J.P.Morgan

DISCLOSURE REPORT AS AT DEC. 31, 2008
PURSUANT TO THE GERMAN SOLVENCY DECREE (SOLVV) PART 5

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DISCLOSURE REPORT AS AT DEC. 31, 2008

1. Introduction

With the new Basel Framework for the International Convergence of Capital Measurement and Capital Standards (Basel II), the Basel Committee introduced international standards for bank capital adequacy requirements. The new Basel Framework is divided into three pillars:
Pillar 1: defines the minimum capital requirements, which include capital requirements for credit risk, market risk and operational risk.
Pillar 2: adds a qualitative element to the quantitative minimum capital requirements of Pillar 1.
Pillar 3: defines the obligation to disclose information about a bank's capital resources, capital requirements and the associated risks to the public.

The European directives, namely the Banking Directive (2006/48/EC) and the Capital Adequacy Directive (2006/49/EC), have been translated into German law with the introduction of the Solvency Decree (SolvV) and the changes to the German Banking Act (section 26a KWG). Section 26a KWG forms the legal basis for the present disclosure. The Solvency Decree (SolvV) Part 5 (sections 319–337 SolvV) defines the disclosure requirements, whereby this includes the risk profile, provision for risks, the ability to absorb risks (risk capacity) and the organizational structure of a bank's risk management.

J.P. Morgan AG has implemented the Solvency Decree in 2008 and is therefore publishing this disclosure report for the first time.

2. Organization

J.P. Morgan AG is an integral part of the global J.P. Morgan Group and forms the backbone of J.P. Morgan's operations in Germany. It is a wholly-owned subsidiary of J.P. Morgan Chase & Co., New York.

J.P. Morgan AG business is run by the Management Board (3 members) and controlled by the Supervisory Board (6 members). The Management Board meets at least monthly and the Supervisory Board at least twice a year. The Supervisory Board is informed about the business on a quarterly basis in the form of a business report and a risk report that complies with minimum requirements for risk management (MaRisk). A list with names of the Management Board and Supervisory Board is to be found at the end of the Annual Report.

Thanks to its full integration into J.P. Morgan's global Treasury & Securities segment the bank can rely on the necessary international production network to deliver client services that do full justice to J.P. Morgan's mission of doing "First class business in a first class way".

In 2008, the bank continued to focus on its core business, namely to achieve the corporate objective of being the € Clearing Operations Hub for the J.P. Morgan Group worldwide, financial institutions and corporate clients alike, and to act as the global custodian for the German investment market.

3. Business Strategy

As the firm's flagship bank for the Treasury & Securities Services (TSS) activities in Germany & Austria – and increasingly for parts of Continental Europe, too – J.P. Morgan AG focuses on transaction banking for financial services providers and corporate clients. In this context, J.P. Morgan AG handles the following material business franchises:

– Sales of Cash Management and Trade products to German & Austrian clients including Customer Services for Cash and an Operations Window for Trade
– € Clearing operations hub
– Custodian bank
– Treasury function
– Trade Finance and € Cash Management for German corporate clients including subsidiaries of U.S. corporate clients in Continental Europe
– Issuance of structured notes to German institutional clients

SALES OF CASH MANAGEMENT AND TRADE PRODUCTS TO GERMAN & AUSTRIAN CLIENTS INCLUDING CUSTOMER SERVICES FOR CASH AND AN OPERATIONS WINDOW FOR TRADE

Embedded in the corporation's worldwide divisional management structure with its organizational hubs and spokes, J.P. Morgan AG is the sales and service office for clients in Germany & Austria as well as in other European countries (for specific products). Sales and service activities extend to all products provided by the worldwide TSS organization.

With no commitment booked, the operations window offers clients the convenience of using J.P. Morgan AG as their counter to present documents for Trade Finance transactions booked by J.P. Morgan entities in the UK.

€ CLEARING OPERATIONS HUB

As the firm's access point to the € Clearing markets under TARGET2 and SEPA, J.P. Morgan AG is responsible for the operational management of € Clearing for the J.P. Morgan Group worldwide. This includes the cash management and the global funds control function for all payment flows in €, for both the corporation's own transactions and those of clients. € accounts are held with J.P. Morgan AG by a wide range of FI (financial institutions), NBFI (non-bank financial institutions), corporate clients, and J.P. Morgan sister companies from all over the world.

CUSTODIAN BANK

J.P. Morgan AG holds a license to provide global custodian services ("Depotbankgeschäft") to institutional clients in Germany. The bank provides a wide range of services as the custodian bank for German Special Funds ("Spezialfonds"), Mutual Retail Funds ("Publikumsfonds") and direct investments owned by German FI, NBFI and corporate clients. These services range from fund accounting, corporate actions, liquidity, and FX to securities lending. Local custodian services are outsourced to specialist providers around the world. In the form of the deposit insurance scheme in which German banks participate, the global custodian business provides additional liquidity through client deposits with the bank.

TREASURY FUNCTION

J.P. Morgan AG functions as a core treasury vehicle for the corporation in EMEA and particularly for the € market. The Treasury function is based on (i) the flows resulting from € Clearing, (ii) the corporation's access point to the European Central Bank, the German Bundesbank, EUREX and others to fund or to place € liquidity, and (iii) liquidity provided by Treasury Services (TS) client accounts as well as client deposits with Worldwide Securities Services (WSS). J.P. Morgan AG also has the capacity to re-channel liquidity from Far Eastern market activities into the firm's Central European treasury desk in London.

TRADE FINANCE AND € CASH MANAGEMENT FOR GERMAN CORPORATE CLIENTS INCLUDING SUBSIDIARIES OF US CORPORATE CLIENTS IN CONTINENTAL EUROPE

Trade finance at J.P. Morgan is part of the Treasury Services business. Following client demand for Trade Finance, in the course of 2007 J.P. Morgan AG was granted approval for a new product, namely also to issue guarantees and letters of credit on behalf of German corporate clients. In 2008, the bank enlarged its client base to include Austrian and Swiss corporate clients. Moreover, subsidiaries of US MNCs and Midmarket companies (so-called commercial bank clients) are being offered Trade Finance and € Cash Management services through J.P. Morgan AG. The credit exposure that arises in this context is borne by other J.P. Morgan entities with appropriate credit limits and / or collateral set for these clients. First business was transacted in 2008, and the plan is to broaden these activities in Germany and gradually expand them into Continental Europe.

ISSUANCE OF STRUCTURED NOTES TO GERMAN INSTITUTIONAL CLIENTS

Exclusively following client demand, J.P. Morgan AG also draws on the liabilities side of its balance sheet to issue structured notes in the form of "Schuldscheindarlehen" and structured bonds to German institutional investors. The bank hedges all the market risk and interest rate risk incurred through total return Swaps with other J.P. Morgan entities in Great Britain or the United States.

Given these J.P. Morgan AG business activities, the company's balance sheet is liability- rather than asset-driven, something that reduces the liquidity risk of the operations significantly. Moreover, interest-rate gap positions and foreign exchange positions are only held at the minimum level of remaining open positions, and market risk is generally hedged as described above. The main and material risk categories to which the bank is exposed to, through the above-described business activities, consist of:

– Operational risk
– Liquidity risk
– Credit risk
– Reputational risk

4. Risk Management (Section 322 SolvV)

4.1. ORGANIZATION & CONTROLLING

The J.P. Morgan AG Management Board is responsible for the adequate organization of its risk management function, which is defined and documented in the firm's Business and Risk Strategy.

Control functions that are deliberately independent of J.P. Morgan AG's front office departments are reponsible for the operational implementation of the risk strategy, and take the group-wide infrastructure and policies into account. The control functions at J.P. Morgan AG include, among others, the Credit Officer, who controls and monitors credit risks, and the Chief Operating Officer (COO), who is in charge of controlling and monitoring operational, liquidity and market risks.

Risk controlling and monitoring in J.P. Morgan AG rest on the following principles:

– The risk strategy is directly derived from the J.P. Morgan AG business strategy as defined by the Management Board. It is implemented through local policies that take the J.P. Morgan AG's integration into the J.P. Morgan Group into consideration.
– The organizational structure and respective processes have been documented for all risk categories, thus defining responsibilities and competencies for all functions involved.
– The J.P. Morgan AG organizational and operational structure is based on the principle of a clear segregation of front office ("Markt") and back office ("Marktfolge") duties in order to avoid conflicts of interest.
– The firm has put the necessary processes in place for identifying, assessing, treating, monitoring and communicating risks in compliance with its risk policies in order to identify material risks at an early stage based on regular scenario analysis.
– Appropriate ceilings for all significant risk categories have been adequately set and are effectively controlled.

The Chief Financial Officer (CFO) is responsible for monitoring the firm's risk capacity and compliance with regulatory capital requirements on a daily basis. Like the Credit Officer and the COO he reports directly to the member of the J.P. Morgan AG Management Board who is repsonsible for the back office ("Marktfolge").

Timely and independent reporting to the Management Board, covering the various risk categories, is performed on a daily, weekly, monthly and quarterly basis.

The risk capacity is constantly controlled. The economic capital used for the various risk categories is shown in the table below (all amounts in € thousand).

TABLE 1:

Economic Capital	December 31, 2008	September 30, 2008	June 30, 2008	December 31, 2007
Risk Category	T€	T€	T€	T€
Credit Risk	116,980	85,019	128,363	131,000
Operational Risk	15,431	15,431	15,431	13,124
Market Risk	5,337	5,133	4,923	0
Economic Capital	**137,748**	**105,583**	**148,717**	**144,124**

The firm has an independent internal audit function reporting directly to the Chairman of the Management Board.

Based on a regularly updated risk assessment, the Internal Audit function lays out an annual audit plan designed to ensure the effectiveness and appropriateness of the internal controls system and compliance with regulatory requirements.

The Internal Audit function reviews the firm's business activities using a risk-oriented audit approach, covering all in-house and outsourced activities and processes. In addition, J.P. Morgan AG relies on the group-wide internal audit activities of JPMorgan Chase Bank, N.A., London.

4.2. RISK CATEGORIES

4.2.1. Credit Risk

Given the company's core activities, resulting in the potential drawdown of overdraft facilities by clients who hold their transactional cash account for € payments or global custody activities with J.P. Morgan AG, counterparty risk is the single most important risk category at J.P. Morgan AG. The allocation of overdraft facilities can, in the event of an unfavorable client rating, be contingent on the implementation of defined risk mitigation steps, such as collateral being furnished.

Since J.P. Morgan AG does not run an active trading book, other credit risk categories, such as issuer risk, replacement risk and settlement risk, play a minor role in the firm's risk profile.

The credit risk strategy is derived from the J.P. Morgan AG's business strategy and is an integral component of the firm's overall approach to risk management, defining the risk profile with regard to client groups, industries, countries and products. Moreover, the MaRisk Guidelines for J.P.

Morgan AG specify the credit organization, processes for risk controlling, possible steps for risk mitigation as well as mandatory credit risk reporting. These guidelines complement the group-wide credit policies.

The Board of J.P. Morgan AG makes its credit decision on the basis of the clear division of distinct responsibilities between the Front Office ("Markt") and Back Office ("Marktfolge").

The Risk Grading System is an integral part of the credit risk management process. J.P. Morgan AG adopts the group-wide systematic methodology in order to ensure the uniform analysis of credit risk across the J.P. Morgan Group. The objective of the Risk Grading System is to categorize all credit facilities according to their expected loss by assigning a default grade to each facility to indicate the firm's assessment of the obligor's likelihood of default. Based on the combination of Default Grade and Loss Given Default estimate, a final Facility Grade is defined, which signifies the firm's comprehensive assessment of the facility's expected loss.

J.P. Morgan Chase uses historical default statistics compiled by Moody's, S&P, and KMV as the basis for default probability assumptions applicable to the firm's own customers. The Moody's and S&P default statistics relate historical defaults to the agencies' own public rating categories, while KMV produces statistical default estimates for individual obligors without assigning its own set of rating classifications. J.P. Morgan Group uses a blend of Moody's, S&P and KMV default estimates for each rating category to calibrate default estimates for our own internal risk grades.

Worst-case scenarios are calculated regularly. Even assuming an extreme scenario of complete use of intra-day limits for overnight overdrafts by all clients at the very same time, J.P. Morgan AG capital still suffices under GroMiKV regulations.

Treasury & Credit Control conducts daily monitoring of counterparty risks at the client level, whereby it relies on the group-wide exposure control system that records individual limits and their use in accounts and also by single borrower units ("Kreditnehmereinheit"). Daily activities mainly focus on monitoring intra-day and overdraft facility use.

Compliance with the approved limit structure, monitoring of J.P. Morgan AG's risk capacity as well as the analysis of the firm's portfolio (e.g., maturities, credit products, segments and countries) are all summarized in weekly, monthly and quarterly reports submitted to the J.P. Morgan AG Management Board.

J.P. Morgan AG has procedures for intensified loan management as well as for treating problem loans, but had no need to apply these procedures to any of the outstanding exposures during 2008.

4.2.2. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed processes, people and systems, or from external events. An "Operational Risk Event" is an incident or occurrence that prevents successful completion of a defined business process or activity and is for that relevant for all processes and activities within J.P. Morgan AG. This definition also covers legal risk which is defined as the risk of loss resulting from failure to comply with laws as well as prudent ethical standards and contractual obligations.

The firm has the necessary processes in place for identifying, assessing, treating, monitoring and communicating risks in compliance with the group-wide risk policies in order to identify material risks at an early stage. These processes are outlined in the firm's MaRisk Guidelines, assigning the overall responsibility to the Chief Operating Officer, and are further specified in the firm's Operational Risk Manual.

J.P. Morgan AG calculates the Operational Risk Capital Requirement (ORCR) for Pillar 1 & Pillar 2 purposes using the Basic Indicator Approach (BIA). The calculation of the ORCR is considered to be complementary to the qualitative risk framework. Stress scenarios have not been implemented yet.

To monitor and control operational risk, J.P. Morgan AG makes use of the group-wide system of comprehensive policies and a control framework designed to provide a sound and well-controlled operational environment. The goal is to keep operational risk at appropriate levels commensurate with the firm's financial strength, the nature of its businesses, the markets in which it operates, and the competitive and regulatory environment to which it is subject.

To this end, an inventory has been established of all the functions performed by or on behalf of J.P. Morgan AG. This inventory is regularly reviewed and allows for an in-depth analysis of inherent risks. The final assessment of the residual risks is based on the results of the semi-annual control self-assessment, which records errors, fines and losses, identifies control weaknesses and respective action plans for risk mitigation and minimization. The COO forwards a summary of these results and possible risk events to the J.P. Morgan AG Management Board in his quarterly MaRisk Report. Key themes are transparency of information, escalation of key issues, and accountability for issue resolution.

J.P. Morgan AG also includes resiliency risk under the operational risk category. Resiliency risk is the risk that a firm carries in its day-to-day operations to be able to recover from a business-impacting incident and continue critical functions in such a manner that legal, regulatory or customer obligations can be met on a timely basis. J.P. Morgan AG undertakes regular business impact assessments, which determine the recovery time objectives as well as the appropriate business continuity and recovery plan for each line of business. The recovery plans implemented, which take into account various scenarios, such as loss of people, unavailability of IT systems, and the closure of its office building, are successfully tested on an annual basis.

4.2.3. Liquidity Risk

J.P. Morgan AG defines liquidity risk as the risk of loss arising from the firm's inability to meet its obligations when they come due without incurring unacceptable losses.

The management and monitoring of liquidity risk is defined by the J.P. Morgan AG Management Board in the company business and risk strategy, whereas the treasury policy defines the framework for J.P. Morgan's treasury management activities and summarizes the daily control of J.P. Morgan AG's liquidity position.

The J.P. Morgan AG Management Board concluded that capital allocation is not the adequate tool to cover the risk of a sudden outflow of liquidity in the € clearing business, leaving J.P. Morgan AG with clearing obligations which could not be met. Instead the treasury policy defines a number of stress scenarios, which analyze the possible contingency funding avenues open to J.P. Morgan AG in order to ensure the necessary liquidity to continue its core activities even under unfavorable market conditions.

Stress scenarios include both the sudden outflow of liquidity as well as a sudden increase in utilization of overdraft lines. Scenarios are then calculated assuming the day of lowest excess liquidity in the given quarter. In all scenarios, J.P. Morgan AG's liquidity needs are covered.

Liquidity management is handled by the Treasury function in compliance with group-wide policies and J.P. Morgan AG's treasury policy. Compliance with these policies as well as defined warning thresholds are monitored by Treasury & Credit Control daily. Escalation procedures have been established for the event of a significant drop in liquidity.

The liquidity development is summarized in weekly reports and reviewed by the J.P. Morgan AG Management Board on a monthly basis.

4.2.4. Market Risk

J.P. Morgan AG defines market risk as the risk of loss due to changed market conditions and market prices. Interest rate risks as well as currency risks have been classified as secondary risk categories, since J.P. Morgan AG does not maintain an active trading book.

J.P. Morgan AG does not hold any shares or enter into any equity derivatives (e.g., forwards, options, futures). Thus, share price risk is currently fully excluded from the firm's risk strategy.

Interest rate risks result mainly from J.P. Morgan AG's treasury activities in managing its € liquidity, while currency risks are solely generated through the daily coverage of client FX positions at a very limited scale.

The management of market risk is defined in the firm's business and risk strategy and governed by the Treasury Policy, defining limits for the J.P. Morgan AG interest-rate and currency positions. These positions are valued and adequately monitored.

J.P. Morgan AG's interest-rate risk is managed against a basis-point value limit with a view to closing down any risk positions beyond one month. Only a spot limit has been defined for the management of the currency risk, .

Treasury & Credit Control is responsible for the daily monitoring of these limits. Usage of limits and impact on the firm's risk capacity is reported to the J.P. Morgan AG Management Board on a monthly and quarterly basis.

4.3. RISK CONTROL

4.3.1. Risk Capacity

The Chief Financial Officer (CFO) is responsible for the daily monitoring of the firm's risk capacity and compliance with regulatory capital requirements. Like the Credit Officer and the COO he reports directly to the member of the J.P. Morgan AG Management Board representing the Back Office ("Marktfolge"). In order to calculate the economic capital requirements, J.P. Morgan AG makes use of the standardized credit-risk approach ("Kreditrisiko-Standardansatz"), the basis indicator approach for operational risk, and marked-to-market for market risks.

A detailed analysis of the firm's risk capacity, using various stress scenarios with regard to credit risk and liquidity risk, is undertaken on a quarterly basis. The results of this analysis are summarized in the quarterly MaRisk Report and presented to the J.P. Morgan AG Management Board .

4.3.2. Definition of Limits

A series of limits have been defined specially to control the firm's liquidity risks for which the Management Board decided not to allocate any risk capital; these limits complement the regulatory limits of LiqV and SolvV, which are monitored on a daily basis. These limits are defined in the treasury policy and comprise deposit guidance limits, bidding limits, position limits as well as warning thresholds.

The treasury policy has been approved by the Management Board. In addition, the treasury policy defines roles and responsibilities as well as escalation procedures in the event of threshold excesses or even limit breaches.

4.3.3. Approval of New Products & Markets

In order to identify and assess the risk associated with the implementation of new products or the expansion into new markets, J.P. Morgan AG has implemented a "New Business Initiative Approval" (NBIA) process. The decision to opt for an NBIA process is made independent from the

Front Office function by the Chief Operating Officer, who also submits the initial assessment of the various inherent risks, results of the test phase, and the final recommendation to the Management Board for approval before the products can be migrated into production.

Integrating various functions such as Financial Control, Tax, Legal, Compliance and Risk Management under the coordination of the COO guarantees an independent review. This group documents all results of the process for submission for approval by the Management Board.

The NBIA process within J.P. Morgan AG also foresees a full-fledged implementation review six months after the successful start of new business activities, revisiting the risk profile, determining robustness of operational processes, and examining regulatory considerations as well as the impact on J.P. Morgan AG's risk capacity.

5. Group Consolidation (Section 323 SolvV)

J.P. Morgan AG is part of the J.P. Morgan Group.

In terms of section 10a, paragraph 3 KWG (German Banking Act) J.P. Morgan AG constitutes a parent company and according to section 10a paragraph 12 KWG is responsible to provide adequate internal capital for the group.

The only company that has to be consolidated is J.P. Morgan Beteiligungs- und Verwaltungsgesellschaft mbH.

J.P. Morgan AG does not have any subsidiaries that need to be consolidated.

6. Own funds structure (Section 324 SolvV)

Under commercial law, own funds consist of subscribed capital, capital and revenue reserves, profit or loss carried forward and the annual net profit or loss respectively, whereas the regulatory term is in accordance with the German Banking Act (KWG).

For solvency purposes J.P. Morgan AG's capital resources pursuant to section 10 KWG, consist of core capital, section 10 para 2a KWG (tier I capital) and supplementary capital, section 10 para 2b KWG (tier II capital).

TABLE 2:

Own Capital Structure	
	T€
Nominal capital	60,000
Capital reserves	59,235
Revenue reserves	29,778
§ 340 g, Reserve for General Banking Risks	56,300
Tier I capital	**205,313**
1st grade	
Profit part. rights	26,076
2nd grade	
Subordinated debt (J.P. Morgan Capital Hold. Limited E B & B C)	97,004
Tier II capital	**123,080**
Liable capital under Banking Regulations (Total Tier I + II)	**328,393**

6.1. CORE CAPITAL (TIER I)

6.1.1. Nominal Capital

The nominal capital totaling € 60,000,000.00 is divided into 11,735 shares without a par value and is issued in the name of J.P. Morgan Beteiligungs- und Verwaltungsgesellschaft mbH (JPMBV), Frankfurt/Main.

6.1.2. Capital Reserves

Capital reserves increased in 2008 by € 5,498,296.37 owing to the merger of J.P. Morgan Services GmbH. According to the merger agreement dated August 19, 2008, along with the board decision, J.P. Morgan Services GmbH (HRB 28604), Frankfurt/Main was merged with J.P. Morgan AG. In this regard, pursuant to section 272, par. 2 No. 4 German Commercial Code it was agreed to add J.P. Morgan Services GmbH's capital, in line with the contract of assignment of August 19, 2008.

6.1.3. Revenue Reserves

Revenue reserves comprise of a statutory reserve of € 6,000,000 and other revenue reserves of € 23,777,629.

6.1.4. Reserve for General Banking Risks (Section 340 g Commercial Code)

The bank has a special reserve in line with section 340 g Commercial Code in the amount of € 56,300,000.

6.2. SUPPLEMENTARY CAPITAL (TIER II)

The supplementary capital (tier II capital) comprises participation rights (1st grade supplementary capital) and subordinated debt (2nd grade supplementary capital).

6.2.1. Participation Rights

Participation rights totaling € 26,075,886 are held solely by J.P. Morgan Beteiligungs- und Verwaltungsgesellschaft mbH, Frankfurt/Main. The contract has an indefinite term and can be terminated with notice of two years as at the end of the bank's fiscal year.

According to clause 2 of the contract, JPMBV participates in the bank's possible profit up to a maximum of 25 % of the eligible investment and according to section 3 it participates up to the full amount of the investment in the bank's possible loss. JPMBV is not entitled to any corporate rights.

The participation rights meet the stipulations of section 10 para 5 German Banking Act (KWG) to be classified as supplementary capital.

6.2.2. Subordinated Debt

The subordinated debt in the amount of USD 135,000,000 has an initial term of five years. Interest is calculated on the basis of the 3-month-LIBOR (London Interbank Offered Rate) and paid quarterly. Creditor is J.P. Morgan Capital Holdings Limited, Luxembourg.

The subordinated debt satisfies the requirements of section 10 para 5a German Banking Act (KWG) to be classified as supplementary capital.

7. Capital Adequacy (Section 325 SolvV)

The regulatory capital requirements according to SolvV as of December 31, 2008 were the following:

TABLE 3:

Capital Requirements	
Counterparty credit risk	**T€**
Standardized approach (CRSA)	106,267
thereof:	
Central governments or central banks	32
Institutions	87,088
Corporates	12,520
Retail	6
Investments	7
Collective investments undertakings (CIU)	4,488
Other items	2,126
Market Risk	
Standardised approach (SA)	7,023
Operational Risk	
Basic Indicator Approach (BIA)	15,431
Total Capital Requirements	**128,721**

In 2007, J.P. Morgan AG exploited the temporary regulation under section 339 para 10 SolvV.

In 2008, J.P. Morgan AG implemented a new regulatory reporting system to comply with the new Basel Capital Accord ("Basel II") and thus reported in line with the new Solvency Regulation (SolvV).

As at December 31, 2008, the capital ratios for J.P. Morgan AG were as follows:

TABLE 4:

Capital Ratios	Total capital ratio in %	Tier I capital ratio in %
Name		
J.P. Morgan AG, Frankfurt	20.54	12.90

8. Disclosure of Risk Positions (Sections 326 – 336 SolvV)

8.1. COUNTERPARTY CREDIT RISK (CCR)

The majority of risks faced by J.P. Morgan AG can be considered counterparty credit risk.

Following tables provide a detailed overview of the firm's counterparty credit risks pursuant to section 327 SolvV.

The total amount of exposures forms the basis for the tables below, without taking into account the effects of credit risk mitigation.

In the case of derivative instruments, the credit equivalent amount is shown.

The bank does not have any impaired or past-due exposures.

Total amount of exposures broken down by different types of exposure classes are as follows:

TABLE 5:

CCR – Total Exposure	Loans, credit facilities and non-derivative off balance sheet positions	Securities	Derivatives
	T€	T€	T€
Total exposures	**17,021,892**	**114,488**	**119,871**

The following table shows the distribution of the exposure by geographical area:

TABLE 6:

CCR – Geographical View	Loans, credit facilities and non-derivative off balance sheet positions	Securities	Derivatives
	T€	T€	T€
Germany	11,476,657	88,675	4,971
Europe (without Germany)	5,292,827	25,813	49,280
America	242,970	0	65,620
Asia	3,025	0	0
Australia	2,939	0	0
Africa	3,474	0	0
Total exposure	**17,021,892**	**114,488**	**119,871**

The firm's counterparty credit risk can be broken down by the following industry or counterparty type:

TABLE 7:

CCR – Total Exposure by Industry	Loans, credit facilities and non-derivative off balance sheet positions	Securities	Derivatives
	T€	T€	T€
Central governments or central banks	11,242,804	0	0
Institutions	5,553,281	0	119,871
Corporates	225,710	114,488	0
Retail	97	0	0
Total exposure	**17,021,892**	**114,488**	**119,871**

Exposures that make up the counterparty credit risk have the following residual terms:

TABLE 8:

CCR – Total Exposure by Residual Maturity	Loans, credit facilities and non-derivative off balance sheet positions	Securities	Derivatives
	T€	T€	T€
< 1 year	16,855,157	0	3,991
1 year – 5 years	124,797	0	31,834
> 5 years	41,938	114,488	84,046
Total exposure	**17,021,892**	**114,488**	**119,871**

8.2. SPECIAL DISCLOSURE OF DERIVATIVE COUNTERPARTY CREDIT RISK

According to section 326 SolvV, special independent disclosure requirements apply for derivative counterparty credit risk. J.P. Morgan AG uses derivatives to hedge the market risk of debenture bonds on the banking ledger. The derivatives position mainly consists of total return swaps, which the bank has engaged in as secured party. The counterparties of these trades are JP Morgan Chase Bank, London Branch and JPMorgan Chase Bank, New York.

J.P. Morgan AG uses the marked-to-market method to calculate the own funds requirement in line with part 2 chapter 2 SolvV.

In order to minimize the credit risk resulting from the incurred derivative positions, J.P. Morgan AG has taken cash deposits in USD and EUR from JPMorgan Chase Bank, London Branch. Utilization of the cash deposit is monitored on a daily basis in order to ensure that the credit risk is always nil. In the event that the cash deposit is not sufficient, an additional cash deposit would be requested from JPMorgan Chase Bank, London Branch. The counterparty credit risk is quantified on the basis of the credit equivalent amount, which consists of the positive replacement amount and an add-on.

Within the framework of the controls of the derivative counterparty credit risk, J.P. Morgan AG evaluates market and counterparty risk separately. Given the elimination of the credit risk, as a result of the cash deposit, the bank assumes a correlation of zero between the two risk categories. Capital savings arising from the individual calculation of a correlation are not considered.

The table below shows the gross positive fair values of contracts (i.e., positive replacement cost without add-on) before collateral arrangements have been applied.

TABLE 9:

Positive Gross Value of Derivative Instruments	Gross positive fair value
Type of contract	**T€**
Interest rate	4,588
Foreign exchange	0
Equity	32,519
Credit derivatives	0
Commodities	0
Other	0
Total amount	**37,107**

J.P. Morgan AG applies the marked-to-market method to calculate the counterparty credit risk (CCR). The following table shows the CCR with applied collateral arrangements and the notional value of the contracts.

TABLE 10:

Regulatory Counterparty Credit Risk	Counterparty credit risk	Netting	Collateral arrangements	Counterparty credit risk with netting and collateral applied	Nominal amount
Type of contract	**T€**	**T€**	**T€**	**T€**	**T€**
Interest rate	5,355	0	384	4,971	51,129
Foreign exchange	0	0	0	0	0
Equity	114,516	0	114,516	0	878,845
Credit derivatives	0	0	0	0	0
Commodities	0	0	0	0	0
Other	0	0	0	0	0
Total amount	**119,871**	**0**	**144,900**	**4,971**	**929,974**

The above table shows the volume of the derivatives position and how the risk has already been mitigated by the cash collateral applied.

Only positive replacement cost amounts after netting and applied cash collateral have to be covered by equity.

8.3. DISCLOSURE BY CRSA EXPOSURE CLASSES (SECTION 328 SOLV V)

J.P. Morgan AG uses the standardized regulatory reporting application ABACUS DaVinci to calculate the regulatory ratios. ABACUS DaVinci receives a feed with Standard & Poors, Moodys and Fitch ratings for all counterparties on a daily basis.

If multiple ratings exist, ABACUS DaVinci determines the relevant rating based on the regulatory guidelines for multiple ratings:
– if two ratings exist that represent different risk weightings, then the higher risk weighting is chosen.
– if three or more ratings exist with different risk weightings, then the two ratings with the lowest risk weighting are chosen. If these two risk weightings differ, the rating that leads to a higher risk weighting is applied.

8.4. CREDIT RISK MITIGATION TECHNIQUES (SECTION 336 SOLV V)

To mitigate the credit risk J.P. Morgan AG uses a cash collateral of € 500 million for subsidiaries which do not have a risk weighting of zero.

In addition, the bank uses cash deposits to minimize the credit risk incurred from derivative positions. (see item 8.2 above) In compliance with section 20 para 2, sentence 1 no. 2 German Banking Act (KWG), in conjunction with section 41 para 4 Large Exposure Regulation (GroMiKV), cash collateral of USD 50 million and EUR 250 million has been furnished by JPMorgan Chase Bank N.A., London Branch.

Furthermore, the bank draws on two Hermes guarantees to cover the credit risk of two remaining loans. The bank does not grant any new loans.

The table below demonstrates the credit risk mitigation effect.

TABLE 11:

Counterparty Credit Risk – disclosure for CRSA exposure classes	Financial collateral	Guarantees and credit derivatives
Asset class	T€	T€
Central governments or central banks	0	1,895
Institutions	168,981	0
Corporates	27,459	1,129
Retail	0	0
Investments	0	0
Collective investments undertakings (CIU)	0	0
Other items	0	0
Total amount	**196,440**	**3,024**

8.5. INVESTMENTS IN THE BANKING LEDGER

J.P. Morgan AG keeps one investment in the banking ledger for strategic reasons to expand the range of products available for clients.

The investment is entered in the balance sheet at book value.

The book value as at Dec. 31, 2008 was € 88,964.79.

8.6. DISCLOSURE OF MARKET RISK (SECTION 330 SOLV V)

J.P. Morgan AG uses the regulatory specified standardized approach (SA) to calculate the capital requirements for market risks and foreign exchange risks.

The below table shows the categories for which J.P. Morgan AG provides capital cover:

TABLE 12:

Capital requirements for market risks	Capital requirement
Market risk category	T€
Interest rate risk	0
Equity risk	0
Foreign exchange risk	7,023
Commodities risk	0
Other risks	0
Total amount	**7,023**

8.7. DISCLOSURE OF OPERATIONAL RISK (SECTION 331 SOLV V)

J.P. Morgan AG uses the Basic Indicator Approach (BIA) to determine the supervisory capital charge for operational risks.

According to section 270 SolvV, the capital charge using the BIA is equal to 15 percent of the three-year average of the relevant indicator.

The three-year average of the relevant indicator is calculated on the basis of the last three 12-monthly observations at the end of the institution's financial year, of which only positive annual amounts are considered.

The three-year average for the relevant indicator is calculated as the sum of the annual positive figures divided by the number of positive annual figures.

The below table shows the calculation of the supervisory capital charge for operational risk:

TABLE 13:

	Relevant indicator acc. to sec. 271 SolvV			
Capital requirements for operational risks	**2007**	**2006**	**2005**	**Capital requirement**
	T€	T€	T€	T€
Basic Indicator Approach	94,532	97,853	116,226	15,431

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