years.
(b) Ratings scale is based upon JPMorgan Chase Bank, N.A.'s internal ratings, which generally correspond to ratings defined by S&P and Moody's.
(c) Amounts are shown on a gross basis, before the benefit of legally enforceable master netting agreements and cash collateral held by JPMorgan Chase Bank, N.A.

Note 31 – Off-balance sheet lending-related financial instruments and guarantees

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

To provide for the risk of loss inherent in wholesale related contracts, an allowance for credit losses on lending-related commitments is maintained. See Note 16 on pages 46–47 of these Consolidated Financial Statements for further discussion of the allowance for credit losses on lending-related commitments.

The following table summarizes the contractual amounts of off-balance sheet lending-related financial instruments and guarantees and the related allowance for credit losses on lending-related commitments at December 31, 2008 and 2007.

Off-balance sheet lending-related financial instruments and guarantees

	Contractual amount		Allowance for lending-related commitments	
December 31, (in millions)	**2008**	2007	**2008**	2007
Lending-related				
Consumer[a]	**$ 143,547**	$ 132,157	**$ 25**	$ 15
Wholesale:				
Other unfunded commitments to extend credit[b][c][d][e][f]	**222,236**	248,393	**348**	570
Asset purchase agreements[g]	**53,729**	90,105	**9**	9
Standby letters of credit and financial guarantees[c][h][i]	**94,796**	98,627	**272**	254
Other letters of credit[c]	**4,927**	5,371	**2**	1
Total wholesale	**375,688**	442,496	**631**	834
Total lending-related	**$ 519,235**	$ 574,653	**$ 656**	$ 849
Other guarantees				
Securities lending guarantees[j]	**$ 182,204**	$ 388,326	**NA**	NA
Derivatives qualifying as guarantees[k]	**83,730**	85,153	**NA**	NA

(a) Includes credit card and home equity lending-related commitments of $25.7 billion and $95.7 billion, respectively, at December 31, 2008; and $31.1 billion and $74.2 billion, respectively, at December 31, 2007. These amounts for credit card and home equity lending-related commitments represent the total available credit for these products. JPMorgan Chase Bank, N.A. has not experienced, and does not anticipate, that all available lines of credit for these products will be utilized at the same time. JPMorgan Chase Bank, N.A. can reduce or cancel these lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law.
(b) Includes unused advised lines of credit totaling $36.1 billion and $38.2 billion at December 31, 2008 and 2007, respectively, which are not legally binding. In regulatory filings with the Federal Reserve, unused advised lines are not reportable.
(c) Represents contractual amount net of risk participations totaling $28.2 billion and $28.3 billion at December 31, 2008 and 2007, respectively.
(d) Includes commitments to affiliates of $84 million and $159 million at December 31, 2008 and 2007, respectively.
(e) Excludes unfunded commitments for other equity investments of $627 million and $517 million at December 31, 2008 and 2007, respectively.
(f) Includes commitments to investment and noninvestment grade counterparties in connection with leveraged acquisitions of $3.6 billion and $8.2 billion at December 31, 2008 and 2007, respectively.
(g) Largely represents asset purchase agreements with JPMorgan Chase Bank, N.A.'s administered multi-seller, asset-backed commercial paper conduits. It also includes $96 million and $1.1 billion of asset purchase agreements to other third-party entities at December 31, 2008 and 2007, respectively.
(h) JPMorgan Chase Bank, N.A. held collateral relating to $30.8 billion and $31.4 billion of these arrangements at December 31, 2008 and 2007, respectively. Prior periods have been revised to conform to the current presentation.
(i) Includes unissued standby letters of credit commitments of $39.3 billion and $50.5 billion at December 31, 2008 and 2007, respectively.
(j) Collateral held by JPMorgan Chase Bank, N.A. in support of securities lending indemnification agreements was $182.7 billion and $393.0 billion at December 31, 2008 and 2007, respectively. Securities lending collateral comprises primarily cash, securities issued by governments that are members of the Organisation for Economic Co-operation and Development and U.S. government agencies.
(k) Represents notional amounts of derivatives qualifying as guarantees.

Other unfunded commitments to extend credit

Unfunded commitments to extend credit are agreements to lend or to purchase securities only when a customer has complied with predetermined conditions, and they generally expire on fixed dates.

Other unfunded commitments to extend credit include commitments to U.S. domestic states and municipalities, hospitals and other not-for-profit entities to provide funding for periodic tenders of their variable-rate demand bond obligations or commercial paper. Performance by JPMorgan Chase Bank, N.A. is required in the event that the variable-rate demand bonds or commercial paper cannot be remarketed to new investors. The performance required of JPMorgan Chase Bank, N.A. under these agreements is conditional and limited by certain termination events, which include bankruptcy and the credit rating downgrade of the issuer of the variable-rate demand bonds or commercial paper to below certain predetermined thresholds. The commitment period is generally one to three years. The amount of commitments related to variable-rate demand bonds and commercial paper of U.S. domestic states and municipalities, hospitals and not-for-profit entities at December 31, 2008 and 2007, was $23.5 billion and $24.1 billion, respectively.

Included in other unfunded commitments to extend credit are commitments to investment and noninvestment grade counterparties in connection with leveraged acquisitions. These commitments are dependent on whether the acquisition by the borrower is successful, tend to be short-term in nature and, in most cases, are subject to certain conditions based on the borrower's financial condition or other factors. Additionally, JPMorgan Chase Bank, N.A. often syndicates portions of the commitment to other investors, depending on market conditions. These commitments often contain flexible pricing features to adjust for changing market conditions prior to closing. Alternatively, the borrower may turn to the capital markets for required funding instead of drawing on the commitment provided by JPMorgan Chase Bank, N.A., and the commitment may expire unused. As such, these commitments may not necessarily be indicative of JPMorgan Chase Bank, N.A.'s actual risk, and the total commitment amount may not reflect actual future cash flow requirements. The amount of commitments related to leveraged acquisitions at December 31, 2008 and 2007, was $3.6 billion and $8.2 billion, respectively. For further information, see Note 5 and Note 6 on pages 13–24 and 25–27, respectively, of these Consolidated Financial Statements.

FIN 45 guarantees

FIN 45 establishes accounting and disclosure requirements for guarantees, requiring that a guarantor recognize, at the inception of a guarantee, a liability in an amount equal to the fair value of the obligation undertaken in issuing the guarantee. FIN 45 defines a guarantee as a contract that contingently requires the guarantor to pay a guaranteed party, based upon: (a) changes in an underlying asset, liability or equity security of the guaranteed party; or (b) a third party's failure to perform under a specified agreement. JPMorgan Chase Bank, N.A. considers the following off-balance sheet lending-related arrangements to be guarantees under FIN 45: certain asset purchase agreements, standby letters of credit and financial guarantees, securities lending indemnifications, certain indemnification agreements included within third-party contractual arrangements and certain derivative contracts. These guarantees are described in further detail below.

The fair value at inception of the obligation undertaken when issuing the guarantees and commitments that qualify under FIN 45 is typically equal to the net present value of the future amount of premium receivable under the contract. JPMorgan Chase Bank, N.A. has recorded this amount in other liabilities with an offsetting entry recorded in other assets. As cash is received under the contract, it is applied to the premium receivable recorded in other assets, and the fair value of the liability recorded at inception is amortized into income as lending & deposit-related fees over the life of the guarantee contract. The amount of the liability related to FIN 45 guarantees recorded at December 31, 2008 and 2007, excluding the allowance for lending-related commitments and derivative contracts discussed below, was approximately $535 million and $335 million, respectively.

Asset purchase agreements

The majority of JPMorgan Chase Bank, N.A.'s unfunded commitments are not guarantees as defined in FIN 45, except for certain asset purchase agreements that are principally used as a mechanism to provide liquidity to SPEs, predominantly multi-seller conduits, as described in Note 18 on pages 56–66 of these Consolidated Financial Statements. The conduit's administrative agent can require the liquidity provider to perform under their asset purchase agreement with the conduit at any time. These agreements may cause JPMorgan Chase Bank, N.A. to purchase an asset from the SPE at an amount above the asset's then fair value, in effect providing a guarantee of the initial value of the reference asset as of the date of the agreement. In most instances, third-party credit enhancements of the SPE mitigate JPMorgan Chase Bank, N.A.'s potential losses on these agreements.

The carrying value of asset purchase agreements of $147 million at December 31, 2008, classified in accounts payable and other liabilities on the Consolidated Balance Sheets, includes $9 million for the allowance for lending-related commitments and $138 million for the FIN 45 guarantee liability.

Standby letters of credit

Standby letters of credit ("SBLC") and financial guarantees are conditional lending commitments issued by JPMorgan Chase Bank, N.A. to guarantee the performance of a customer to a third party under certain arrangements, such as commercial paper facilities, bond financings, acquisition financings, trade and similar transactions. The majority of SBLCs mature in 5 years or less; as of December 31, 2008 and 2007, 64% and 52%, respectively, of these arrangements mature within three years. JPMorgan Chase Bank, N.A. has recourse to recover from the customer any amounts paid under these guarantees; in addition, JPMorgan Chase Bank, N.A. may hold cash or other highly liquid collateral to support these guarantees. The carrying value of standby letters of credit of $671 million and $590 million at December 31, 2008 and 2007, respectively, which is classified in accounts payable and other liabilities in the Consolidated Balance Sheets, includes $274 million and $255 million at December 31, 2008 and 2007, respectively, for the allowance for lending-related commitments, and $397 million and $335 million at December 31, 2008 and 2007, respectively, for the FIN 45 guarantee.

The following table summarizes the type of facilities under which standby letters of credit and other letters of credit arrangements are outstanding by the ratings profiles of JPMorgan Chase Bank, N.A.'s customers as of December 31, 2008 and 2007. The ratings scale is representative of the payment or performance risk to JPMorgan Chase Bank, N.A. under the guarantee and is based upon JPMorgan Chase Bank, N.A.'s internal risk ratings, which generally correspond to ratings defined by S&P and Moody's.

	2008		2007	
December 31, (in millions)	Standby letters of credit and other financial guarantees	Other letters of credit	Standby letters of credit and other financial guarantees	Other letters of credit
Investment-grade[(a)]	**$ 73,032**	**$ 3,772**	$ 70,388	$ 4,153
Noninvestment-grade[(a)]	**21,764**	**1,155**	28,239	1,218
Total contractual amount	**$ 94,796**[(b)]	**$ 4,927**	$ 98,627[(b)]	$ 5,371
Allowance for lending-related commitments	**$ 272**	**$ 2**	$ 254	$ 1
Commitments with collateral	**30,831**	**1,000**	31,355	809

(a) Ratings scale is based upon JPMorgan Chase Bank, N.A.'s internal ratings which generally correspond to ratings defined by S&P and Moody's.
(b) Represents contractual amount net of risk participations totaling $28.2 billion and $28.3 billion at December 31, 2008 and 2007, respectively.

Derivatives qualifying as guarantees

In addition to the contracts described above, JPMorgan Chase Bank, N.A. transacts certain derivative contracts that meet the characteristics of a guarantee under FIN 45. These contracts include written put options that require JPMorgan Chase Bank, N.A. to purchase assets upon exercise by the option holder at a specified price by a specified date in the future. JPMorgan Chase Bank, N.A. may enter into written put option contracts in order to meet client needs, or for trading purposes. The terms of written put options are typically five years or less. Derivative guarantees also include contracts such as stable value derivatives that require JPMorgan Chase Bank, N.A. to make a payment of the difference between the market value and the book value of a counterparty's reference portfolio of assets in the event that market value is less than book value and certain other conditions have been met. Stable value derivatives, commonly referred to as "stable value wraps", are transacted in order to allow investors to realize investment returns with less volatility than an unprotected portfolio, and typically have a longer-term maturity or allow either party to terminate the contract subject to contractually specified terms.

Derivative guarantees are recorded on the Consolidated Balance Sheets at fair value in trading assets and trading liabilities. The total notional value of the derivatives that JPMorgan Chase Bank, N.A. deems to be guarantees was $83.7 billion and $85.2 billion at December 31, 2008 and 2007, respectively. The notional value generally represents JPMorgan Chase Bank, N.A.'s maximum exposure to derivatives qualifying as guarantees, although exposure to certain stable value derivatives is contractually limited to a substantially lower percentage of the notional value. The fair value of the contracts reflects the probability of whether JPMorgan Chase Bank, N.A. will be required to perform under the contract. The fair value related to derivative guarantees was a derivative receivable of $183 million and $211 million, and a derivative payable of $5.6 billion and $2.5 billion at December 31, 2008 and 2007, respectively. JPMorgan Chase Bank, N.A. reduces exposures to these contracts by entering into offsetting transactions, or by entering into contracts that hedge the market risk related to the derivative guarantees.

In addition to derivative contracts that meet the characteristics of a guarantee under FIN 45, JPMorgan Chase Bank, N.A. is both a purchaser and seller of credit protection in the credit derivatives market. For a further discussion of credit derivatives, see Note 30 on pages 80–83 of these Consolidated Financial Statements.

Securities lending indemnification

Through JPMorgan Chase Bank, N.A.'s securities lending program, customers' securities, via custodial and non-custodial arrangements, may be lent to third parties. As part of this program, JPMorgan Chase Bank, N.A. provides an indemnification in the lending agreements which protects the lender against the failure of the third-party borrower to return the lent securities in the event JPMorgan Chase Bank, N.A. did not obtain sufficient collateral. To minimize its liability under these indemnification agreements, JPMorgan Chase Bank, N.A. obtains cash or other highly liquid collateral with a market value exceeding 100% of the value of the securities on loan from the borrower. Collateral is marked to market daily to help assure that collateralization is adequate. Additional collateral is called from the borrower if a shortfall exists, or collateral may be released to the borrower in the event of overcollateralization. If a borrower defaults, JPMorgan Chase Bank, N.A. would use the collateral held to purchase replacement securities in the market or to credit the lending customer with the cash equivalent thereof.

Also, as part of this program, JPMorgan Chase Bank, N.A. invests cash collateral received from the borrower in accordance with approved guidelines.

Based upon historical experience, management believes that risk of loss under its indemnification obligations is remote.

Indemnification agreements – general

In connection with issuing securities to investors, JPMorgan Chase Bank, N.A. may enter into contractual arrangements with third parties that may require JPMorgan Chase Bank, N.A. to make a payment to them in the event of a change in tax law or an adverse interpretation of tax law. In certain cases, the contract also may include a termination clause, which would allow JPMorgan Chase Bank, N.A. to settle the contract at its fair value in lieu of making a payment under the indemnification clause. JPMorgan Chase Bank, N.A. may also enter into indemnification clauses in connection with the licensing of software to clients ("software licensees") or when it sells a business or assets to a third party ("third-party purchasers"), pursuant to which it indemnifies software licensees for claims of liability or damages that may occur subsequent to the licensing of the software, or third-party purchasers for losses they may incur due to actions taken by JPMorgan Chase Bank, N.A. prior to the sale of the business or assets. It is difficult to estimate JPMorgan Chase Bank, N.A.'s maximum exposure under these indemnification arrangements, since this would require an assessment of future changes in tax law and future claims that may be made against JPMorgan Chase Bank, N.A. that have not yet occurred. However, based upon historical experience, management expects the risk of loss to be remote.

Loan sale and securitization-related indemnifications

Indemnifications for breaches of representations and warranties

As part of JPMorgan Chase Bank, N.A.'s loan sale and securitization activities, as described in Note 15 and Note 17 on pages 42–46 and 47–56, respectively, of these Consolidated Financial Statements, JPMorgan Chase Bank, N.A. generally makes representations and warranties in its loan sale and securitization agreements that the loans sold meet certain requirements. These agreements may require JPMorgan Chase Bank, N.A. (including in its roles as a servicer) to repurchase the loans and/or indemnify the purchaser of the loans against losses due to any breaches of such representations or warranties. Generally, the maximum amount of future payments JPMorgan Chase Bank, N.A. would be required to make for breaches under these representations and warranties would be equal to the current amount of assets held by such securitization-related SPEs plus, in certain circumstances, accrued and unpaid interest on such loans and certain expense.

At December 31, 2008 and 2007, JPMorgan Chase Bank, N.A. had recorded a repurchase liability of $1.0 billion and $15 million, respectively.

Loans sold with recourse

JPMorgan Chase Bank, N.A. provides servicing for mortgages and certain commercial lending products on both a recourse and nonrecourse basis. In nonrecourse servicing, the principal credit risk to JPMorgan Chase Bank, N.A. is the cost of temporary servicing advances of funds (i.e., normal servicing advances). In recourse servicing, the servicer agrees to share credit risk with the owner of the mortgage loans, such as the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation or a private investor, insurer or guarantor. Losses on recourse servicing predominantly occur when foreclosure sales proceeds of the property underlying a defaulted loan are less than the sum of the outstanding principal balance, plus accrued interest on the loan and the cost of holding and disposing of the underlying property. JPMorgan Chase Bank, N.A.'s loan sale transactions have primarily been executed on a nonrecourse basis, thereby effectively transferring the risk of future credit losses to the purchaser of the mortgage-backed securities issued by the trust. At December 31, 2008 and 2007, the unpaid principal balance of loans sold with recourse totaled $13.9 billion and $557 million, respectively. The increase in loans sold with recourse between December 31, 2008 and 2007, was driven by the Washington Mutual transaction. The carrying value of the related liability that JPMorgan Chase Bank, N.A. had recorded, which is representative of JPMorgan Chase Bank, N.A.'s view of the likelihood it will have to perform under this guarantee, was $230 million and zero at December 31, 2008 and 2007, respectively.

Credit card charge-backs

Prior to November 1, 2008, JPMorgan Chase Bank, N.A. was a partner with one of the leading companies in electronic payment services in a joint venture operating under the name of Chase Paymentech Solutions, LLC (the "joint venture"). The joint venture was formed in October 2005, as a result of an agreement by JPMorgan Chase Bank, N.A. and First Data Corporation, its joint venture partner, to integrate the companies' jointly-owned Chase Merchant Services and Paymentech merchant businesses. The joint venture provided merchant processing services in the United States and Canada. The dissolution of the joint venture was completed on November 1, 2008, and JPMorgan Chase Bank, N.A. retained approximately 51% of the business under the Chase Paymentech Solutions name.

Under the rules of Visa USA, Inc., and MasterCard International, JPMorgan Chase Bank, N.A., is liable primarily for the amount of each processed credit card sales transaction that is the subject of a dispute between a cardmember and a merchant. If a dispute is resolved in the cardmember's favor, Chase Paymentech Solutions will (through the cardmember's issuing bank) credit or refund the amount to the cardmember and will charge back the transaction to the merchant. If Chase Paymentech Solutions is unable to collect the amount from the merchant, Chase Paymentech Solutions will bear the loss for the amount credited or refunded to the cardmember. Chase Paymentech Solutions mitigates this risk by withholding future settlements, retaining cash reserve accounts or by obtaining other security. However, in the unlikely event that: (1) a merchant ceases operations and is unable to deliver products, services or a refund; (2) Chase Paymentech Solutions does not have sufficient collateral from the merchant to provide customer refunds; and (3) Chase Paymentech Solutions does not have sufficient financial resources to provide customer refunds, JPMorgan Chase Bank, N.A., would be liable for the amount of the transaction. For the year ended December 31, 2008, Chase Paymentech Solutions incurred aggregate credit losses of $13 million on $713.9 billion of aggregate volume processed, and at December 31, 2008, it held $222 million of collateral. For the year ended December 31, 2007, the joint venture incurred aggregate credit losses of $10 million on $719.1 billion of aggregate volume processed, and at December 31, 2007, the joint venture held $779 million of collateral. JPMorgan Chase Bank, N.A. believes that, based upon historical experience and the collateral held by Chase Paymentech Solutions, the amount of JPMorgan Chase Bank, N.A.'s charge back-related obligations, which is representative of the payment or performance risk to JPMorgan Chase Bank, N.A., is immaterial.

Exchange and clearinghouse guarantees

JPMorgan Chase Bank, N.A. is a member of several securities and futures exchanges and clearinghouses, both in the United States and other countries. Membership in some of these organizations requires JPMorgan Chase Bank, N.A. to pay a pro rata share of the losses incurred by the organization as a result of the default of another member. Such obligations vary with different organizations. These obligations may be limited to members who dealt with the defaulting member or to the amount (or a multiple of the amount) of JPMorgan Chase Bank, N.A.'s contribution to a member's guarantee fund, or, in a few cases, the obligation may be unlimited. It is difficult to estimate JPMorgan Chase Bank, N.A.'s maximum exposure under these membership agreements, since this would require an assessment of future claims that may be made against JPMorgan Chase Bank, N.A. that have not yet occurred. However, based upon historical experience, management expects the risk of loss to be remote.

Note 32 – Credit risk concentrations

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

JPMorgan Chase Bank, N.A. regularly monitors various segments of its credit portfolio to assess potential concentration risks and to obtain collateral when deemed necessary. Senior management is significantly involved in the credit approval and review process, and risk levels are adjusted as needed to reflect management's risk tolerance.

In JPMorgan Chase Bank, N.A.'s wholesale portfolio, risk concentrations are evaluated primarily by industry and geographic region, and monitored regularly on both an aggregate portfolio level and on an individual customer basis. Management of JPMorgan Chase Bank, N.A.'s wholesale exposure is accomplished through loan syndication and participation, loan sales, securitizations, credit derivatives, use of master netting agreements, and collateral and other risk-reduction techniques. In the consumer portfolio, concentrations are evaluated primarily by product and by U.S. geographic region, with a key focus on trends and concentrations at the portfolio level, where potential risk concentrations can be remedied through changes in underwriting policies and portfolio guidelines.

JPMorgan Chase Bank, N.A. does not believe exposure to any one loan product with varying terms (e.g., interest-only payments for an introductory period, option ARMs) or exposure to loans with high loan-to-value ratios would result in a significant concentration of credit risk. Terms of loan products and collateral coverage are included in JPMorgan Chase Bank, N.A.'s assessment when extending credit and establishing its allowance for loan losses.

For further information regarding on-balance sheet credit concentrations by major product and geography, see Note 15 on pages 42–46 and Note 16 on pages 46–47 of these Consolidated Financial Statements. For information regarding concentrations of off-balance sheet lending-related financial instruments by major product, see Note 31 on pages 83–87 of these Consolidated Financial Statements.

The table below presents both on- and off-balance sheet wholesale- and consumer-related credit exposure as of December 31, 2008 and 2007.

	2008				2007			
		On-balance sheet				On-balance sheet		
December 31, (in millions)	Credit exposure	Loans	Derivatives	Off-balance sheet[c]	Credit exposure	Loans	Derivatives	Off-balance sheet[c]
Wholesale-related:								
Real estate	**$ 83,430**	**$ 66,617**	**$ 2,187**	**$ 14,626**	$ 38,153	$ 20,187	$ 845	$ 17,121
Banks and finance companies	**70,003**	**18,723**	**28,236**	**23,044**	64,519	16,745	11,777	35,997
Asset managers	**46,780**	**9,316**	**17,125**	**20,339**	37,902	8,394	7,272	22,236
Healthcare	**36,862**	**6,453**	**3,184**	**27,225**	30,281	5,404	837	24,040
Utilities	**32,585**	**8,766**	**3,431**	**20,388**	27,501	4,996	1,769	20,736
Retail & consumer services	**32,252**	**8,200**	**2,903**	**21,149**	23,774	6,522	488	16,764
State & municipal governments	**32,172**	**4,528**	**6,892**	**20,752**	29,901	4,731	3,032	22,138
Consumer products	**29,295**	**10,017**	**2,138**	**17,140**	29,813	8,846	1,026	19,941
Oil & gas	**23,658**	**8,631**	**1,980**	**13,047**	25,091	10,130	1,485	13,476
Securities firms & exchanges	**23,368**	**6,348**	**11,978**	**5,042**	23,134	5,108	11,006	7,020
Insurance	**17,446**	**1,927**	**5,210**	**10,309**	16,624	1,041	2,310	13,273
Technology	**17,218**	**4,745**	**1,311**	**11,162**	18,228	4,638	1,238	12,352
Media	**17,087**	**7,514**	**1,206**	**8,367**	16,085	4,861	1,200	10,024
Metals/mining	**14,887**	**6,460**	**1,918**	**6,509**	17,551	7,264	2,529	7,758
Central government	**14,347**	**507**	**9,673**	**4,167**	8,737	462	3,771	4,504
All other wholesale	**267,095**	**72,467**	**42,205**	**152,423**	293,406	75,996	22,294	195,116
Loans held-for-sale and loans at fair value	**11,968**	**11,968**	**—**	**—**	22,729	22,729	—	—
Receivables from customers[a]	**202**	**—**	**—**	**—**	—	—	—	—
Total wholesale-related	**770,655**	**253,187**	**141,577**	**375,689**	723,429	208,054	72,879	442,496
Consumer-related:								
Home equity	**238,633**	**142,890**	**—**	**95,743**	169,023	94,832	—	74,191
Prime mortgage	**99,102**	**94,023**	**—**	**5,079**	47,269	39,875	—	7,394
Subprime mortgage	**22,086**	**22,086**	**—**	**—**	15,468	15,467	—	1
Option ARMs	**40,661**	**40,661**	**—**	**—**	—	—	—	—
Auto loans	**47,329**	**42,603**	**—**	**4,726**	50,407	42,349	—	8,058
Credit card[b]	**56,883**	**31,141**	**—**	**25,742**	62,928	31,824	—	31,104
All other loans	**45,950**	**33,693**	**—**	**12,257**	36,681	25,272	—	11,409
Loans held-for-sale	**2,028**	**2,028**	**—**	**—**	3,989	3,989	—	—
Total consumer-related	**552,672**	**409,125**	**—**	**143,547**	385,765	253,608	—	132,157
Total exposure	**$1,323,327**	**$ 662,312**	**$ 141,577**	**$ 519,236**	$1,109,194	$ 461,662	$ 72,879	$ 574,653

(a) Primarily represents margin loans to prime and retail brokerage customers which are included in accrued interest and accounts receivable on the Consolidated Balance Sheets.
(b) Excludes $32.5 billion and $29.3 billion of securitized credit card receivables at December 31, 2008 and 2007, respectively.
(c) Represents lending-related financial instruments.

Note 33 – International operations

Financial information regarding international operations is accumulated, managed and discussed at the JPMorgan Chase level and not at the subsidiary level (i.e., JPMorgan Chase Bank, N.A.). For financial reporting purposes, JPMorgan Chase Bank, N.A. is viewed by JPMorgan Chase as a legal entity only; financial information for international operations is not used to manage JPMorgan Chase Bank, N.A.

Note 34 – Business segments

SFAS 131 defines the criteria by which management determines the number and nature of its "operating segments" (i.e., business segments) and sets forth the financial information that is required to be disclosed about these business segments. This information is accumulated, managed and discussed at the JPMorgan Chase level and not at the subsidiary level (i.e., JPMorgan Chase Bank, N.A.). For financial reporting purposes, JPMorgan Chase Bank, N.A. is viewed by JPMorgan Chase as a legal entity only; business segment financial information is not prepared for JPMorgan Chase Bank, N.A.

Selected quarterly financial data (unaudited)

(in millions, except ratio data)	2008[c]				2007			
As of or for the period ended	4th	3rd	2nd	1st	4th	3rd	2nd	1st
Selected income statement data								
Noninterest revenue[a]	**$ 8,176**	**$ 8,352**	**$ 8,329**	**$ 8,372**	$ 7,962	$ 6,419	$ 8,610	$ 8,639
Net interest income	**10,858**	**7,111**	**6,965**	**6,583**	6,291	6,066	5,459	5,321
Total net revenue	**19,034**	**15,463**	**15,294**	**14,955**	14,253	12,485	14,069	13,960
Provision for credit losses	**5,497**	**2,936**	**2,533**	**3,738**	1,743	1,284	1,028	617
Provision for credit losses – accounting conformity	**(442)**	**1,976**	**—**	**—**	—	—	—	—
Total noninterest expense	**10,404**	**9,010**	**10,077**	**7,793**	8,629	7,703	8,968	8,698
Income (loss) before income tax expense (benefit) and extraordinary gain	**3,575**	**1,541**	**2,684**	**3,424**	3,881	3,498	4,073	4,645
Income tax expense (benefit)	**1,352**	**(519)**	**674**	**1,204**	1,099	1,185	1,402	1,679
Income (loss) before extraordinary gain	**2,223**	**2,060**	**2,010**	**2,220**	2,782	2,313	2,671	2,966
Extraordinary gain[b]	**1,325**	**581**	**—**	**—**	—	—	—	—
Net income	**$ 3,548**	**$ 2,641**	**$ 2,010**	**$ 2,220**	$ 2,782	$ 2,313	$ 2,671	$ 2,966
Tier 1 capital ratio	**8.7%**	**7.9%**	**8.2%**	**8.2%**	8.3%	8.2%	7.8%	8.0%
Total capital ratio	**12.5**	**11.4**	**12.0**	**12.0**	11.8	11.8	11.0	11.2
Tier 1 leverage ratio	**5.9**	**7.3**	**6.1**	**6.1**	6.2	6.2	5.9	6.0
Selected balance sheet data (period-end)								
Trading assets	**$ 365,365**	**$ 376,888**	**$ 368,829**	**$ 380,248**	$ 390,459	$ 357,540	$ 350,718	$ 318,876
Securities	**199,744**	**145,439**	**114,837**	**98,549**	82,511	94,002	92,661	93,641
Loans	**662,312**	**701,664**	**481,213**	**484,585**	461,662	431,859	410,214	393,382
Allowance for credit losses	**(17,809)**	**(17,086)**	**(11,425)**	**(10,338)**	(7,864)	(6,986)	(6,364)	(5,830)
Total assets	**1,746,242**	**1,765,128**	**1,378,468**	**1,407,568**	1,318,888	1,244,049	1,252,369	1,224,104
Deposits	**1,055,765**	**1,013,390**	**797,676**	**806,319**	772,087	698,109	663,305	632,598
Long-term debt	**71,862**	**79,102**	**81,399**	**82,077**	87,575	87,943	81,697	73,798
Total stockholder's equity	**128,767**	**125,639**	**108,929**	**108,960**	106,346	102,879	98,388	97,876

(a) JPMorgan Chase Bank, N.A. adopted SFAS 157 in the first quarter of 2007. See Note 5 on pages 13–24 of these Consolidated Financial Statements for additional information.
(b) For a discussion of the extraordinary gain, see Note 3 on pages 10–12.
(c) On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual Bank. The transaction was accounted for as a purchase and Washington Mutual's results of operations are included in JPMorgan Chase Bank, N.A.'s results from the transaction date. For additional information on the Washington Mutual transaction, see Note 3 on pages 10–12 of these Consolidated Financial Statements.

JPMorgan Chase Bank, National Association
(a wholly-owned subsidiary of JPMorgan Chase & Co.)

Selected annual financial data (unaudited)

(in millions, except ratio data) As of or for the year ended December 31,	2008[d]	2007	2006	2005	2004[e]
Selected income statement data					
Noninterest revenue[a]	**$ 33,229**	$ 31,630	$ 29,191	$ 23,065	$ 16,979
Net interest income	**31,517**	23,137	18,135	15,283	11,962
Total net revenue	**64,746**	54,767	47,326	38,348	28,941
Provision for credit losses	**14,704**	4,672	1,809	1,101	534
Provision for credit losses – accounting conformity	**1,534**	—	—	—	—
Total noninterest expense	**37,284**	33,998	31,909	29,799	25,488
Income from continuing operations before income tax expense (benefit)	**11,224**	16,097	13,608	7,448	2,919
Income tax expense	**2,711**	5,365	4,487	2,563	937
Income from continuing operations	**8,513**	10,732	9,121	4,885	1,982
Income from discontinued operations[b]	**—**	—	798	207	196
Income before extraordinary gain	**8,513**	10,732	9,919	5,092	2,178
Extraordinary gain[c]	**1,906**	—	—	—	—
Net income	**$ 10,419**	$ 10,732	$ 9,919	$ 5,092	$ 2,178
Tier 1 capital ratio	**8.7%**	8.3%	8.2%	8.1%	8.3%
Total capital ratio	**12.5**	11.8	11.4	11.2	11.7
Tier 1 leverage ratio	**5.9**	6.2	5.9	6.1	6.0
Selected balance sheet data (period-end)					
Trading assets	**$ 365,365**	$ 390,459	$ 284,282	$ 221,837	$ 236,768
Securities	**199,744**	82,511	88,487	37,113	81,033
Loans	**662,312**	461,662	421,833	365,991	334,323
Allowance for credit losses	**(17,809)**	(7,864)	(5,693)	(5,254)	(5,804)
Total assets	**1,746,242**	1,318,888	1,179,390	1,013,985	967,365
Deposits	**1,055,765**	772,087	640,466	552,610	517,710
Long-term debt	**71,862**	87,575	71,256	55,612	46,406
Total stockholder's equity	**128,767**	106,346	96,010	86,350	80,640

(a) JPMorgan Chase Bank, N.A. adopted SFAS 157 in the first quarter of 2007. See Note 5 on pages 13–24 of these Consolidated Financial Statements for additional information.
(b) On October 1, 2006, JPMorgan Chase & Co. completed the exchange of selected corporate trust businesses for the consumer, business banking and middle-market banking businesses of The Bank of New York Company Inc. The results of operations of these corporate trust businesses are reported as discontinued operations for each period prior to 2007.
(c) For a discussion of the extraordinary gain, see Note 3 on pages 10–12.
(d) On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual Bank. The transaction was accounted for as a purchase and Washington Mutual's results of operations are included in JPMorgan Chase Bank, N.A.'s results from the transaction date. For additional information on the Washington Mutual transaction, see Note 3 on pages 10–12 of these Consolidated Financial Statements.
(e) On July 1, 2004, Bank One Corporation merged with and into JPMorgan Chase Bank, N.A. Accordingly, 2004 results include six months of the combined JPMorgan Chase Bank, N.A.'s results and six months of heritage JPMorgan Chase Bank, N.A. results.

Advised lines of credit: An authorization which specifies the maximum amount of a credit facility JPMorgan Chase Bank, N.A. has made available to an obligor on a revolving but non-binding basis. The borrower receives written or oral advice of this facility. JPMorgan Chase Bank, N.A. may cancel this facility at any time.

AICPA: American Institute of Certified Public Accountants.

AICPA Statement of Position ("SOP") 03-3: "Accounting for Certain Loans or Debt Securities Acquired in a Transfer."

AICPA SOP 98-1: "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use."

APB 25: Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

Beneficial interest issued by consolidated VIEs: Represents the interest of third-party holders of debt/equity securities, or other obligations, issued by VIEs that JPMorgan Chase Bank, N.A. consolidates under FIN 46R. The underlying obligations of the VIEs consist of short-term borrowings, commercial paper and long-term debt. The related assets consist of trading assets, available-for-sale securities, loans and other assets.

Benefit obligation: Refers to the projected benefit obligation for pension plans and the accumulated postretirement benefit obligation for OPEB plans.

Credit cycle: A period of time over which credit quality improves, deteriorates and them improves again. The duration of a credit cycle can vary from a couple of years to several years.

Credit derivatives: Contractual agreements that provide protection against a credit event on one or more referenced credits. The nature of a credit event is established by the protection buyer and protection seller at the inception of a transaction, and such events include bankruptcy, insolvency or failure to meet payment obligations when due. The buyer of the credit derivative pays a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of a credit event.

Discontinued operations: A component of an entity that is classified as held-for-sale or that has been disposed of from ongoing operations in its entirety or piecemeal, and for which the entity will not have any significant, continuing involvement. A discontinued operation may be a separate major business segment, a component of a major business segment or a geographical area of operations of the entity that can be separately distinguished operationally and for financial reporting purposes.

EITF: Emerging Issues Task Force.

EITF Issue 99-20: "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets."

FASB: Financial Accounting Standards Board.

FICO: Fair Isaac Corporation.

FIN 39: FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts – an interpretation of APB Opinion No. 10 and FASB Statement No. 105."

FIN 41: FASB Interpretation No. 41, "Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements – an interpretation of APB Opinion No. 10 and a Modification of FASB Interpretation No. 39."

FIN 45: FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others – an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34."

FIN 46R: FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities – an interpretation of ARB No. 51."

FIN 47: FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143."

FIN 48: FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109."

Forward points: Represents the interest rate differential between currencies, which is either added to or subtracted from the current exchange rate (i.e., "spot rate") to determine the forward exchange rate.

FSP: FASB Staff Position.

FSP FAS 123(R)-3: "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards."

FSP FAS 132(R)-1: "Employers' Disclosures about Postretirement Benefit Plan Assets."

FSP FAS 133-1 and FIN 45-4: "Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161."

FSP FAS 140-4 and FIN 46(R)-8: "Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities."

FSP FAS 140-3: "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions."

FSP FIN 39-1: "Amendment of FASB Interpretation No. 39."

Interchange income: A fee that is paid to a credit card issuer in the clearing and settlement of a sales or cash advance transaction.

Interests in purchased receivables: Represent an ownership interest in cash flows of an underlying pool of receivables transferred by a third-party seller into a bankruptcy-remote entity, generally a trust.

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

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

Mortgage product types:

Alt-A
Alt-A loans are generally higher in credit quality than subprime loans but have characteristics that would disqualify the borrower from a traditional prime loan. Alt-A lending characteristics may include one or more of the following: (i) limited documentation; (ii) high combined-loan-to-value ("CLTV") ratio; (iii) loans secured by non-owner occupied properties; or (iv) debt-to-income ratio above normal limits. Perhaps the most important characteristic is limited documentation. A substantial proportion of traditional Alt-A loans are those where a borrower does not provide complete documentation of his or her assets or the amount or source of his or her income.

Option ARMs
The option ARM home loan product is an adjustable-rate mortgage loan that provides the borrower with the option each month to make a fully amortizing, interest-only, or minimum payment. The minimum payment on an option ARM loan is based upon the interest rate charged during the introductory period. This introductory rate has usually been significantly below the fully indexed rate. The fully indexed rate is calculated using an index rate plus a margin. Once the introductory period ends, the contractual interest rate charged on the loan increases to the fully indexed rate and adjusts monthly to reflect movements in the index. The minimum payment is typically insufficient to cover interest accrued in the prior month, and any unpaid interest is deferred and added to the principal balance of the loan.

Prime
Prime mortgage loans generally have low default risk and are made to borrowers with good credit records and a monthly income that is at least three to four times greater than their monthly housing expense (mortgage payments plus taxes and other debt payments). These borrowers provide full documentation and generally have reliable payment histories.

Subprime
Subprime loans are designed for customers with one or more high risk characteristics, including but not limited to: (i) unreliable or poor payment histories; (ii) high loan-to-value ("LTV") ratio of greater than 80% (without borrower-paid mortgage insurance); (iii) high debt-to-income ratio; (iv) the occupancy type for the loan is other than the borrower's primary residence; or (v) a history of delinquencies or late payments on the loan.

NA: Data is not applicable or available for the period presented.

OPEB: Other postretirement employee benefits.

Principal transactions: Realized and unrealized gains and losses from trading activities (including physical commodities inventories that are accounted for at the lower of cost or fair value) and changes in fair value associated with financial instruments held by the investment banking business for which the SFAS 159 fair value option was elected. Principal transactions revenue also include private equity gains and losses.

Purchased credit-impaired loans: Acquired loans deemed to be credit-impaired under SOP 03-3. SOP 03-3 allows purchasers to aggregate credit-impaired loans acquired in the same fiscal quarter into one or more pools, provided that the loans have common risk characteristics (e.g., FICO score, geographic location). A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Wholesale loans were determined to be credit-impaired if they met the definition of an impaired loan under SFAS 114 at the acquisition date. Consumer loans are determined to be purchased credit-impaired based upon specific risk characteristics of the loan, including product type, loan-to-value ratios, FICO scores, and past due status.

Receivables from customers: Primarily represents margin loans to prime and retail brokerage customers which are included in accrued interest and accounts receivable on the Consolidated Balance Sheets for the wholesale business.

REMIC: Investment vehicles that hold commercial and residential mortgages in trust and issues securities representing an undivided interest in these mortgages. A REMIC, which can be a corporation, trust, association, or partnership, assembles mortgages into pools and issues pass-through certificates, multiclass bonds similar to a collateralized mortgage obligation ("CMO") or other securities to investors in the secondary mortgage market.

SAB: Staff Accounting Bulletin.

SAB 105: "Application of Accounting Principles to Loan Commitments."

SAB 109: "Written Loan Commitments Recorded at Fair Value Through Earnings."

SFAS: Statement of Financial Accounting Standards.

SFAS 5: "Accounting for Contingencies."

SFAS 13: "Accounting for Leases."

SFAS 52: "Foreign Currency Translation."

SFAS 87: "Employers' Accounting for Pensions."

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

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

SFAS 107: "Disclosures about Fair Value of Financial Instruments."

SFAS 109: "Accounting for Income Taxes."

SFAS 114: "Accounting by Creditors for Impairment of a Loan – an amendment of FASB Statements No. 5 and 15."

SFAS 115: "Accounting for Certain Investments in Debt and Equity Securities."

SFAS 123: "Accounting for Stock-Based Compensation."

SFAS 123R: "Share-Based Payment."

SFAS 133: "Accounting for Derivative Instruments and Hedging Activities."

SFAS 138: "Accounting for Certain Derivative Instruments and Certain Hedging Activities – an amendment of FASB Statement No. 133."

SFAS 140: "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a replacement of FASB Statement No. 125."

SFAS 141: "Business Combinations."

SFAS 141R: "Business Combinations."

SFAS 142: "Goodwill and Other Intangible Assets."

SFAS 143: "Accounting for Asset Retirement Obligations."

SFAS 149: "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities."

SFAS 155: "Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140."

SFAS 156: "Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140."

SFAS 157: "Fair Value Measurements."

SFAS 158: "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)."

SFAS 159: "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115."

SFAS 160: "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51."

SFAS 161: "Disclosures About Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133."

Unaudited: Financial statements and information that have not been subjected to auditing procedures sufficient to permit an independent certified public accountant to express an opinion.

U.S. GAAP: Accounting principles generally accepted in the United States of America.

U.S. government and federal agency obligations: Obligations of the U.S. government or an instrumentality of the U.S. government whose obligations are fully and explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.

U.S. government-sponsored enterprise obligations: Obligations of agencies originally established or chartered by the U.S. government to serve public purposes as specified by the U.S. Congress; these obligations are not explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.

STATUTORY CONSENTS

As a national banking association organised under the federal laws of the United States of America, the guarantor is empowered to give guarantees. Each issue of structured products will have the benefit of the guarantee.

NO MATERIAL ADVERSE CHANGE AND LITIGATION

Save as disclosed in this base listing document, there has been no material adverse change in our or the guarantor's financial position since the date of the most recently published audited financial statements of the guarantor on a consolidated basis or of the issuer respectively, as the case may be, that would have a material adverse effect on our ability to perform our obligations, or the guarantor's ability to perform its obligations respectively in the context of any issue of structured products.

Save as disclosed in this base listing document, we and the guarantor are not aware, to the best of our and the guarantor's knowledge and belief, of any claims, litigation or arbitration proceedings pending or threatened against us or the guarantor respectively or that we or the guarantor are respectively involved in, which could have (taking into consideration the amounts involved and the likelihood of success of such proceedings) a material adverse effect on our ability to perform our obligations, or the guarantor's ability to perform its obligations respectively, in the context of any issue of structured products.

FINANCIAL INFORMATION ABOUT THE ISSUER AND THE GUARANTOR

As at the date of this base listing document, PricewaterhouseCoopers Accountants N.V., our auditors, have given and have not withdrawn their written consent to the inclusion in this base listing document of their report dated 30 March 2009 (which relates to our financial statements for the year ended 31 December 2008) in the form and context in which they are included. Their report was not prepared exclusively for incorporation in this base listing document.

As at the date of this base listing document, PricewaterhouseCoopers LLP, auditors of the guarantor, have given and have not withdrawn their written consent to the inclusion in this base listing document of their report dated 31 March 2009 (which relates to the guarantor's audited financial statements comprising consolidated balance sheets at 31 December 2008 and 2007 and the related consolidated statements of income, changes in stockholder's equity and comprehensive income and cash flows for each of the three years ended 31 December 2008) in the form and context in which they are included. Their report was not prepared exclusively for incorporation in this base listing document.

Neither PricewaterhouseCoopers Accountants N.V. nor PricewaterhouseCoopers LLP has any shareholding in us or the guarantor or any of the guarantor's subsidiaries nor do they have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities or securities of the guarantor or any of the guarantor's subsidiaries.

OUR SERVICE OF PROCESS AGENT

We have authorised J.P. Morgan Securities (Asia Pacific) Limited, 25/F, Chater House, 8 Connaught Road, Central, Hong Kong to accept on our behalf and on behalf of the guarantor service of process and any other notices required to be served on either us or the guarantor in Hong Kong.

OUR AUTHORISED REPRESENTATIVES

Our authorised representatives are Belinda Hsu, Vice President and Colette Kwong, Assistant Vice President who can be contacted at J.P. Morgan Securities (Asia Pacific) Limited, 25/F, Chater House, 8 Connaught Road Central, Hong Kong. The guarantor's authorised representative is William Lee, Managing Director, who can be contacted at J.P. Morgan Securities (Asia Pacific) Limited, 25/F, Chater House, 8 Connaught Road, Central, Hong Kong.

ANNEX 1

TERMS AND CONDITIONS OF THE CASH-SETTLED STOCK WARRANTS

The relevant Conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the global warrant certificate. The applicable supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Warrants. Capitalised terms used in the relevant Conditions and not otherwise defined therein shall have the meanings given to them in the relevant supplemental listing document.

1 Form; Status; Guarantee; Transfer and Title

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 13) relating to the Shares of the Company are issued in registered form subject to and with the benefit of the Instrument made by J.P. Morgan Structured Products B.V. (the "**Issuer**") and JPMorgan Chase Bank, National Association (the "**Guarantor**"). A copy of the Instrument is available for inspection at the office of J.P. Morgan Securities (Asia Pacific) Limited as specified below. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

(B) The settlement obligation of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

In the Instrument, the Guarantor has unconditionally and irrevocably guaranteed to the Warrantholders the due and punctual settlement in full of all obligations due and owing by the Issuer arising under the issuance of the Warrants after taking account of any set off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, when and as due (whether at maturity, by acceleration or otherwise).

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer, the Guarantor and the Agent as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" shall be construed accordingly.

(E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

2 Warrant Rights and Exercise Expenses

(A) Every Exercise Amount entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(E)).

(B) The Warrantholder will be required to pay all charges which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(E).

3 Exercise Period

(A) The Warrants may be exercised by delivery of an Exercise Notice (as defined in Condition 4) on any Business Day during the Exercise Period. In the case of an exercise of American style Warrants, the Exercise Period is the period beginning at (and including) 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealing in the Warrants on the Stock Exchange) ending at (and including) 10:00 a.m. (Hong Kong time) on the Expiry Date subject to prior termination of the Warrants as provided in Condition 11.

Subject to Condition 3(B), in the case of an exercise of European style Warrants, a reference to Exercise Period shall mean 10:00 a.m. (Hong Kong time) on the Expiry Date only.

(B) Any Warrant with respect to which an Exercise Date (as defined in Condition 4) has not occurred during the Exercise Period, and in respect of which the Cash Settlement Amount which would be payable by the Issuer if exercised on the Expiry Date shall be deemed automatically exercised on the Expiry Date ("**Automatic Exercise**"), so that the Warrantholders shall not be required to serve an Exercise Notice.

(C) Any Warrant with respect to which an Exercise Date has not occurred or which has not been automatically exercised in accordance with Condition 3(B) shall expire immediately at the conclusion of the Exercise Period without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(D) In these Conditions, "**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is open for dealings in Hong Kong and banks are open in Hong Kong for business.

4 Exercise of Warrants

(A) Subject to Condition 3(B), Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) (i) In order to exercise a Warrant, the Warrantholder shall deliver to the Agent a duly completed exercise notice in accordance with the Instrument (an "**Exercise Notice**"), such delivery to be made not later than 10:00 a.m. (Hong Kong time) on the Expiry Date.

(ii) The date upon which the Warrants are exercised (an "**Exercise Date**", which reference shall, in the case of Warrants that are deemed exercised, mean the date on which such Warrants are deemed exercised) shall be the Business Day on which an Exercise Notice is delivered to the Agent and in respect of which there is a valid exercise of Warrants in accordance with the requirements set out herein, provided that any Exercise Notice received by the Agent after 10:00 a.m. (Hong Kong time) on any Business Day (other than the Expiry Date) shall be deemed to have been delivered on the next following Business Day.

(C) Delivery of an Exercise Notice in accordance with Condition 4(B) shall constitute an irrevocable election and undertaking by the Warrantholder specified in such Exercise Notice to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authorisation (which is deemed to be given in the case of Automatic Exercise) to the Issuer and/or the Agent to debit any determined Exercise Expenses from the Cash Settlement Amount. Any Exercise Expenses which have not been determined by the Agent on the Exercise Date shall be notified as soon as practicable after determination thereof by the Agent to the Warrantholder and shall be paid by the Warrantholder forthwith in immediately available funds no later than three Business Days after the Warrantholder receives notice of any unpaid expenses.

(D) Following the Expiry Date the Issuer will, with effect from the first Business Day following the Expiry Date cancel the global warrant certificate.

(E) Subject to a valid exercise of Warrants or an Automatic Exercise in accordance with Condition 3(B), the Issuer will as soon as practicable and not later than three Business Days following the Expiry Date or (in the case where the American style Warrants are not exercised on the Expiry Date) the Valuation Date (the "**Settlement Date**") in accordance with these conditions procure payment of the aggregate Cash Settlement Amounts (following deduction of determined Exercise Expenses) for all Warrants exercised or deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

Subject to adjustment as provided in Condition 6, "**Cash Settlement Amount**" means:

In the case of a series of Call Warrants:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{\text{Entitlement x (Average Price – Exercise Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

In the case of a series of Put Warrants:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{\text{Entitlement x (Exercise Price – Average Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

"**Entitlement**" means the number of Shares to which the Warrants relate, as specified in the relevant Supplemental Listing Document.

"**Average Price**" shall be the arithmetic mean of the Closing Prices for each Valuation Date, provided that (in the case of American style Warrants only) (i) if the American style Warrants are exercised prior to 10:00 a.m. (Hong Kong time) on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be the Closing Price on the Exercise Date or (ii) if the American style Warrants are exercised after 10:00 a.m. (Hong Kong time) on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be the Closing Price on the Day following the Exercise Date.

"**Closing Price**" means the closing price of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like) for the relevant Valuation Date.

Any payment made pursuant to this Condition 4(E) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder, or such bank, broker or agent in Hong Kong (if any) is recorded on the register.

(F) If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

If the Agent determines, in its sole discretion, that on any Valuation Date a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a day that already is or is deemed to be a Valuation Date, provided that (in the case of European style Warrants and American style Warrants exercised on the Expiry Date) if the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after the Expiry Date, then (i) the Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and (ii) the Issuer and/or the Agent shall determine the closing price of the Shares on the basis of its good faith estimate of such price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

"**Market Disruption Event**" means the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of, or limitation imposed on, trading on the Stock Exchange in the Shares or any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer and/or Agent, material.

For the avoidance of doubt, a Market Disruption Event shall include, but shall not be limited to a limitation/closure of the Stock Exchange due to unforeseen circumstances such as an official tropical cyclone warning signal eight (or above) or black rain storm warning hoisted by the Hong Kong Observatory provided that so long as such warnings are lowered or suspended by the Hong Kong Observatory; and the Stock Exchange: (i) re-opens for the entire afternoon trading session or (ii) opens late in the morning of the affected day and stays open for the entire afternoon trading session and closing only at the normal closing time for the Stock Exchange, the hoisting of such warning shall not by itself be a Market Disruption Event.

"**Valuation Date**" means, subject as provided above in relation to a Market Disruption Event, each of the five Days immediately preceding the Expiry Date relating to such exercise or (in the case of American style Warrants only) (i) if the American style Warrants are exercised prior to 10:00 a.m. (Hong Kong time) on an Exercise Date other than the Expiry Date, the Exercise Date or (ii) if the American style Warrants are exercised after 10:00 a.m. (Hong Kong time) on an Exercise Date other than the Expiry Date, the Day following the Exercise Date.

In the event that a Market Disruption Event has occurred and a Valuation Date is postponed in accordance with Condition 4(F), the closing price of the Shares on that first succeeding Business Day will be referenced more than once in the determination of the Cash Settlement Amount, so that in no event shall there be less than 5 closing prices to determine the Average Price, provided that (in the case of American style Warrants only) if the American style Warrants are exercised on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be one closing price in any event.

For the purposes of Condition 4(F), a "**Day**" shall mean a day (excluding Saturday) on which the Stock Exchange and banks are usually open in Hong Kong for business.

(G) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Guarantor, the Issuer or its agent or nominee and the Warrantholder and neither the Guarantor, the Issuer nor its agent or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Issuer, the Guarantor or the Agent shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amounts shall be discharged by payment in accordance with Condition 4(E) above.

5 Agent

(A) The Agent will be acting as agent of the Issuer in respect of the Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholder in accordance with Condition 10.

6 Adjustments

Adjustments may be made by the Agent to the terms of the Warrants (including, but not limited to, the Exercise Price and the Entitlement) on the basis of the following provisions:

(A) (i) If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Exercise Price and the Entitlement shall be adjusted on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formulae:

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1 + (R/S) \text{ x } M}{1 + M} \text{ x } X$$

The Entitlement will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1 + M}{1 + (R/S) \text{ x } M} \text{ x } E$$

Where:

E: Existing Entitlement immediately prior to the relevant event giving rise to the adjustment

X: Existing Exercise Price immediately prior to the relevant event giving rise to the adjustment

S: Cum-Rights Share price, being the closing price of an existing Share, as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a cum-rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Shares per existing Share (whether a whole or a fraction) each holder of an existing Share is entitled to subscribe or have

For the purposes of these Conditions, "**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to a holder of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(ii) The Adjusted Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) shall take effect on the same day that the Entitlement is adjusted.

(iii) For the purposes of Conditions 6(A) and 6(B), the Agent may determine that no adjustment will be made if the adjustment to the Entitlement is less than one per cent. of the Entitlement immediately prior to the adjustment, all as determined by the Agent.

(B) If and whenever the Company shall make an issue of Shares credited as fully paid to holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend) (and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**"), the Entitlement will be adjusted, subject to Condition 6(A)(iii), on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the formulae set out in Condition 6(A)(i) with R=0. In addition, the Issuer shall adjust the Exercise Price by the reciprocal of the Adjusted Entitlement, where the reciprocal of the Adjusted Entitlement means one divided by the relevant Adjusted Entitlement. This adjustment shall take effect on the same day that the Entitlement is adjusted.

(C) If and whenever the Company shall subdivide its outstanding share capital into a greater number of shares or consolidate its outstanding share capital into a smaller number of shares, the Entitlement shall be increased and the Exercise Price shall be decreased (in the case of a subdivision) or the Entitlement shall be decreased and the Exercise Price shall be increased (in the case of a consolidation) accordingly, in each case on the day on which the relevant subdivision or consolidation shall have taken effect and in any event no later than the next Business Day following the day on which the relevant subdivision or consolidation shall have taken effect.

(D) If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Agent be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Agent in its absolute discretion).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (the "**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Agent, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Agent as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph (D) and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

(E) Adjustments will not be made in any other circumstances including, without limitation, the payment of a cash or scrip dividend. However, the Issuer and/or the Agent reserves the right, at its sole and unfettered discretion and without any obligation whatsoever, to make such adjustments or amendments which shall take effect as of such date as it reasonably believes are appropriate in circumstances where an event or events (including the events as contemplated in Conditions 6(A) to 6(D)) occur which it believes (in its sole discretion and irrespective of, in substitution for, or in addition to the provisions contemplated in Conditions 6(A) to 6(D)) should, in the context of the issue of Warrants and its obligations hereunder, give rise to such adjustment or, as the case may be, amendment provided that such adjustment or, as the case may be, amendment is (i) considered by the Issuer or the Agent not to be materially prejudicial to the Warrantholder generally (without considering the individual circumstances of any Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); (ii) required to take account of provisions of Hong Kong law or Stock Exchange practice; or (iii) otherwise considered by the Issuer or the Agent to be appropriate and such adjustment or amendment is approved by the Stock Exchange.

(F) The Issuer and/or the Agent shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after the determination thereof.

7 Purchase by the Issuer

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

8 Global Warrant Certificate

A global warrant certificate (the "**Global Warrant Certificate**") representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Warrant Certificate will not be exchangeable for definitive warrant certificates.

9 Meeting of Warrantholder and Modification

(A) *Meetings of Warrantholder.* Notices for convening meetings to consider any matter affecting the Warrantholder's interests will be given to the Warrantholder in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantholder shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholder holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholder) holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholder) being or representing Warrantholder whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholder shall be binding on all the holders of the Warrants, whether or not they are present at the meeting, save, in the case of Warrants which are expressed to be American Style, for those Warrants remaining unexercised but for which an Exercise Notice shall have been submitted prior to the date of the meeting.

In the case of Warrants which are expressed to be American Style, Warrants which have not been exercised but in respect of which an Exercise Notice has been submitted will not confer the right to attend or vote at, or join in convening, or be counted in quorum for, any meeting of the Warrantholder.

Resolutions can be passed in writing without a meeting of the Warrantholder being held if passed unanimously.

(B) *Modification.* The Issuer and the Guarantor may, without the consent of the Warrantholder, effect any modification of the provisions of the Warrants or the Instrument which is:

(i) not materially prejudicial to the interests of the Warrantholder;

(ii) of a formal, minor or technical nature;

(iii) made to correct an obvious error;

(iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong (as defined below) or such other jurisdiction where the Shares are listed or the issuer of the Shares is incorporated (or the United States, in the case of the Guarantor's obligations under the Instrument); or

(v) considered by the Issuer or the Agent to be appropriate and such modification is approved by the Stock Exchange.

Any such modification shall be binding on the Warrantholder and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 10.

10 Notices

All notices in English and Chinese to the Warrantholder will be validly given if published on the HKEx website. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Warrantholders.

11 Liquidation

In the event of a liquidation or dissolution or winding up of the Company or the appointment of a receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets of the Company, all unexercised Warrants will lapse and shall cease to be valid for any purpose, in the case of a voluntary liquidation, on the effective date of the resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law. The Issuer shall pay a sum equal to its good faith estimate (determined at the Issuer's sole discretion) of the value of the Warrants to the Warrantholder.

12 Delisting of Company

(A) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 12(A), where the Shares are or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholder, make such adjustments to the entitlements of the Warrantholder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong dollars) as it shall consider appropriate in the circumstances.

(C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 12 shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after they are determined.

13 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholder, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

14 Early Termination for Illegality

If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal in whole or in part for any reason, or if the Issuer determines that, for reasons beyond its control, it is no longer legal for it to maintain its hedging arrangements with respect to the Warrants (i) due to the adoption of or any change in any applicable law or regulation, or (ii) due to the promulgation of or any change in the interpretation of any applicable law or regulation, the Issuer may at its discretion and without obligation terminate the Warrants early by giving notice to the Warrantholder in accordance with Condition 10.

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

If the Issuer terminates the Warrants early, then the Issuer will, if and to the extent permitted by any applicable law, pay an amount to each Warrantholder in respect of each Warrant held by such holder equal to the fair market value of a Warrant notwithstanding such illegality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warrantholder in accordance with Condition 10.

15 Governing Law

The Warrant and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**") except for the obligations of the Guarantor which shall be governed by and construed in accordance with New York law. The Issuer, the Guarantor and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

16 Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

Agent
J.P. Morgan Securities (Asia Pacific) Limited
25/F, Chater House
8 Connaught Road
Central
Hong Kong

TERMS AND CONDITIONS OF THE CASH-SETTLED FOREIGN STOCK WARRANTS

The relevant Conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the global warrant certificate. The applicable supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Warrants. Capitalised terms used in the relevant Conditions and not otherwise defined therein shall have the meanings given to them in the relevant supplemental listing document.

1 Form; Status; Guarantee; Transfer and Title

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 13) relating to the Shares of the Company are issued in registered form subject to and with the benefit of the Instrument made by J.P. Morgan Structured Products B.V. (the "**Issuer**") and JPMorgan Chase Bank, National Association (the "**Guarantor**").

A copy of the Instrument is available for inspection at the office of J.P. Morgan Securities (Asia Pacific) Limited as specified below. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

(B) The settlement obligation of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

In the Instrument, the Guarantor has unconditionally and irrevocably guaranteed to the Warrantholders the due and punctual settlement in full of all obligations due and owing by the Issuer arising under the issuance of the Warrants after taking account of any set off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, when and as due (whether at maturity, by acceleration or otherwise).

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer, the Guarantor and the Agent as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" shall be construed accordingly.

(E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

2 Warrant Rights and Exercise Expenses

(A) Every Exercise Amount entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(E)).

(B) The Warrantholder will be required to pay all charges which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(E).

3 Exercise Period

(A) The Warrants may be exercised by delivery of an Exercise Notice (as defined in Condition 4) on any Business Day during the Exercise Period. In the case of an exercise of American style Warrants, the Exercise Period is the period beginning at (and including) 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealing in the Warrants on the Stock Exchange) ending at (and including) 10:00 a.m. (Hong Kong time) on the Expiry Date subject to prior termination of the Warrants as provided in Condition 11.

Subject to Condition 3(B), in the case of an exercise of European style Warrants, a reference to Exercise Period shall mean 10:00 a.m. (Hong Kong time) on the Expiry Date only.

(B) Any Warrant with respect to which an Exercise Date (as defined in Condition 4) has not occurred during the Exercise Period, and in respect of which the Cash Settlement Amount which would be payable by the Issuer if exercised on the Expiry Date shall be deemed automatically exercised on the Expiry Date ("**Automatic Exercise**"), so that the Warrantholders shall not be required to serve an Exercise Notice.

(C) Any Warrant with respect to which an Exercise Date has not occurred or which has not been automatically exercised in accordance with Condition 3(B) shall expire immediately at the conclusion of the Exercise Period without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(D) In these Conditions, "**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is open for dealings in Hong Kong and banks are open in Hong Kong for business.

4 Exercise of Warrants

(A) Subject to Condition 3(B), Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) (i) In order to exercise a Warrant, the Warrantholder shall deliver to the Agent a duly completed exercise notice in accordance with the Instrument (an "**Exercise Notice**"), such delivery to be made not later than 10:00 a.m. (Hong Kong time) on the Expiry Date.

(ii) The date upon which the Warrants are exercised (an "**Exercise Date**", which reference shall, in the case of Warrants that are deemed exercised, mean the date on which such Warrants are deemed exercised) shall be the Business Day on which an Exercise Notice is delivered to the Agent and in respect of which there is a valid exercise of Warrants in accordance with the requirements set out herein, provided that any Exercise Notice received by the Agent after 10:00 a.m. (Hong Kong time) on any Business Day (other than the Expiry Date) shall be deemed to have been delivered on the next following Business Day.

(C) Delivery of an Exercise Notice in accordance with Condition 4(B) shall constitute an irrevocable election and undertaking by the Warrantholder specified in such Exercise Notice to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authorisation (which is deemed to be given in the case of Automatic Exercise) to the Issuer and/or the Agent to debit any determined Exercise Expenses from the Cash Settlement Amount. Any Exercise Expenses which have not been determined by the Agent on the Exercise Date shall be notified as soon as practicable after determination thereof by the Agent to the Warrantholder and shall be paid by the Warrantholder forthwith in immediately available funds no later than three Business Days after the Warrantholder receives notice of any unpaid expenses.

(D) Following the Expiry Date the Issuer will, with effect from the first Business Day following the Expiry Date cancel the global warrant certificate.

(E) Subject to a valid exercise of Warrants or an Automatic Exercise in accordance with Condition 3(B), the Issuer will as soon as practicable and not later than three Business Days following the Expiry Date or (in the case where the American style Warrants are not exercised on the Expiry Date) the Valuation Date (the "**Settlement Date**") in accordance with these conditions procure payment of the aggregate Cash Settlement Amounts (following deduction of determined Exercise Expenses) for all Warrants exercised or deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

Subject to adjustment as provided in Condition 6, "**Cash Settlement Amount**" means an amount in Hong Kong dollars calculated in accordance with the following formula:

In the case of a series of Call Warrants:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{\text{Entitlement x (Average Price – Exercise Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

converted into Hong Kong dollars at the Exchange Rate.

In the case of a series of Put Warrants:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{\text{Entitlement x (Exercise Price -Average Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

converted into Hong Kong dollars at the Exchange Rate.

"**Entitlement**" means the number of Shares to which the Warrants relate, as specified in the relevant Supplemental Listing Document.

"**Average Price**" shall be the arithmetic mean of the Closing Prices for each Valuation Date, provided that (in the case of American style Warrants only) (i) if the American style Warrants are exercised prior to 10:00 a.m. (Hong Kong time) on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be the Closing Price on the Exercise Date or (ii) if the American style Warrants are exercised after 10:00 a.m. (Hong Kong time) on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be the Closing Price on the Day following the Exercise Date.

"**Closing Price**" means the closing price of one Share as published by the Relevant Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like) for the relevant Valuation Date.

"**Exchange Rate**" means the foreign exchange rate of Hong Kong dollar per Foreign Currency as specified in the relevant Supplemental Listing Document.

Any payment made pursuant to this Condition 4(E) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder, or such bank, broker or agent in Hong Kong (if any) is recorded on the register.

(F) If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

If the Agent determines, in its sole discretion, that on any Valuation Date a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Relevant Exchange Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a day that already is or is deemed to be a Valuation Date, provided that (in the case of European style Warrants and American style Warrants exercised on the Expiry Date) if the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after the Expiry Date, then (i) the Relevant Exchange Business Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and (ii) the Issuer and/or the Agent shall determine the closing price of the Shares on the basis of its good faith estimate of such price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

"**Market Disruption Event**" means the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of, or limitation imposed on, trading on the Relevant Stock Exchange in the Shares or any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer and/or Agent, material.

"**Relevant Exchange Business Day**" means a day (excluding Saturdays and Sundays) on which the Relevant Exchange is open for dealings in the Relevant Exchange City and banks are open in the Relevant Exchange City for business.

"**Valuation Date**" means, subject as provided above in relation to a Market Disruption Event, each of the five Relevant Exchange Business Days immediately preceding the Expiry Date relating to such exercise, or (in the case of American style Warrants only) (i) if the American style Warrants are exercised prior to 10:00 a.m. (Hong Kong time) on an Exercise Date other than the Expiry Date, the Exercise Date or (ii) if the American style Warrants are exercised after 10:00 a.m. (Hong Kong time) on an Exercise Date other than the Expiry Date, the Day following the Exercise Date.

In the event that a Market Disruption Event has occurred and a Valuation Date is postponed in accordance with Condition 4(F), the closing price of the Shares on that first succeeding Relevant Exchange Business Day will be referenced more than once in the determination of the Cash Settlement Amount, so that in no event shall there be less than 5 closing prices to determine the Average Price, provided that (in the case of American style Warrants only) if the American style Warrants are exercised on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be one closing price in any event.

(G) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Guarantor, the Issuer or its agent or nominee and the Warrantholder and neither the Guarantor, the Issuer nor its agent or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Issuer, the Guarantor or the Agent shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amounts shall be discharged by payment in accordance with Condition 4(E) above.

5 Agent

(A) The Agent will be acting as agent of the Issuer in respect of the Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholder in accordance with Condition 10.

6 Adjustments

Adjustments may be made by the Agent to the terms of the Warrants (including, but not limited to, the Exercise Price and the Entitlement) on the basis of the following provisions:

(A) (i) If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Exercise Price and the Entitlement shall be adjusted on the Relevant Exchange Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formulae:

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1 + (R/S) \times M}{1 + M} \times X$$

The Exercise Price will be adjusted to:

$$\text{Adjusted Entitlement} = \frac{1 + M}{1 + (R/S) \times M} \times E$$

Where:

E: Existing Entitlement immediately prior to the relevant event giving rise to the adjustment

X: Existing Exercise Price immediately prior to the relevant event giving rise to the adjustment

S: Cum-Rights Share Price, being the closing price of an existing Share, as published by the Relevant Exchange on the last Relevant Exchange Business Day on which the Shares are traded on a cum-rights basis

R: Subscription Price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Shares per existing Share (whether a whole or a fraction) each holder of an existing Share is entitled to subscribe or have

For the purposes of these Conditions, "**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to a holder of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(ii) The Adjusted Exercise Price (which shall be rounded to the nearest Foreign Currency amount as specified in the relevant Supplemental Listing Document) shall take effect on the same day that the Entitlement is adjusted.

(iii) For the purposes of Conditions 6(A) and 6(B), the Agent may determine that no adjustment will be made if the adjustment to the Entitlement is less than one per cent. of the Entitlement immediately prior to the adjustment, all as determined by the Agent.

(B) If and whenever the Company shall make an issue of Shares credited as fully paid to holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend) (and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**"), the Entitlement will be adjusted, subject to Condition 6(A)(iii), on the Relevant Exchange Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the formulae set out in Condition 6(A)(i) with R=0. In addition, the Issuer shall adjust the Exercise Price by the reciprocal of the Adjusted Entitlement, where the reciprocal of the Adjusted Entitlement means one divided by the relevant Adjusted Entitlement. This adjustment shall take effect on the same day that the Entitlement is adjusted.

(C) If and whenever the Company shall subdivide its outstanding share capital into a greater number of shares or consolidate its outstanding share capital into a smaller number of shares, the Entitlement shall be increased and the Exercise Price shall be decreased (in the case of a subdivision) or the Entitlement shall be decreased and the Exercise Price shall be increased (in the case of a consolidation) accordingly, in each case on the day on which the relevant subdivision or consolidation shall have taken effect and in any event no later than the next Relevant Exchange Business Day following the day on which the relevant subdivision or consolidation shall have taken effect.

(D) If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Agent be amended no later than the Relevant Exchange Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Agent in its absolute discretion).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (the "**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Agent, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Agent as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph (D) and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

(E) Adjustments will not be made in any other circumstances including, without limitation, the payment of a cash or scrip dividend. However, the Issuer and/or the Agent reserves the right, at its sole and unfettered discretion and without any obligation whatsoever, to make such adjustments or amendments which shall take effect as of such date as it reasonably believes are appropriate in circumstances where an event or events (including the events as contemplated in Conditions 6(A) to 6(D)) occur which it believes (in its sole discretion and irrespective of, in substitution for, or in addition to the provisions contemplated in Conditions 6(A) to 6(D)) should, in the context of the issue of Warrants and its obligations hereunder, give rise to such adjustment or, as the case may be, amendment, provided that such adjustment or, as the case may be, amendment is (i) considered by the Issuer or the Agent not to be materially prejudicial to the Warrantholder generally (without considering the individual circumstances of any Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); (ii) required to take account of provisions of Hong Kong and the laws of the Relevant Exchange City or Stock Exchange or Relevant Exchange practice or (iii) otherwise considered by the Issuer or the Agent to be appropriate and such adjustment or amendment is approved by the Stock Exchange.

(F) The Issuer and/or the Agent shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after the determination thereof.

7 Purchase by the Issuer

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

8 Global Warrant Certificate

A global warrant certificate (the "**Global Warrant Certificate**") representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Warrant Certificate will not be exchangeable for definitive warrant certificates.

9 Meeting of Warrantholder and Modification

(A) *Meetings of Warrantholder.* Notices for convening meetings to consider any matter affecting the Warrantholder's interests will be given to the Warrantholder in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantholder shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholder holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholder) holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholder) being or representing Warrantholder whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholder shall be binding on all the holders of the Warrants, whether or not they are present at the meeting, save, in the case of Warrants which are expressed to be American Style, for those Warrants remaining unexercised but for which an Exercise Notice shall have been submitted prior to the date of the meeting.

In the case of Warrants which are expressed to be American Style, Warrants which have not been exercised but in respect of which an Exercise Notice has been submitted will not confer the right to attend or vote at, or join in convening, or be counted in quorum for, any meeting of the Warrantholder.

Resolutions can be passed in writing without a meeting of the Warrantholder being held if passed unanimously.

(B) *Modification.* The Issuer and the Guarantor may, without the consent of the Warrantholder, effect any modification of the provisions of the Warrants or the Instrument which is:

(i) not materially prejudicial to the interests of the Warrantholder;

(ii) of a formal, minor or technical nature;

(iii) made to correct an obvious error;

(iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong (as defined below) or such other jurisdiction where the Shares are listed or the issuer of the Shares is incorporated (or the United States, in the case of the Guarantor's obligations under the Instrument); or

(v) considered by the Issuer or the Agent to be appropriate and such modification is approved by the Stock Exchange.

Any such modification shall be binding on the Warrantholder and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 10.

10 Notices

All notices in English and Chinese to the Warrantholder will be validly given if published on the HKEx website. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Warrantholders.

11 Liquidation

In the event of a liquidation or dissolution or winding up of the Company or the appointment of a receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets of the Company, all unexercised Warrants will lapse and shall cease to be valid for any purpose, in the case of a voluntary liquidation, on the effective date of the resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law. The Issuer shall pay a sum equal to its good faith estimate (determined at the Issuer's sole discretion) of the value of the Warrants to the Warrantholder.

12 Delisting of Company

(A) If at any time the Shares cease to be listed on the Relevant Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 12(A), where the Shares are or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Relevant Stock Exchange and the Issuer may, without the consent of the Warrantholder, make such adjustments to the entitlements of the Warrantholder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong dollars) as it shall consider appropriate in the circumstances.

(C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 12 shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after they are determined.

13 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholder, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

14 Early Termination for Illegality

If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal in whole or in part for any reason, or if the Issuer determines that, for reasons beyond its control, it is no longer legal for it to maintain its hedging arrangements with respect to the Warrants (i) due to the adoption of or any change in any applicable law or regulation, or (ii) due to the promulgation of or any change in the interpretation of any applicable law or regulation, the Issuer may at its discretion and without obligation terminate the Warrants early by giving notice to the Warrantholder in accordance with Condition 10.

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

If the Issuer terminates the Warrants early, then the Issuer will, if and to the extent permitted by any applicable law, pay an amount to each Warrantholder in respect of each Warrant held by such holder equal to the fair market value of a Warrant notwithstanding such illegality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warrantholder in accordance with Condition 10.

15 Governing Law

The Warrant and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**") except for the obligations of the Guarantor which shall be governed by and construed in accordance with New York law. The Issuer, the Guarantor and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

16 Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

Agent
J.P. Morgan Securities (Asia Pacific) Limited
25/F, Chater House
8 Connaught Road
Central
Hong Kong

TERMS AND CONDITIONS OF THE CASH-SETTLED WARRANTS OVER SINGLE UNIT TRUST

The relevant Conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the global warrant certificate. The applicable supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Warrants. Capitalised terms used in the relevant Conditions and not otherwise defined therein shall have the meanings given to them in the relevant supplemental listing document.

1 Form; Status; Guarantee; Transfer and Title

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 13) relating to the Units of the Trust are issued in registered form subject to and with the benefit of the Instrument made by J.P. Morgan Structured Products B.V. (the "**Issuer**") and JPMorgan Chase Bank, National Association (the "**Guarantor**").

A copy of the Instrument is available for inspection at the office of J.P. Morgan Securities (Asia Pacific) Limited as specified below. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

(B) The settlement obligation of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

In the Instrument, the Guarantor has unconditionally and irrevocably guaranteed to the Warrantholders the due and punctual settlement in full of all obligations due and owing by the Issuer arising under the issuance of the Warrants after taking account of any set off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, when and as due (whether at maturity, by acceleration or otherwise).

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer, the Guarantor and the Agent as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" shall be construed accordingly.

(E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

2 Warrant Rights and Exercise Expenses

(A) Every Exercise Amount entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(E)).

(B) The Warrantholder will be required to pay all charges which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(E).

3 Exercise Period

(A) The Warrants may be exercised by delivery of an Exercise Notice (as defined in Condition 4) on any Business Day during the Exercise Period. In the case of an exercise of American style Warrants, the Exercise Period is the period beginning at (and including) 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealing in the Warrants on the Stock Exchange) ending at (and including) 10:00 a.m. (Hong Kong time) on the Expiry Date subject to prior termination of the Warrants as provided in Condition 11.

Subject to Condition 3(B), in the case of an exercise of European style Warrants, a reference to Exercise Period shall mean 10:00 a.m. (Hong Kong time) on the Expiry Date only.

(B) Any Warrant with respect to which an Exercise Date (as defined in Condition 4) has not occurred during the Exercise Period, and in respect of which the Cash Settlement Amount which would be payable by the Issuer if exercised on the Expiry Date shall be deemed automatically exercised on the Expiry Date ("**Automatic Exercise**"), so that the Warrantholders shall not be required to serve an Exercise Notice.

(C) Any Warrant with respect to which an Exercise Date has not occurred or which has not been automatically exercised in accordance with Condition 3(B) shall expire immediately at the conclusion of the Exercise Period without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(D) In these Conditions, "**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is open for dealings in Hong Kong and banks are open in Hong Kong for business.

4 Exercise of Warrants

(A) Subject to Condition 3(B), Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) (i) In order to exercise a Warrant, the Warrantholder shall deliver to the Agent a duly completed exercise notice in accordance with the Instrument (an "**Exercise Notice**"), such delivery to be made not later than 10:00 a.m. (Hong Kong time) on the Expiry Date.

(ii) The date upon which the Warrants are exercised (an "**Exercise Date**", which reference shall, in the case of Warrants that are deemed exercised, mean the date on which such Warrants are deemed exercised) shall be the Business Day on which an Exercise Notice is delivered to the Agent and in respect of which there is a valid exercise of Warrants in accordance with the requirements set out herein, provided that any Exercise Notice received by the Agent after 10:00 a.m. (Hong Kong time) on any Business Day (other than the Expiry Date) shall be deemed to have been delivered on the next following Business Day.

(C) Delivery of an Exercise Notice in accordance with Condition 4(B) shall constitute an irrevocable election and undertaking by the Warrantholder specified in such Exercise Notice to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authorisation (which is deemed to be given in the case of Automatic Exercise) to the Issuer and/or the Agent to debit any determined Exercise Expenses from the Cash Settlement Amount. Any Exercise Expenses which have not been determined by the Agent on the Exercise Date shall be notified as soon as practicable after determination thereof by the Agent to the Warrantholder and shall be paid by the Warrantholder forthwith in immediately available funds no later than three Business Days after the Warrantholder receives notice of any unpaid expenses.

(D) Following the Expiry Date the Issuer will, with effect from the first Business Day following the Expiry Date cancel the global warrant certificate.

(E) Subject to a valid exercise of Warrants or an Automatic Exercise in accordance with Condition 3(B), the Issuer will as soon as practicable and not later than three Business Days following the Expiry Date or (in the case where the American style Warrants are not exercised on the Expiry Date) the Valuation Date (the "**Settlement Date**") in accordance with these conditions procure payment of the aggregate Cash Settlement Amounts (following deduction of determined Exercise Expenses) for all Warrants exercised or deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

Subject to adjustment as provided in Condition 6, "**Cash Settlement Amount**" means:

In the case of a series of Call Warrants:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{\text{Entitlement x (Average Price – Exercise Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

In the case of a series of Put Warrants:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{\text{Entitlement x (Exercise Price -Average Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

"**Entitlement**" means the number of Units to which the Warrants relate, as specified in the relevant Supplemental Listing Document.

"**Average Price**" shall be the arithmetic mean of the Closing Prices for each Valuation Date, provided that (in the case of American style Warrants only) (i) if the American style Warrants are exercised prior to 10:00 a.m. (Hong Kong time) on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be the Closing Price on the Exercise Date or (ii) if the American style Warrants are exercised after 10:00 a.m. (Hong Kong time) on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be the Closing Price on the Day following the Exercise Date.

"**Closing Price**" means the closing price of one Unit (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like) for the relevant Valuation Date.

Any payment made pursuant to this Condition 4(E) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder, or such bank, broker or agent in Hong Kong (if any) is recorded on the register.

(F) If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

If the Agent determines, in its sole discretion, that on any Valuation Date a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a day that already is or is deemed to be a Valuation Date, provided that (in the case of European style Warrants and American style Warrants exercised on the Expiry Date) if the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after the Expiry Date, then (i) the Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and (ii) the Issuer and/or the Agent shall determine the closing price of the Units on the basis of its good faith estimate of such price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

"**Market Disruption Event**" means the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of, or limitation imposed on, trading on the Stock Exchange in the Units or any options or futures contracts relating to the Units if, in any such case, such suspension or limitation is, in the determination of the Issuer and/or Agent, material.

For the avoidance of doubt, a Market Disruption Event shall include, but shall not be limited to a limitation/closure of the Stock Exchange due to unforeseen circumstances such as an official tropical cyclone warning signal eight (or above) or black rain storm warning hoisted by the Hong Kong Observatory provided that so long as such warnings are lowered or suspended by the Hong Kong Observatory; and the Stock Exchange: (i) re-opens for the entire afternoon trading session or (ii) opens late in the morning of the affected day and stays open for the entire afternoon trading session and closing only at the normal closing time for the Stock Exchange, the hoisting of such warning shall not by itself be a Market Disruption Event.

"**Valuation Date**" means, subject as provided above in relation to a Market Disruption Event, each of the five Days immediately preceding the Expiry Date relating to such exercise, or (in the case of American style Warrants only) (i) if the American style Warrants are exercised prior to 10:00 a.m. (Hong Kong time) on an Exercise Date other than the Expiry Date, the Exercise Date or (ii) if the American style Warrants are exercised after 10:00 a.m. (Hong Kong time) on an Exercise Date other than the Expiry Date, the Day following the Exercise Date.

In the event that a Market Disruption Event has occurred and a Valuation Date is postponed in accordance with Condition 4(F), the closing price of the Units on that first succeeding Business Day will be referenced more than once in the determination of the Cash Settlement Amount, so that in no event shall there be less than 5 closing prices to determine the Average Price, provided that (in the case of American style Warrants only) if the American style Warrants are exercised on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be one closing price in any event.

For the purposes of Condition 4(F), a "**Day**" shall mean a day (excluding Saturday) on which the Stock Exchange and banks are usually open in Hong Kong for business.

(G) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Guarantor, the Issuer or its agent or nominee and the Warrantholder and neither the Guarantor, the Issuer nor its agent or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Issuer, the Guarantor or the Agent shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amounts shall be discharged by payment in accordance with Condition 4(E) above.

5 Agent

(A) The Agent will be acting as agent of the Issuer in respect of the Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholder in accordance with Condition 10.

6 Adjustments

Adjustments may be made by the Agent to the terms of the Warrants (including, but not limited to, the Exercise Price and the Entitlement) on the basis of the following provisions:

(A) (i) If and whenever the Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a "**Rights Offer**"), the Exercise Price and the Entitlement shall be adjusted on the Business Day on which the trading in the Units of the Trust becomes ex-entitlement in accordance with the following formulae:

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1 + (R/S) \text{ x } M}{1 + M} \text{ x } X$$

The Exercise Price will be adjusted to:

$$\text{Adjusted Entitlement} = \frac{1 + M}{1 + (R/S) \text{ x } M} \text{ x } E$$

Where:

E: Existing Entitlement immediately prior to the relevant event giving rise to the adjustment

X: Existing Exercise Price immediately prior to the relevant event giving rise to the adjustment

S: Cum-Rights Unit price, being the closing price of an existing Unit, as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Units are traded on a cum-rights basis

R: Subscription price per new Unit specified in the Rights Offer plus an amount equal to any distributions or other benefits foregone to exercise the Right

M: Number of new Unit(s) per existing Unit (whether a whole or a fraction) each holder of an existing Unit is entitled to subscribe or have

For the purposes of these Conditions, "**Rights**" means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to a holder of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(ii) The Adjusted Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) shall take effect on the same day that the Entitlement is adjusted.

(iii) For the purposes of Conditions 6(A) and 6(B), the Agent may determine that no adjustment will be made if the adjustment to the Entitlement is less than one per cent. of the Entitlement immediately prior to the adjustment, all as determined by the Agent.

(B) If and whenever the Trust shall make an issue of Units credited as fully paid to holders of Units generally by way of capitalisation of profits or reserves (other than pursuant to a scrip distribution or similar scheme for the time being operated by the Trust or otherwise in lieu of a cash distribution) (and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**"), the Entitlement will be adjusted, subject to Condition 6(A)(iii), on the Business Day on which the trading in the Units of the Trust becomes ex-entitlement in accordance with the formulae set out in Condition 6(A)(i) with R=0. In addition, the Issuer shall adjust the Exercise Price by the reciprocal of the Adjusted Entitlement, where the reciprocal of the Adjusted Entitlement means one divided by the relevant Adjusted Entitlement. This adjustment shall take effect on the same day that the Entitlement is adjusted.

(C) If and whenever the Trust shall subdivide its Units or any class of its outstanding Units into a greater number of units or consolidate the Units or any class of its outstanding Units into a smaller number of units, the Entitlement shall be increased and the Exercise Price shall be decreased (in the case of a subdivision) or the Entitlement shall be decreased and the Exercise Price shall be increased (in the case of a consolidation) accordingly, in each case on the day on which the relevant subdivision or consolidation shall have taken effect and in any event no later than the next Business Day following the day on which the relevant subdivision or consolidation shall have taken effect.

(D) If it is announced that the Trust is to or may merge or consolidate with or into any other trust or corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Trust is the surviving entity in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Agent be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Agent in its absolute discretion).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of units of the trust(s) resulting from or surviving such Restructuring Event or other securities (the "**Substituted Securities**") and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Agent, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Agent as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Units shall not be affected by this paragraph (D) and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Conditions to the Units shall include any such cash.

(E) Adjustments will not be made in any other circumstances including, without limitation, the payment of a cash or scrip distribution. However, the Issuer or the Agent reserves the right, at its sole and unfettered discretion and without any obligation whatsoever, to make such adjustments or amendments which shall take effect as of such date as it reasonably believes are appropriate in circumstances where an event or events (including the events as contemplated in Conditions 6(A) to 6(D)) occur which it believes (in its sole discretion and irrespective of, in substitution for, or in addition to the provisions contemplated in Conditions 6(A) to 6(D)) should, in the context of the issue of Warrants and its obligations hereunder, give rise to such adjustment or, as the case may be, amendments provided that such adjustment or, as the case may be, amendment is (i) considered by the Issuer or the Agent not to be materially prejudicial to the Warrantholder generally (without considering the individual circumstances of any Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); (ii) required to take account of provisions of Hong Kong law or Stock Exchange practice; or (iii) otherwise considered by the Issuer or the Agent to be appropriate and such adjustment and amendment is approved by the Stock Exchange.

(F) The Issuer and/or the Agent shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after the determination thereof.

7 Purchase by the Issuer

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

8 Global Warrant Certificate

A global warrant certificate (the "**Global Warrant Certificate**") representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Warrant Certificate will not be exchangeable for definitive warrant certificates.

9 Meeting of Warrantholder and Modification

(A) *Meetings of Warrantholder.* Notices for convening meetings to consider any matter affecting the Warrantholder's interests will be given to the Warrantholder in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantholder shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholder holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholder) holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholder) being or representing Warrantholder whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholder shall be binding on all the holders of the Warrants, whether or not they are present at the meeting, save, in the case of Warrants which are expressed to be American Style, for those Warrants remaining unexercised but for which an Exercise Notice shall have been submitted prior to the date of the meeting.

In the case of Warrants which are expressed to be American Style, Warrants which have not been exercised but in respect of which an Exercise Notice has been submitted will not confer the right to attend or vote at, or join in convening, or be counted in quorum for, any meeting of the Warrantholder.

Resolutions can be passed in writing without a meeting of the Warrantholder being held if passed unanimously.

(B) *Modification.* The Issuer and the Guarantor may, without the consent of the Warrantholder, effect any modification of the provisions of the Warrants or the Instrument which is:

(i) not materially prejudicial to the interests of the Warrantholder;

(ii) of a formal, minor or technical nature;

(iii) made to correct an obvious error;

(iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong (as defined below) or such other jurisdiction where the Units are listed or where the Trust is established (or the United States, in the case of the Guarantor's obligations under the Instrument); or

(v) considered by the Issuer to be appropriate and such modification is approved by the Stock Exchange.

Any such modification shall be binding on the Warrantholder and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 10.

10 Notices

All notices in English and Chinese to the Warrantholder will be validly given if published on the HKEx website. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Warrantholders.

11 Termination or Liquidation

In the event of a Termination or the liquidation or dissolution of the trustee of the Trust (including any successor trustee appointed from time to time) ("**Trustee**") (in its capacity as trustee of the Trust) or the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets all unexercised Warrants will lapse and shall cease to be valid for any purpose. In the case of a Termination the unexercised Warrants will lapse and shall cease to be valid on the effective date of the Termination, in the case of a voluntary liquidation, on the effective date of the resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law. The Issuer shall pay a sum equal to its good faith estimate (determined at the Issuer's sole discretion) of the value of the Warrants to the Warrantholder.

For the purpose of this Condition 11, "**Termination**" means (i) the Trust is terminated, or the Trustee or the manager of the Trust (including any successor manager appointed from time to time) ("**Manager**") is required to terminate the Trust under the trust deed ("**Trust Deed**") constituting the Trust or applicable law, or the termination of the Trust commences; (ii) the Trust is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted; (iii) the Trustee ceases to be authorised under the Trust to hold the property of the Trust in its name and perform its obligations under the Trust Deed; or (iv) the Trust ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

12 Delisting of Trust

(A) If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 12(A), where the Units are or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholder, make such adjustments to the entitlements of the Warrantholder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong dollars) as it shall consider appropriate in the circumstances.

(C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 12 shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after they are determined.

13 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholder, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

14 Early Termination for Illegality

If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal in whole or in part for any reason, or if the Issuer determines that, for reasons beyond its control, it is no longer legal for it to maintain its hedging arrangements with respect to the Warrants (i) due to the adoption of or any change in any applicable law or regulation, or (ii) due to the promulgation of or any change in the interpretation of any applicable law or regulation, the Issuer may at its discretion and without obligation terminate the Warrants early by giving notice to the Warrantholder in accordance with Condition 10.

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

If the Issuer terminates the Warrants early, then the Issuer will, if and to the extent permitted by any applicable law, pay an amount to each Warrantholder in respect of each Warrant held by such holder equal to the fair market value of a Warrant notwithstanding such illegality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warrantholder in accordance with Condition 10.

15 Governing Law

The Warrant and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**") except for the obligations of the Guarantor which shall be governed by and construed in accordance with New York law. The Issuer, the Guarantor and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

16 Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

Agent
J.P. Morgan Securities (Asia Pacific) Limited
25/F, Chater House
8 Connaught Road
Central
Hong Kong

TERMS AND CONDITIONS OF THE BASKET WARRANTS

The relevant Conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the global warrant certificate. The applicable supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Warrants. Capitalised terms used in the relevant Conditions and not otherwise defined therein shall have the meanings given to them in the relevant supplemental listing document.

1 Form; Status; Guarantee; Transfer and Title

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 13) relating to a basket comprising Shares of each of the Companies (together the "**Companies**" and each a "**Company**") (the "**Basket**") are issued in registered form subject to and with the benefit of the Instrument made by J.P. Morgan Structured Products B.V. (the "**Issuer**") and JPMorgan Chase Bank, National Association (the "**Guarantor**").

A copy of the Instrument is available for inspection at the office of J.P. Morgan Securities (Asia Pacific) Limited as specified below. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

(B) The settlement obligation of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

In the Instrument, the Guarantor has unconditionally and irrevocably guaranteed to the Warrantholders the due and punctual the settlement in full of all obligations due and owing by the Issuer arising under the issuance of the Warrants after taking account of any set off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, when and as due (whether at maturity, by acceleration or otherwise).

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer, the Guarantor and the Agent as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" shall be construed accordingly.

(E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

2 Warrant Rights and Exercise Expenses

(A) Every Exercise Amount entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(E)).

(B) The Warrantholder will be required to pay all charges which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(E).

3 Exercise Period

(A) The Warrants may be exercised by delivery of an Exercise Notice (as defined in Condition 4) on any Business Day during the Exercise Period. In the case of an exercise of American style Warrants, the Exercise Period is the period beginning at (and including) 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealing in the Warrants on the Stock Exchange) ending at (and including) 10:00 a.m. (Hong Kong time) on the Expiry Date subject to prior termination of the Warrants as provided in Condition 11.

Subject to Condition 3(B), in the case of an exercise of European style Warrants, a reference to Exercise Period shall mean 10:00 a.m. (Hong Kong time) on the Expiry Date only.

(B) Any Warrant with respect to which an Exercise Date (as defined in Condition 4) has not occurred during the Exercise Period, and in respect of which the Cash Settlement Amount which would be payable by the Issuer if exercised on the Expiry Date shall be deemed automatically exercised on the Expiry Date ("**Automatic Exercise**"), so that the Warrantholders shall not be required to serve an Exercise Notice.

(C) Any Warrant with respect to which an Exercise Date has not occurred or which has not been automatically exercised in accordance with Condition 3(B), shall expire immediately at the conclusion of the Exercise Period without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(D) In these Conditions, "**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is open for dealings in Hong Kong and banks are open in Hong Kong for business.

4 Exercise of Warrants

(A) Subject to Condition 3(B), Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) (i) In order to exercise a Warrant, the Warrantholder shall deliver to the Agent a duly completed exercise notice in accordance with the Instrument (an "**Exercise Notice**"), such delivery to be made not later than 10:00 a.m. (Hong Kong time) on the Expiry Date.

(ii) The date upon which the Warrants are exercised (an "**Exercise Date**", which reference shall, in the case of Warrants that are deemed exercised mean the date on which such Warrants are deemed exercised) shall be the Business Day on which an Exercise Notice is delivered to the Agent and in respect of which there is a valid exercise of Warrants in accordance with the requirements set out herein, provided that any Exercise Notice received by the Agent after 10:00 a.m. (Hong Kong time) on any Business Day (other than the Expiry Date) shall be deemed to have been delivered on the next following Business Day.

(C) Delivery of an Exercise Notice in accordance with Condition 4(B) shall constitute an irrevocable election and undertaking by the Warrantholder specified in such Exercise Notice to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authorisation (which is deemed to be given in the case of Automatic Exercise) to the Issuer and/or the Agent to debit any determined Exercise Expenses from the Cash Settlement Amount and an undertaking to pay any Exercise Expenses not deducted from the Cash Settlement Amount. Any Exercise Expenses which have not been determined by the Agent on the Exercise Date shall be notified as soon as practicable after determination thereof by the Agent to the Warrantholder and shall be paid by the Warrantholder forthwith in immediately available funds no later than three Business Days after the Warrantholder receives notice of any unpaid expenses.

(D) Following the Expiry Date the Issuer will, with effect from the first Business Day following the Expiry Date cancel the global warrant certificate.

(E) Subject to a valid exercise of Warrants or an Automatic Exercise in accordance with Condition 3(B), the Issuer will as soon as practicable and not later than three Business Days following the Expiry Date or (in the case where the American style Warrants are not exercised on the Expiry Date) the Valuation Date (the "**Settlement Date**") in accordance with these Conditions procure payment of the aggregate Cash Settlement Amounts (following deduction of determined Exercise Expenses) for all Warrants exercised or deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

Subject to adjustment as provided in Condition 6, "**Cash Settlement Amount**" means:

In respect of call Warrants:

"**Cash Settlement Amount**" means for every Exercise Amount, an amount in Hong Kong dollars calculated by the Issuer as equal to (1) the sum of the values calculated for each of the Companies that comprise the Basket as the product of the Basket Component (subject to adjustment as provided in Condition 6) and the Average Price less (2) the Exercise Price;

In respect of put Warrants:

"**Cash Settlement Amount**" means for every Exercise Amount, an amount in Hong Kong dollars calculated by the Issuer as equal to (1) the Exercise Price less (2) the sum of the values calculated for each of the Companies that comprise the Basket as the product of the Basket Component (subject to adjustment as provided in Condition 6) and the Average Price.

"**Average Price**" shall be the arithmetic mean of the Closing Prices for each Valuation Date, provided that (in the case of American style Warrants only) (i) if the American style Warrants are exercised prior to 10:00 a.m. (Hong Kong time) on an Exercise Date, the Average Price shall be deemed to be the Closing Price on the Exercise Date or (ii) if the American style Warrants are exercised after 10:00 a.m. (Hong Kong time) on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be the Closing Price on the Day following the Exercise Date.

"**Closing Price**" means the closing price of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like) for the relevant Valuation Date.

Any payment made pursuant to this Condition 4(E) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder, or such bank, broker or agent in Hong Kong (if any) as is recorded on the register.

(F) If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

If the Agent determines, in its sole discretion, that on any Valuation Date a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a day that already is or is deemed to be a Valuation Date, provided that (in the case of European style Warrants and American style Warrants exercised on the Expiry Date) if the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after the Expiry Date, then (i) the Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and (ii) the Issuer and/or the Agent shall determine the closing price(s) of the Share(s) on the basis of its good faith estimate of such price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

"**Market Disruption Event**" means the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of, or limitation imposed on, trading on the Stock Exchange in any of the Shares or any options or futures contracts relating to any of the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer and/or Agent, material.

For the avoidance of doubt, a Market Disruption Event shall include, but shall not be limited to a limitation/closure of the Stock Exchange due to unforeseen circumstances such as an official tropical cyclone warning signal eight (or above) or black rain storm warning hoisted by the Hong Kong Observatory provided that so long as such warnings are lowered or suspended by the Hong Kong Observatory; and the Stock Exchange: (i) re-opens for the entire afternoon trading session or (ii) opens late in the morning of the affected day and stays open for the entire afternoon trading session and closing only at the normal closing time for the Stock Exchange, the hoisting of such warning shall not by itself be a Market Disruption Event.

"**Valuation Date**" means, subject as provided above in relation to a Market Disruption Event, each of the five Days immediately preceding the Expiry Date relating to such exercise, or (in the case of American style Warrants only) (i) if the American style Warrants are exercised prior to 10:00 a.m. (Hong Kong time) on an Exercise Date other than the Expiry Date, the Exercise Date or (ii) if the American style Warrants are exercised after 10:00 a.m. (Hong Kong time) on an Exercise Date other than the Expiry Date, the Day following the Exercise Date.

In the event that a Market Disruption Event has occurred and a Valuation Date is postponed in accordance with Condition 4(F), the closing price of the Shares on that first succeeding Business Day will be referenced more than once in the determination of the Cash Settlement Amounts so that in no event shall there be less than 5 closing prices to determine the Average Price, provided that (in the case of American style Warrants only) if the American style

Warrants are exercised on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be one closing price in any event.

For the purposes of Condition 4(F), a "**Day**" shall mean a day (excluding Saturday) on which the Stock Exchange and banks are usually open in Hong Kong for business.

(G) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Guarantor, the Issuer or its agent or nominee and the Warrantholder and neither the Guarantor, the Issuer nor its agent or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Issuer, the Guarantor or the Agent shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amounts shall be discharged by payment in accordance with Condition 4(E) above.

5 Agent

(A) The Agent will be acting as agent of the Issuer in respect of the Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholder in accordance with Condition 10.

6 Adjustments

Adjustments may be made by the Agent to the terms of the Warrants (including, but not limited to, the Basket Component) in certain circumstances on the basis of the following provisions:

(A) (i) If and whenever any of the Companies shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Basket Component that relates to the Share(s) of the Company making the Rights Offer will be adjusted to take effect on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Basket Component insofar as it relates to the Share(s) of the Company making the Rights Offer} = \frac{1 + M}{1 + (R/S) \times M} \times E$$

Where:

E: Existing Basket Component insofar as it relates to the Share(s) of the Company making the Rights Offer immediately prior to the Rights Offer

S: Cum-Rights Share price being the closing price of an existing Share, as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which Shares are traded on a cum-Rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Share(s) per existing Share (whether a whole or a fraction) each holder of an existing Share is entitled to subscribe or have

For the purposes of these Conditions, "**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to a holder of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(ii) For the purposes of Conditions 6(A) and 6(B), the Agent may determine that no adjustment of the Basket Component will be made if the adjustment is less than one per cent. of the Basket Component prior to the adjustment, all as determined by the Agent.

(B) If and whenever any of the Companies shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the relevant Company or otherwise in lieu of a cash dividend) (and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Basket Component that relates to the Share(s) of the Company making the Bonus Issue will be increased on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

Adjusted Basket Component insofar as it relates to the Share(s) of the Company making the Bonus Issue = (1+N) x E

Where:

E: Existing Basket Component insofar as it relates to the Share(s) of the Company making the Bonus Issue immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of existing Shares for each Share held prior to the Bonus Issue

(C) If and whenever any of the Companies shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), the Basket Component insofar as it relates to the Share(s) of the Company making the Subdivision in effect immediately prior thereto will be increased or the Basket Component insofar as it relates to the Share(s) of the Company making the Consolidation decreased in each case on the day on which the relevant Subdivision or Consolidation shall have taken effect and in any event no later than the next Business Day following the day on which the relevant Subdivision or Consolidation shall have taken effect.

(D) If it is announced that any of the Companies is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where that Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Agent be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Agent in its absolute discretion).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (the "**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Agent, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Agent as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph (D) and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

(E) Adjustments will not be made in any other circumstances including, without limitation, the payment of a cash or scrip dividend by any of the Companies. However, the Issuer and/or the Agent reserves the right, at its sole and unfettered discretion and without any obligation whatsoever, to make such adjustments or amendments which shall take effect as of such date as it reasonably believes are appropriate in circumstances where an event or events (including the events as contemplated in Conditions 6(A) to 6(D)) occur which it believes (in its sole discretion and irrespective of, in substitution for, or in addition to the provisions contemplated in Conditions 6(A) to 6(D)) should, in the context of the issue of Warrants and its obligations hereunder, give rise to such adjustment or, as the case may be, amendment provided that such adjustment or, as the case may be, amendment is (i) considered by the Issuer or the Agent not to be materially prejudicial to the Warrantholder generally (without considering the individual circumstances of any Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); (ii) required to take account of provisions of Hong Kong law or Stock Exchange practice; or (iii) otherwise considered by the Issuer or the Agent to be appropriate and such adjustment or amendment is approved by the Stock Exchange.

(F) The Issuer and/or the Agent shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after the determination thereof.

7 Purchase by the Issuer

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

8 Global Warrant Certificate

A global warrant certificate (the "**Global Warrant Certificate**") representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Warrant Certificate will not be exchangeable for definitive warrant certificates.

9 Meeting of Warrantholder and Modification

(A) *Meetings of Warrantholder.* Notices for convening meetings to consider any matter affecting the Warrantholder's interests will be given to the Warrantholder in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantholder shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholder holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholder) holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholder) being or representing Warrantholder whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholder shall be binding on all the holders of the Warrants, whether or not they are present at the meeting, save, in the case of Warrants which are expressed to be American Style, for those Warrants remaining unexercised but for which an Exercise Notice shall have been submitted prior to the date of the meeting.

In the case of Warrants which are expressed to be American Style, Warrants which have not been exercised but in respect of which an Exercise Notice has been submitted will not confer the right to attend or vote at, or join in convening, or be counted in quorum for, any meeting of the Warrantholder.

Resolutions can be passed in writing without a meeting of the Warrantholder being held if passed unanimously.

(B) *Modification*. The Issuer and the Guarantor may, without the consent of the Warrantholder, effect any modification of the provisions of the Warrants or the Instrument which is:

(i) not materially prejudicial to the interests of the Warrantholder;

(ii) of a formal, minor or technical nature;

(iii) made to correct an obvious error;

(iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong (as defined below) or such other jurisdiction where the Shares are listed or the issuer of the Shares is incorporated (or the United States, in the case of the Guarantor's obligations under the Instrument); or

(v) considered by the Issuer or the Agent to be appropriate and such modification is approved by the Stock Exchange.

Any such modification shall be binding on the Warrantholder and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 10.

10 Notices

All notices in English and Chinese to the Warrantholder will be validly given if published on the HKEx website. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Warrantholders.

11 Liquidation

In the event of a liquidation or dissolution or winding up of any of the Companies or the appointment of a receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets of any of the Companies, all unexercised Warrants will lapse and shall cease to be valid for any purpose, in the case of a voluntary liquidation, on the effective date of the resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law. The Issuer shall pay a sum equal to its good faith estimate (determined at the Issuer's sole discretion) of the value of the Warrants to the Warrantholder.

12 Delisting of Company

(A) If at any time any of the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 12(A), where any of the Shares are or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholder, make such adjustments to the entitlements of Warrantholder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong dollars) as it shall consider appropriate in the circumstances.

(C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 12 shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after they are determined.

13 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholder, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

14 Early Termination for Illegality

If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal in whole or in part for any reason, or if the Issuer determines that, for reasons beyond its control, it is no longer legal for it to maintain its hedging arrangements with respect to the Warrants (i) due to the adoption of or any change in any applicable law or regulation, or (ii) due to the promulgation of or any change in the interpretation of any applicable law or regulation, the Issuer may at its discretion and without obligation terminate the Warrants early by giving notice to the Warrantholder in accordance with Condition 10.

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

If the Issuer terminates the Warrants early, then the Issuer will, if and to the extent permitted by any applicable law, pay an amount to each Warrantholder in respect of each Warrant held by such holder equal to the fair market value of a Warrant notwithstanding such illegality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warrantholder in accordance with Condition 10.

15 Governing Law

The Warrants and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**") except for the obligations of the Guarantor which shall be governed by and construed in accordance with New York law. The Issuer, the Guarantor and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

16 Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

Agent
J.P. Morgan Securities (Asia Pacific) Limited
25/F, Chater House
8 Connaught Road
Central
Hong Kong

TERMS AND CONDITIONS OF THE INDEX WARRANTS

The relevant Conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the global warrant certificate. The applicable supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Warrants. Capitalised terms used in the relevant Conditions and not otherwise defined therein shall have the meanings given to them in the relevant supplemental listing document.

1 Form; Status; Guarantee; Transfer and Title

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 11) relating to the Index as published by the Index Sponsor are issued in registered form subject to and with the benefit of the Instrument, made by Structured Products B.V. (the "**Issuer**") and JPMorgan Chase Bank, National Association (the "**Guarantor**").

A copy of the Instrument is available for inspection at the office of J.P. Morgan Securities (Asia Pacific) Limited as specified below. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

(B) The settlement obligation of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

In the Instrument, the Guarantor has unconditionally and irrevocably guaranteed to the Warrantholders the due and punctual settlement in full of all obligations due and owing by the Issuer arising under the issuance of the Warrants after taking account of any set off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, when and as due (whether at maturity, by acceleration or otherwise).

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer, the Guarantor and the Agent as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" shall be construed accordingly.

(E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

2 Warrant Rights and Exercise Expenses

(A) Every Exercise Amount entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(E)).

(B) The Warrantholder will be required to pay all charges which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). To effect such payments, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(E).

3 Exercise Period

(A) The Warrants may be exercised by delivery of an Exercise Notice (as defined in Condition 4) on any Business Day during the Exercise Period. In the case of an exercise of American style Warrants, the Exercise Period is the period beginning at (and including) 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealing in the Warrants on the Stock Exchange) ending at (and including) 10:00 a.m. (Hong Kong time) on the Expiry Date subject to prior termination of the Warrants in accordance with these Conditions.

Subject to Condition 3(B), in the case of an exercise of European style Warrants, a reference to Exercise Period shall mean 10:00 a.m. (Hong Kong time) on the Expiry Date only.

(B) Any Warrant with respect to which an Exercise Date (as defined in Condition 4) has not occurred during the Exercise Period, and in respect of which the Cash Settlement Amount which would be payable by the Issuer if exercised on the Expiry Date shall be deemed automatically exercised on the Expiry Date ("**Automatic Exercise**"), so that the Warrantholders shall not be required to serve an Exercise Notice.

(C) Any Warrant with respect to which an Exercise Date has not occurred or which has not been automatically exercised in accordance with Condition 3(B) shall expire immediately at the conclusion of the Exercise Period without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(D) In these Conditions, "**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is open for dealings in Hong Kong and banks are open for business in Hong Kong.

4 Exercise of Warrants

(A) Subject to Condition 3(B), Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) (i) In order to exercise a Warrant, the Warrantholder shall deliver to the Agent a duly completed exercise notice in accordance with the Instrument (an "**Exercise Notice**"), such delivery to be made not later than 10:00 a.m. (Hong Kong time) on the Expiry Date.

(ii) The date upon which the Warrants are exercised (an "**Exercise Date**", which reference shall, in the case of Warrants that are deemed exercised mean the date on which such Warrants are deemed exercised) shall be the Business Day on which an Exercise Notice is delivered to the Agent and in respect of which there is a valid exercise of Warrants in accordance with the requirements set out herein, provided that any Exercise Notice received by the Agent after 10:00 a.m. (Hong Kong time) on any Business Day (other than the Expiry Date) shall be deemed to have been delivered on the next following Business Day.

(C) Delivery of an Exercise Notice in accordance with Condition 4(B) shall constitute an irrevocable election and undertaking by the Warrantholder specified in such Exercise Notice to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authorisation (which is deemed to be given in the case of Automatic Exercise) to the Issuer and/or Agent to debit any determined Exercise Expenses from the Cash Settlement Amount and an undertaking to pay any Exercise Expenses not deducted from the Cash Settlement Amount. Any Exercise Expenses which have not been determined by the Agent on the Exercise Date shall be notified as soon as practicable after determination thereof by the Agent to the Warrantholder and shall be paid by the Warrantholder forthwith in immediately available funds no later than three Business Days after the Warrantholder receives notice of any unpaid expenses.

(D) Following the Expiry Date the Issuer will, with effect from the first Business Day following the Expiry Date cancel the global warrant certificate.

(E) Subject to a valid exercise of Warrants or an Automatic Exercise in accordance with Condition 3(B), the Issuer will as soon as practicable and not later than three Business Days following the Exercise Date or (in the case of Automatic Exercise) the Expiry Date (the "**Settlement Date**") in accordance with these Conditions procure payment of the aggregate Cash Settlement Amounts (following deduction of determined Exercise Expenses) for all Warrants exercised or deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

Subject to adjustment as provided in Condition 6, "**Cash Settlement Amount**" means:

In respect of Index Call Warrants:

"**Cash Settlement Amount**" means for every Exercise Amount, an amount calculated by the Issuer equal to the excess of the Closing Level in respect of the Valuation Date over the Strike Level, multiplied by the Index Currency Amount, either (i) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate;

In respect of Index Put Warrants:

"**Cash Settlement Amount**" means for every Exercise Amount, an amount calculated by the Issuer equal to the excess of the Strike Level over the Closing Level in respect of the Valuation Date, multiplied by the Index Currency Amount, either (i) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into Settlement Currency at the Second Exchange Rate.

Any payment made pursuant to this Condition 4(E) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder, or such bank, broker or other agent in Hong Kong (if any) as is recorded on the register.

(F) If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the

original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

If the Issuer determines, in its sole discretion, that on the Valuation Date a Marker Disruption Event has occurred, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer may, if applicable, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

"**Index Business Day**" means a day on which the Index is published by the Index Sponsor or, as the case may be, the Successor Index Sponsor.

"**Index Exchange**" means the Stock Exchange or any other exchange as specified in the relevant supplemental listing document.

"**Market Disruption Event**" means the occurrence or existence, on the Valuation Date during the one-half hour period that ends at the close of trading of any of:

(i) the suspension or material limitation of the trading of a material number of securities that comprise the Index; or

(ii) the suspension or material limitation of the trading of securities (a) on the Index Exchange or (b) generally; or

(iii) the suspension or material limitation of the trading of (a) options or futures relating to the Index or (b) options or futures generally on any options and/or future exchanges on which options relating to the Index are traded; or

(iv) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount; or

(v) the limitation or closure of the Index Exchange due to any unforeseen circumstances.

For the avoidance of doubt, a Market Disruption Event shall include, but shall not be limited to a limitation/closure of the Stock Exchange due to unforeseen circumstances such as an official tropical cyclone warning signal eight (or above) or black rain storm warning hoisted by the Hong Kong Observatory provided that so long as such warnings are lowered or suspended by the Hong Kong Observatory; and the Stock Exchange: (i) re-opens for the entire afternoon trading session or (ii) opens late in the morning of the affected day and stays open for the entire afternoon trading session and closing only at the normal closing time for the Stock Exchange, the hoisting of such warning shall not by itself be a Market Disruption Event.

For the purposes of this definition, (i) the limitation on the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any exchange, and (ii) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event.

"**Valuation Date**" means the date specified as such in the supplemental listing document.

The Issuer's obligations to pay the Cash Settlement Amounts shall be discharged by payment in accordance with Condition 4(E) above.

(G) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Guarantor, the Issuer or its agent or nominee and the Warrantholder and neither the Guarantor, the Issuer nor its agent or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Issuer, the Guarantor or the Agent shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amounts shall be discharged by payment in accordance with Condition 4(E) above.

5 Agent

(A) The Agent will be acting as agent of the Issuer in respect of the Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholder in accordance with Condition 10.

6 Adjustments

(A) If the Index is (i) not calculated and announced by the Index Sponsor but is calculated and published by a successor to the Index Sponsor (the "**Successor Index Sponsor**") acceptable to the Agent or (ii) replaced by a successor index using, in the determination of the Agent, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Sponsor or that successor index, as the case may be.

(B) If (i) on or prior to the Valuation Date the Index Sponsor or (if applicable) the Successor Index Sponsor makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stock, contracts or commodities and other routine events), or (ii) on the Valuation Date the Index Sponsor or (if applicable) the Successor Index Sponsor fails to calculate and publish the Index, then the Agent shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at the Valuation Date as determined by the Agent in accordance with the formula for and method of calculating the Index last in effect prior to the change or failure, but using only those securities/commodities that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).

(C) Adjustments will not be made in any other circumstances subject to the right reserved by the Issuer and/or the Agent at its sole and unfettered discretion and without any obligation whatsoever, to make such adjustments or amendments which shall take effect as of such date

as it reasonably believes are appropriate in circumstances where an event or events (including the events as contemplated in Conditions 6(A) to 6(B)) occur which it believes (in its sole discretion and irrespective of, in substitution for, or in addition to the provisions contemplated in Conditions 6(A) to 6(B)) should, in the context of the issue of Warrants and its obligations hereunder, give rise to such adjustment or, as the case may be, amendment, provided that such adjustment or, as the case may be, amendment is (i) considered by the Issuer or the Agent not to be materially prejudicial to the Warrantholder generally (without considering the individual circumstances of any Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); (ii) required to take account of provisions of Hong Kong law or Stock Exchange practice; or (iii) otherwise considered by the Issuer or the Agent to be appropriate and such adjustment or amendment is approved by the Stock Exchange.

(D) All determinations made by the Agent pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any determinations by publication in accordance with Condition 10.

7 Purchase by the Issuer

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

8 Global Warrant Certificate

A global warrant certificate (the "**Global Warrant Certificate**") representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Warrant Certificate will not be exchangeable for definitive warrant certificates.

9 Meeting of Warrantholder and Modification

(A) *Meetings of Warrantholder.* Notices for convening meetings to consider any matter affecting the Warrantholder's interests will be given to the Warrantholder in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantholder shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholder holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholder) holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholder) being or representing Warrantholder whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholder shall be binding on all the holders of the Warrants, whether or not they are present at the meeting, save, in the case of Warrants which are expressed to be American Style, for those Warrants remaining unexercised but for which an Exercise Notice shall have been submitted prior to the date of the meeting.

In the case of Warrants which are expressed to be American Style, Warrants which have not been exercised but in respect of which an Exercise Notice has been submitted will not confer the right to attend or vote at, or join in convening, or be counted in quorum for, any meeting of the Warrantholder.

Resolutions can be passed in writing without a meeting of the Warrantholder being held if passed unanimously.

(B) *Modification.* The Issuer and the Guarantor may, without the consent of the Warrantholder, effect any modification of the provisions of the Warrants or the Instrument which is:

(i) not materially prejudicial to the interests of the Warrantholder;

(ii) of a formal, minor or technical nature;

(iii) made to correct an obvious error;

(iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong (as defined below) or such other jurisdiction where any Shares included in the Index are listed, or the issuer(s) of any Shares included in the Index is/are incorporated (or New York, in the case of the Guarantor's obligations under the Instrument); or

(v) considered by the Issuer or the Agent to be appropriate and such modification is approved by the Stock Exchange.

Any such modification shall be binding on the Warrantholder and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 10.

10 Notices

All notices in English and Chinese to the Warrantholder will be validly given if published on the HKEx website. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Warrantholders.

11 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholder, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

12 Early Termination for Illegality

If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal in whole or in part for any reason, or if the Issuer determines that, for reasons beyond its control, it is no longer legal for it to maintain its hedging arrangements with respect to the Warrants (i) due to the adoption of or any change in any applicable law or regulation, or (ii) due to the promulgation of or any change in the interpretation of any applicable law or regulation, the Issuer may at its discretion and without obligation terminate the Warrants early by giving notice to the Warrantholder in accordance with Condition 10.

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

If the Issuer terminates the Warrants early, then the Issuer will, if and to the extent permitted by any applicable law, pay an amount to each Warrantholder in respect of each Warrant held by such holder equal to the fair market value of a Warrant notwithstanding such illegality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warrantholder in accordance with Condition 10.

13 Governing Law

The Warrants and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**") except for the obligations of the Guarantor which shall be governed by and construed in accordance with New York law. The Issuer, the Guarantor and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

14 Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

Agent
J.P. Morgan Securities (Asia Pacific) Limited
25/F, Chater House
8 Connaught Road
Central
Hong Kong

TERMS AND CONDITIONS OF THE EQUITY LINKED INSTRUMENTS OVER SINGLE EQUITIES

These Conditions will, together with the supplemental provisions contained in the relevant supplemental listing document, subject to completion and amendment, be endorsed on the back of the global ELI certificate. The applicable supplemental listing document in relation to the issue of any series of ELIs may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of ELIs. Capitalised terms used in these Conditions and not otherwise defined herein shall have the meanings given to them in the relevant supplemental listing document.

1 Form, Status, Guarantee, Transfer and Title

(A) The equity linked instruments ("**ELIs**" which expression shall, unless the context otherwise requires, include any further equity linked instruments issued pursuant to Condition 11) relating to the Shares of the Company are issued subject to and with the benefit of an instrument by way of a deed poll (the "**Instrument**" as defined more fully in the Supplemental Listing Document) executed by J.P. Morgan Structured Products B.V. (the "**Issuer**") and JPMorgan Chase Bank, National Association (the "**Guarantor**"). The holder (as defined below) is entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at the office of J.P. Morgan Securities (Asia Pacific) Limited as specified below.

References in these Conditions to "**Shares**" shall be a reference to the shares of the Company.

(B) The settlement obligation of the Issuer in respect of the ELIs represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

ELIs represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of ELIs deposit liabilities of the Issuer or a debt obligation of any kind.

In the Instrument, the Guarantor has unconditionally and irrevocably guaranteed to the holder the due and punctual settlement in full of all obligations due and owing by the Issuer arising under the issuance of the ELIs after taking account of any set off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, when and as due (whether at maturity, by acceleration or otherwise).

(C) Transfers of ELIs may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) The person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer, the Guarantor and the Agent as the absolute owner and holder of the ELIs. The expression "**holder**" shall be construed accordingly.

(E) Trading in ELIs on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") may be suspended prior to the Maturity Date in accordance with the requirements of the Stock Exchange.

2 Rights and Expenses

(A) Every Board Lot initially entitles the relevant holder, upon due compliance with these Conditions, in particular Condition 3, to settlement of the aggregate Share Amount either by payment of the Cash Settlement Amount or to delivery of the Physical Settlement Amount (subject to adjustment in accordance with Condition 5).

(B) On the Maturity Date, the holder of the ELIs will be required to pay a sum equal to all the expenses resulting from the maturity and settlement of such ELIs. To effect such payment where relevant an amount equivalent to the Expenses (defined below) may be deducted from the Cash Settlement Amount in accordance with Condition 3(C). Where settlement is by delivery of the Physical Settlement Amount, then the delivery will not be effected until the Issuer has assumed that the determined Expenses have been received or will be received.

Any Expenses which were not determined by the Issuer on the Maturity Date and deducted from the Cash Settlement Amount or demanded and received from the holder in the case of settlement by Physical Settlement Amount prior to delivery of the Settlement Amount to the holder shall be notified to the holder as soon as practicable after determination thereof and shall be paid by the holder to the Issuer immediately upon demand in immediately available funds.

(C) For the purposes of these Conditions:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**CCASS**" means the Central Clearing and Settlement System;

"**Closing Price**" means the closing price of one Share as derived from the Daily Quotation Sheet of the Stock Exchange;

"**Expenses**" means any charges or expenses including any taxes or duties which are incurred upon the maturity or settlement of the ELIs in respect of every Board Lot. Where settlement is to be effected by delivery of the Physical Settlement Amount, the holder will be required to pay all charges which are incurred in respect of the purchase and transfer of the Shares, including stamp duties, levies, registration charges and any other expenses payable in respect of documents of title to the Shares, including where necessary scrip fees payable on the share certificates representing the Shares;

"**Market Disruption Event**" means the occurrence or existence of any suspension of or limitation imposed on trading on the Stock Exchange in the Shares if that suspension or limitation is, in the determination of the Issuer, material;

For the avoidance of doubt, a Market Disruption Event shall include, but shall not be limited to a limitation/closure of the Stock Exchange due to unforeseen circumstances such as an official typhoon signal eight (or above) or black rain storm warning hoisted by the Hong Kong Observatory; provided that it shall not be a Market Disruption Event once such warnings are lowered or suspended by the Hong Kong Observatory, and the Stock Exchange: (i) re-opens for the entire afternoon trading session; or (ii) opens late in the morning of the affected day and stays open for the entire afternoon trading session and closes only at the normal closing time for the Stock Exchange;

"**Settlement Amount**" means the Cash Settlement Amount or Physical Settlement Amount as the case may be;

"**Share Amount**" means the Entitlement, and "**Entitlement**" shall mean the "**Share Amount**" as the context so requires; and

"**Valuation Date**" means, with respect to ELIs and subject as provided below in relation to a Market Disruption Event, the Maturity Date.

3 Maturity

(A) The ELIs are issued with respect to the stated Share Amount. At maturity, the Issuer will settle its obligations in respect of the ELIs by making payment or delivery of the Settlement Amount which will be either the Cash Settlement Amount or the Physical Settlement Amount in respect of the stated Share Amount. On the Valuation Date and at the Valuation Point the Agent on behalf of the Issuer shall determine subject to any adjustment in accordance with Condition 5, the Settlement Amount to which the holder of each Board Lot of ELI shall be entitled.

At maturity, settlement of the ELIs will be made in respect of the Share Amount as follows:

Bull ELIs:

(i) where the Closing Price on the Valuation Date of the Shares is at or above the Strike Level, settlement in respect of the Share Amount will be made by payment to the holder of the Cash Settlement Amount; (ii) where the Closing Price of the Shares is below the Strike Level, settlement in respect of the Share Amount will be made by delivery to the holder of the Physical Settlement Amount or by payment to the holder of a cash amount calculated by reference to the Closing Price of one Share multiplied by the number of Shares constituting the Share Amount.

Bear ELIs:

(i) where the Closing Price of the Shares on the Valuation Date is below the Strike Level, a holder will receive the Cash Settlement Amount; (ii) where the Closing Price of the Shares on the Valuation Date is at or above the Strike Level, the holder will receive the Cash Settlement Amount minus the Bear Option Settlement Amount (as defined below).

Range ELIs:

(i) where the Closing Price on the Valuation Date of the Shares is at or above the Lower Strike Level and below the Higher Strike Level, a holder will receive the Cash Settlement Amount; (ii) where the Closing Price of the Shares at the Valuation Date is at or above the Higher Strike Level, the holder will receive the Cash Settlement Amount minus the Bear Option Settlement Amount (as defined below); (iii) where the Closing Price of the Shares on the Valuation Point is below the Lower Strike Level, settlement in respect of the Share Amount will be made by delivery to the holder of the Physical Settlement Amount or by payment to the holder of a cash amount calculated by reference to the Closing Price of one Share multiplied by the number of Shares constituting the Share Amount.

For the purposes of this Condition 3(A), the "**Bear Option Settlement Amount**" means the number of Shares constituting the Share Amount multiplied by (1) the Closing Price of one Share on the Valuation Date, minus (2) the Strike Level (provided that the Bear Option Settlement Amount shall never be greater than the Cash Settlement Amount).

If the Agent determines in its sole discretion, that on the Valuation Date a Market Disruption Event has occurred, then the Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event unless there is a Market Disruption Event on each of the five Business Days immediately following the original date that but for the Market Disruption Event would have been the Valuation Date then (i) that fifth day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event, and (ii) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the bid price that would have prevailed on that fifth day but for the Market Disruption Event.

"**day**" means for the purposes of this Condition 3(A) a day on which (excluding Saturday) banks and the Stock Exchange are normally open for business in Hong Kong.

(B) Following determination of the Settlement Amount and subject to Condition 2(B), the Issuer shall (i) despatch the net aggregate Cash Settlement Amounts or other cash amounts calculated in accordance with these Conditions no later than two Business Days following the Valuation Date or (ii) deliver the Physical Settlement Amounts by way of electronic settlement through CCASS.

Where settlement is to be effected by delivery of the Physical Settlement Amount, the Issuer shall procure such transfer of the Shares to the holder as soon as reasonably practicable, but in any event not later than two Business Days following the Maturity Date (the "**Settlement Period**" and each day a "**Settlement Date**") in accordance with the CCASS Rules.

If a Settlement Disruption Event exists on any Settlement Date, then the last Settlement Date shall be postponed by the number of Business Days upon which there has been a Settlement Disruption Event unless a Settlement Disruption Event prevents settlement on each of the ten Business Days immediately following the Valuation Date; in that case:

(i) if the Shares can be delivered or transferred in any other commercially reasonable manner on the tenth Business Day immediately following the Valuation Date, then the Shares shall be so delivered or transferred;

(ii) if the Shares cannot be delivered or transferred in any other commercially reasonable manner, then the Settlement Date shall be postponed until settlement can reasonably be effected under this Condition; and

(iii) without prejudice to the foregoing where the Issuer determines in his absolute discretion that the payment of a cash amount in full settlement of its obligation to deliver the Physical Settlement Amount following a Settlement Disruption Event shall be the most efficient manner to fulfil its obligation under this Condition 3(B), then by delivering such cash amount which shall be calculated by reference to the Closing Price of one Share on the Valuation Date multiplied by the number of Shares constituting the Physical Settlement Amount that would have been delivered but for the Settlement Disruption Event, the Issuer's obligations under these Conditions to deliver the Settlement Amount shall be discharged.

"**Settlement Disruption Event**" means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure the delivery of the Shares electronically through CCASS.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure the delivery of the Shares electronically through CCASS within the Settlement Period, the Issuer shall notify the holder (in accordance with Condition 9) of the postponement of the Settlement Date and or its election to deliver a cash amount in lieu of the Physical Settlement Amount.

As from the Valuation Date and until the Settlement Date (the "**Intervening Period**"), neither the Issuer nor any agent or nominee of it who may be registered as the legal owner of such Shares shall (i) exercise any rights (including voting rights) attaching to the Shares without the prior written consent of the holder, provided that neither the Issuer nor its agent or nominee shall be under any obligation to exercise any such rights during the Intervening Period or be under any liability to such holder or any subsequent beneficial owner of the Shares in respect of any loss or damage which such holder or subsequent beneficial owner may sustain or suffer as a result, whether directly or indirectly of the Issuer or its agent or nominee being registered during such Intervening Period as legal owner of the Shares and (ii) be under any obligation to deliver to such holder or any subsequent beneficial owner of the Shares any letter, certificate, notice, circular, or any other document or payment whatsoever received by the Issuer or its agent or nominee in its capacity as the registered holder of the Shares.

For the avoidance of doubt, where the Physical Settlement Amount is not equal to a board lot of the Shares or an integral multiple thereof, then the holder shall be entitled to receive a cash amount from the Issuer equal to the Closing Price of the excess shares at the Valuation Date.

(C) Subject to a Market Disruption Event and Conditions 10 and 12, any ELI which has matured with a Settlement Amount of zero on the Maturity Date shall terminate immediately thereafter and all rights of the holder and obligations of the Issuer with respect to such ELI shall cease.

(D) Following the Maturity Date, the Issuer will procure that the Agent will with effect from the second Business Day following the Maturity Date cancel the Global ELI Certificate (as defined below).

(E) The Issuer's obligations under the ELIs shall be discharged by payment in accordance with Condition 3(B) above.

4 Agent

(A) The Agent will be acting as agent of the Issuer in respect of the ELIs and will not assume any obligation or duty to or any relationship or agency or trust for the holder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the ELIs are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the ELI holder in accordance with Condition 9.

5 Adjustments

Adjustments may be made by the Issuer to the number of Shares to which the ELIs relate initially (the "**Entitlement**") on the basis of the following provisions:

(A) *Rights Issues.* If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \frac{1 + M}{1 + (R/S) \times M} \times E$$

Where:

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Share price being the closing price of an existing Share as derived from the Daily Quotation Sheet of the Stock Exchange on the Last Business Day on which the Shares are traded on a Cum-Rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to less than one per cent. of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price, the Higher Strike Level and/or the Lower Strike Level (each of which shall be rounded to the nearest Hong Kong dollar 0.001), as applicable, by the reciprocal of the Adjusted Entitlement, where the reciprocal of the Adjusted Entitlement means one divided by the relevant Adjusted Entitlement. These adjustments shall take effect on the same day that the Entitlement is adjusted.

For the purposes of these Conditions:

"**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(B) *Bonus Issues.* If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement shall be adjusted on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = (1+N) \times E$$

Where:

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of Shares for each Share held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to less than one per cent. of the Entitlement, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price, the Higher Strike Level and/or the Lower Strike Level (each of which shall be rounded to the nearest Hong Kong dollar 0.001), as applicable, by the reciprocal of the Adjusted Entitlement, where the reciprocal of the Adjusted Entitlement means one divided by the relevant Adjusted Entitlement. These adjustments shall take effect on the same day that the Entitlement is adjusted.

(C) *Share Splits or Consolidations.* If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), the Entitlement in effect immediately prior thereto shall be increased or decreased accordingly in each case on the day on which the relevant Subdivision or Consolidation shall have taken effect and in any event no later than the next Business Day following the day on which the relevant Subdivision or Consolidation shall have taken effect. In addition, the Issuer shall adjust the Strike Price, the Higher Strike Level and/or the Lower Strike Level (each of which shall be rounded to the nearest Hong Kong dollar 0.001), as applicable, by the reciprocal of the Adjusted Entitlement, where the reciprocal of the Adjusted Entitlement means one divided by the relevant Adjusted Entitlement. These adjustments shall take effect on the same day that the Entitlement is adjusted.

(D) *Merger or Consolidation.* If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the ELIs may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the ELIs shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the ELIs related immediately before such Restructuring Event would have been entitled upon such Restructuring Event and thereafter the provisions hereof shall apply to such Substituted

Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

(E) *Other Adjustments.* Except as provided in Conditions 6 and 12, adjustments will not be made in any other circumstances, subject to the right reserved by the Issuer and/or the Agent (such right to be exercised in the Issuer's sole and unfettered discretion and without any obligation whatsoever) to make such adjustments and amendments as it believes appropriate in circumstances where an event or events (including the events as contemplated in Conditions 6(A) to 6(D)) occur which it believes in its sole discretion and irrespective of, in substitution for, or in addition to the provisions contemplated in Conditions 6(A) to 6(D) should, in the context of the issue of the ELIs and the obligations of the Issuer, give rise to such adjustment or, as the case may be, amendment provided that such adjustment or, as the case may be, amendment is (i) considered by the Issuer or the Agent not to be materially prejudicial to the holder generally (as determined by reference to the position of the holder generally prior to the relevant event or events) and without considering the circumstances of any individual holder or the tax or other consequences of such adjustment in any particular jurisdiction); (ii) required to take account of provisions of Hong Kong law or Stock Exchange practices; or (iii) otherwise considered by the Issuer or the Agent to be appropriate and such adjustment or amendment is approved by the Stock Exchange.

(F) *Notice of Adjustments.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the holder. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 9.

6 Purchase by the Issuer

The Issuer or any of its subsidiaries may at any time purchase ELIs at any price in the open market or by tender or by private treaty. Any ELIs so purchased may be held or resold or surrendered for cancellation.

7 Global ELI Certificate

A global ELI certificate (the "**Global ELI Certificate**") representing the ELIs will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global ELI Certificate will not be exchangeable for definitive ELI certificates.

8 Meeting of ELI Holder and Modification

(A) *Meetings of ELI Holder.* Notices for convening meetings to consider any matter affecting the ELI holder's interests will be given to the ELI holder in accordance with the provisions of Condition 9.

Every question submitted to a meeting of the ELI holder shall be decided by poll. A meeting may be convened by the Issuer or by the ELI holder holding not less than 10 per cent. of the ELIs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by

the ELI holder) holding or representing not less than 25 per cent. of the ELIs for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the ELI holder) being or representing ELI holder whatever the number of ELIs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such ELI holder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the ELI holder shall be binding on all the holders of the ELIs, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the ELI holder being held if passed unanimously.

(B) *Modification.* The Issuer and the Guarantor may, without the consent of the ELI holder, effect any modification of the provisions of the ELIs or the Instrument which is:

(i) not materially prejudicial to the interests of the ELI holder;

(ii) of a formal, minor or technical nature;

(iii) made to correct an obvious error;

(iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong (as defined below) (or New York, in the case of the Guarantor's obligations under the Instrument); or

(v) considered by the Issuer or the Agent to be appropriate and such modification is approved by the Stock Exchange.

Any such modification shall be binding on the ELI holder and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 9.

9 Notices

All notices to the ELI holder will be validly given if published on the HKEx website. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the ELI holders.

10 Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, the ELIs will lapse and shall cease to be valid for any purpose, in the case of voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

11 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the holder, to create and issue further ELIs so as to form a single series with the ELIs.

12 Delisting

(A) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the ELIs as it shall, in its absolute discretion consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the holder generally is not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of any holder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 12(A), where the Shares are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the holder, make such adjustments to the entitlements of the holder upon maturity (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong currency) as may be appropriate in the circumstances.

(C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 12 shall be conclusive and binding on the holder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the ELI holder in accordance with Condition 9 as soon as practicable after they are determined.

13 Taxation

The Issuer is not liable for or otherwise obliged to pay any tax, duty, withholding or other payment which may arise as a result of the ownership, transfer or holding of any ELIs.

14 Early Termination for Illegality

If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the ELIs has become illegal in whole or in part for any reason, or if the Issuer determines that, for reasons beyond its control, it is no longer legal for it to maintain its hedging arrangements with respect to the ELIs (i) due to the adoption of or any change in any applicable law or regulation, or (ii) due to the promulgation of or any change in the interpretation of any applicable law or regulation, the Issuer may at its discretion and without obligation terminate the ELIs early by giving notice to the ELI holder in accordance with Condition 9.

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

If the Issuer terminates the ELIs early, then the Issuer will, if and to the extent permitted by any applicable law, pay an amount to each ELI holder in respect of each ELI held by such holder equal to the fair market value of an ELI notwithstanding such illegality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the ELI holder in accordance with Condition 9.

15 Governing Law

The ELIs and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**") except for the obligations of the Guarantor which shall be governed by and construed in accordance with New York law. The Issuer, the Guarantor and each investor (by its purchase of the ELIs) shall be deemed to have submitted for all purposes in connection with the ELIs and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

16 Language

A Chinese translation of these Conditions is available upon request during normal office hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the Chinese translation of these Conditions and the English version of these Conditions, the English version of these Conditions shall prevail.

Agent
J.P. Morgan Securities (Asia Pacific) Limited
25/F, Chater House
8 Connaught Road
Central
Hong Kong

ANNEX 2

FORM OF GUARANTEE

The following is the form of the Guarantee dated May 22nd 2009 made by JPMorgan Chase Bank, National Association:

J.P. Morgan Structured Products B.V. Hong Kong Structured Products Programme (the "***Programme***").

J.P. Morgan Structured Products B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated under the laws of The Netherlands ("***Obligor***"), from time to time issues warrants and equity linked instruments (***collectively, the "Structured Products"***) (all holders of Structured Products, the "***Beneficiaries***"), pursuant to (a) an Amended and Restated Instrument dated as of June 6th 2008 between the Obligor and JPMorgan Chase Bank, N.A., National Association, a national banking association organised under the federal laws of the United States of America (***the "Guarantor"***), with the benefit of (b) this guarantee (***the "Guarantee"***), under the terms and conditions set out in (c) the base listing document for the Programme to be dated on or about May 22nd 2009 (***the "Base Listing Document"***) and (d) the Supplemental Listing Document (as defined in the Base Listing Document) to be prepared for each series of Structured Products (***the foregoing, together, as amended and/or supplemented and/or restated from time to time, the "Programme Documents"***).

This Guarantee amends, supplants and replaces in its entirety, for all Structured Products issued by the Obligor under the Programme on or after May 22nd 2009 (the "***Effective Date***"), the guarantee referenced in the base listing document for the Programme dated June 6th 2008 (the "***Original Guarantee***") save as provided in the immediately following sentence. The Original Guarantee applies to all Structured Products issued under the Programme before the Effective Date and to any Structured Products which are expressed to be consolidated and form a single series with any Structured Products issued prior to the Effective Date.

For value received, Guarantor hereby agrees, for the sole and exclusive benefit of the Beneficiaries, as follows:

(1) **Guarantee.** Guarantor absolutely and unconditionally guarantees to Beneficiaries the prompt and complete payment and performance when, where and as the same shall become due, whether by acceleration or otherwise, of all obligations and liabilities, whether now in existence or hereafter arising, of the Obligor to Beneficiaries under the Structured Products (such obligations and liabilities, the "***Obligations***"). If the Obligor fails to meet any of its Obligations in full, Guarantor shall, as an independent obligation, promptly upon written notice of such failure from the applicable Beneficiary or its agent, meet or cause to be met such Obligation to such Beneficiary in accordance with all applicable terms and provisions of the applicable Structured Products and of the other Programme Documents, as if such payment were made by the Obligor.

(2) **Guarantee of Payment, not Collection.** This Guarantee is a guarantee of payment and performance and not of collection only. The Beneficiaries shall not be required to exhaust any right or remedy or take any action against the Obligor or any other person or entity or any collateral as a condition to payment by Guarantor hereunder.

(3) **Guarantee Irrevocable.** This Guarantee is a continuing guarantee of all Obligations now or hereafter existing and shall remain in full force and effect until complete payment and performance of all Obligations and until no Structured Products remains outstanding and no further Structured Products may be issued.

(4) **Guarantee Absolute.** Guarantor guarantees that the Obligations shall be timely performed and paid strictly in accordance with all applicable terms of the Programme Documents as if such payment were made by the Obligor. Guarantor's liability hereunder is absolute and unconditional irrespective of any matter or circumstance whatsoever with respect to the Programme Documents or the transactions contemplated thereby which might constitute a defence available to, or discharge of, the Obligor or the Guarantor, including, without limitation:

(a) any change in the amount, time, manner or place of payment of, or in any other term of, all or any of the Programme Documents or Obligations, or any other amendment or waiver of or any consent to departure from any of the terms of any Programme Document or Obligation;

(b) any release or amendment or waiver of, or consent to departure from, any other guaranty or support document, or any exchange, release or non-perfection of any collateral, for all or any of the Programme Documents or Obligations;

(c) any present or future law, regulation or order of any jurisdiction (whether of right or in fact) or other action or order of any agency thereof purporting to reduce, amend, restructure or otherwise affect any term of any Programme Document or Obligation;

(d) any lack of validity or enforceability of any Programme Document or Obligation;

(e) any injunction, stay or similar action in any bankruptcy, insolvency or other proceeding barring or limiting payment of the Obligations, or any of them, by Obligor;

(f) the absence of any action to enforce the Obligations or any collateral therefore;

(g) the rendering of any judgment against the Obligor or any action to enforce the same;

(h) any bankruptcy or insolvency of the Obligor or any other person or any similar event or circumstance or any proceeding relating thereto;

(i) any event or circumstance constituting fraud in the inducement or any other similar event or circumstance; and

(j) any lack or limitation of status or of power, or any incapacity or disability, of the Obligor, or of any other guarantor or obligor in respect of any Obligation, or any change whatsoever in the objects, capital structure, constitution or business of Obligor.

(5) **Waiver of Defences.** Guarantor hereby waives diligence, presentment, demand of payment (except as provided in paragraph (1)), any right to require a proceeding against the Obligor, protest or notice with respect to the Obligations or the amounts payable by the Obligor under the Programme Documents and all demands whatsoever, and covenants that this Guarantee will not be discharged except by complete payment and performance of the Obligations. The grant of time or other indulgence to the Obligor shall in no manner release the Guarantor from any of its obligations hereunder.

(6) **Reinstatement.** This Guarantee shall continue to be effective or be reinstated, as the case may be, if at any time any payment and performance of any of the Obligations is rescinded or must otherwise be returned by a Beneficiary upon the insolvency, bankruptcy or reorganisation of the Obligor or otherwise, all as though the payment and performance had not been made.

(7) Subrogation. Guarantor shall be subrogated to all rights of the Beneficiaries against the Obligor in respect of any amounts paid by the Guarantor pursuant to the provisions of this Guarantee; provided, however, that Guarantor shall not be entitled to enforce or to receive any payments arising out of, or based upon, such right of subrogation until the Obligations have been paid in full.

(8) Representations/Warranties. Guarantor represents and warrants to each Beneficiary that, as of the date hereof:

(a) it is a national banking association duly organised, validly existing and in good standing under the federal laws of the United States of America;

(b) it has the full power and authority to execute and deliver this Guarantee and to perform its obligations under this Guarantee and it has taken all necessary action to authorize such execution, delivery and performance, and this Guarantee has been duly executed and delivered by the Guarantor;

(c) this Guarantee constitutes a legal, valid and binding obligation of the Guarantor, enforceable against the Guarantor in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, receivership and other similar laws affecting the rights of creditors generally, and by general principles of equity; and

(d) no authorizations, approvals or consents of, and no filings or registrations with, any governmental authority are necessary for the execution, delivery or performance by the Guarantor of this Guarantee or for the validity or enforceability hereof.

(9) Captions. The headings and captions in this Guarantee are for convenience only and shall not affect the interpretation or construction of this Guarantee.

(10) Not Insured. This Guarantee is not insured by the Federal Deposit Insurance Corporation of the United States of America and is payable solely where the payment is specified to be made in accordance with the terms of the Structured Products.

(11) GOVERNING LAW. THIS GUARANTEE AND ALL MATTERS ARISING OUT OF OR RELATING TO THIS GUARANTEE SHALL BE GOVERNED BY, AND THIS GUARANTEE SHALL BE CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, UNITED STATES OF AMERICA, WITHOUT GIVING EFFECT TO CHOICE OF LAW DOCTRINE.

(12) JURISDICTION. THE PARTIES AGREE THAT ANY AND ALL SUITS, ACTIONS AND PROCEEDINGS TO ENFORCE ANY AND ALL RIGHTS OR OBLIGATIONS RELATING TO THIS GUARANTEE, OR TO RESOLVE ANY DISPUTE ARISING HEREUNDER, SHALL BE BROUGHT EXCLUSIVELY BEFORE THE NEW YORK STATE OR FEDERAL COURTS LOCATED IN THE STATE OF NEW YORK, COUNTY OF NEW YORK, AND HEREBY CONSENT TO THE JURISDICTION OF SUCH COURTS. THE PARTIES HEREBY WAIVE ANY OBJECTION TO VENUE OF SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH COURTS AND ANY CLAIM THAT ANY SUCH SUIT, ACTION, OR PROCEEDING HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. EACH PARTY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT THAT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY SUIT, ACTION OR PROCEEDING RELATING TO OR ARISING OUT OF THIS GUARANTEE.

IN WITNESS WHEREOF, Guarantor has caused this Guarantee to be executed in its name and on its behalf by its duly authorized officer as of the date first above written.

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION

By:
Name: Lisa J Fitzgerald
Title: Managing Director

ANNEX 3

PURCHASE AND SALE

General

No action has been or will be taken by the Issuer or the Managers that would permit a public offering (other than Hong Kong) of any series of structured products or possession or distribution of any offering material in relation to any structured products in any jurisdiction where action for that purpose is required. No offers, sales, re-sales, transfers or deliveries of any structured products, or distribution of any offering material relating to structured products, may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws and regulations and will not impose any obligations on the Issuer.

United States of America

The structured products which are the subject of the Base Listing Document, and the relevant Supplemental Listing Document and the guarantee have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and, subject to certain exceptions, may not be offered or sold within the United States. The structured products are being offered and sold outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**"). In addition, until 40 days after the commencement of the offering of the structured products, an offer or sale of the structured products within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act. The terms in this paragraph have the meaning given to them by Regulation S.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), the Issuer represents and agrees that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of structured products to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of structured products to the public in that Relevant Member State:

(a) if the supplemental listing document in relation to the structured products specifies that an offer of those structured products may be made other than pursuant to Article 3(2) of the Prospectus Directive in the Relevant Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such structured products which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that such prospectus has subsequently been completed by the supplemental listing documents contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or supplemental listing document, as applicable;

(b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(d) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Issuer; or

(e) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive.

provided that no such offer of structured products referred to in (b) to (d) above shall require the Issuer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of structured products to the public" in relation to any structured product in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the structured products to be offered so as to enable an investor to decide to purchase or subscribe the structured products, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

The Issuer represents, warrants and agrees that:

(a) in relation to any structured products which have a expiry of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any structured products other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the structured products would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "**FSMA**") by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any structured products in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any structured products in, from or otherwise involving the United Kingdom.

The Netherlands

For selling restrictions in respect of The Netherlands, see "European Economic Area" above and the additional restriction set forth below.

J.P. Morgan Securities (Asia Pacific) Limited has represented and agreed with us that it has not offered or sold and will not offer or sell any of the structured products in The Netherlands, other than through one or more investment firms acting as principal and having the Dutch regulatory capacity to make such offers or sales.

General

The offer and sale of structured products will also be subject to such other restrictions and requirements as may be set out in the relevant Supplemental Listing Document.

Persons interested in acquiring structured products should inform themselves and obtain appropriate professional advice as to (i) the legal requirements within. the countries of their nationality, residence, ordinary residence or domicile for such acquisition; (ii) any foreign exchange restrictions or exchange control requirements which they might encounter on the acquisition of structured products or their redemption; or (iii) the acquisition, holding or disposal of structured products.

PARTIES

Issuer

J.P. Morgan Structured Products B.V.
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3105 Atrium
1077 ZX, Amsterdam
The Netherlands

Guarantor

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Managers

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Landon ECZY 5AJ
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Hong Kong

Liquidity Provider

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Legal Adviser

to the Issuer and the Guarantor
(as to Hong Kong law)

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37th Floor
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Hong Kong

Agent

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25/F, Chater House
8 Connaught Road
Central
Hong Kong

Issuer's Auditors

PricewaterhouseCoopers Accountants N.V.
Chartered Accountants and Registered Auditors
Thomas R. Malthusstraat 5
P.O. Box 90357
1006 BJ Amsterdam
The Netherlands

Guarantor's Auditors

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Independent Registered Public Accounting Firm
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United States of America