

J.P. MORGAN CAPITAL FINANCING LIMITED
(Registered Number. 2290621)

Consolidated annual report for the year ended 31 December 2007

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J.P. MORGAN CAPITAL FINANCING LIMITED

Consolidated annual report for the year ended 31 December 2007

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J.P. MORGAN CAPITAL FINANCING LIMITED

Directors' report for the year ended 31 December 2007

The directors present their report and the audited financial statements of the Group and the Company for the year ended 31 December 2007

Principal activities

During the year, the Group through subsidiary companies, held a variety of financial instruments and provided loans and funding commitments to Group entities as well as a variety of commercial enterprises. The financial instruments included equities.

Review of business

The operating subsidiaries of the Group took on a broader and more strategic role during 2007. There was a growth in the number of activities carried out by the Group on behalf of the various Investment Bank divisions of JPMorgan. In view of the uncertain markets in the second half of 2007, the Group's major subsidiaries, Aldermanbury Investments Limited and J P Morgan Chase International Financing Limited generated losses which given the nature of the activities, was not unexpected. However, the directors took the decision to increase the capital base of the Group in 2008 in anticipation of the extended market turbulence.

The Company received an unconditional capital contribution of US\$100 million and US\$150 million on 12 April 2007 and 27 April 2007 respectively from its parent company, JPMorgan Chase & Co.

Subsequently, the Company increased its investment in Aldermanbury Investments Limited by US\$100 million and in J P Morgan Capital International Financing Limited by US\$150 million.

On 3 December 2007, J P Morgan Securities Ltd allotted 7,000 ten year fixed rate preference shares of \$10,000 each to the Company in consideration of cash to the value of \$70,000,000.

The Company received dividends of \$2,307,000 during the year (2006 \$294,000).

The directors were satisfied with the performance of the Company and the Group.

Business environment, strategy and future outlook

At the present time, the markets in which the Group operates are going through unprecedented change which will have the impact of reducing the risk appetite in certain areas. On the other hand, there are still opportunities for the Group which are being taken during 2008 and in addition, with the acquisition of the Bear Stearns Group by JPMorgan Chase, the Group's subsidiaries have been and will be requested to increase their spread of assets and businesses to accommodate the closure of certain Bear Stearns companies and allow for risk consolidation. The directors will continue to watch closely the capital position of the Group overall and the risk appetite.

Principal risks and uncertainties

From the perspective of the Group, the principal risks and uncertainties are integrated with the principal risks of the JPMorgan Chase & Co (the JPMC Group) and are not managed separately. Accordingly, the principal risks and uncertainties of the JPMC Group, which include those of the Group, are discussed within the the JPMC 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 7 and show the Group's profit for the financial year after taxation is \$1,635,000 (2006 loss of \$69,601,000). No dividends were paid or proposed by the Company during the year (2006 \$nil).

J.P. MORGAN CAPITAL FINANCING LIMITED

Directors' report for the year ended 31 December 2007 (continued)

Share capital and reserves

The authorised and issued share capital of the Company as at 31 December 2007, and matters relating thereto, are set out in note 21 to the financial statements

Total share capital and reserves of the Group amounted to \$1,168.4 million as at 31 December 2007 (2006: \$905.4 million)

Post balance sheet events

The Company received an unconditional capital contribution of US\$500 million on 8 August 2008 from its parent company, JPMorgan Chase & Co. Subsequently, the Company increased its investment in Aldermanbury Investments Limited by US\$500 million

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.

During 2008, the carrying values of certain financial assets held for trading, financial assets designated at fair value through profit or loss and loans and receivables as at the balance sheet date have declined by an estimated \$294 million as a result of the uncertain and volatile market conditions.

Financial risk management

Risk management is an inherent part of the JPMC Group's business activities and the Group has adopted the same risk management policies and procedures as the JPMC Group as a whole. The Group's risk management framework and governance structure are intended to provide comprehensive controls and ongoing management of its major risks. The Group exercises oversight through the Board of Directors and delegation from the Board to various sub-committees which are organised in line with the JPMC Group Risk Management policy.

An overview of the key aspects of risk management and use of financial instruments is provided below. A more detailed description of the policies and processes adopted by the Group may be found within the JPMC Group annual report.

Liquidity risk

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

Credit risk

Each business within the JPMC Group has its own independent credit risk management function, reporting to the Business executive and the Chief Credit Officer. These units are responsible for making credit decisions on behalf of the Group. 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 JPMC Group's Operating Committee.

J.P. MORGAN CAPITAL FINANCING LIMITED

Directors' report for the year ended 31 December 2007 (continued)

Financial risk management (continued)

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 Management (MRM) is a function within the JPMC Group that is independent of the businesses and identifies, measures, monitors and controls market risk. MRM works in partnership with the business segments within the JPMC Group and the directors within the Group to identify market risks and to refine and monitor market risk policies and procedures. Market risk is primarily controlled through a series of limits. Since no single measure can reflect all aspects of market risk, the JPMC Group uses several measures, both statistical and non-statistical, including

- 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

JPMC Group's VAR statistical measure gauges the potential loss from adverse market moves in an ordinary market environment. Through the JPMC 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 JPMC Group and the directors to identify further earnings vulnerabilities. MRM regularly reviews and updates risk limits, and the JPMC 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 JPMC Group maintains 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 financial statements were as follows:

I R Lyall
F M P Mouchel (appointed 1 April 2007)
N J D Collett (appointed 31 July 2008)
M J Davies (resigned 30 June 2007)
B D Fries (resigned 1 June 2007)
A J Jeffrey (appointed 30 June 2007, resigned 28 September 2007)

Directors' interests

None of the directors has any beneficial interest in the Company. The Company is a wholly owned subsidiary of a body corporate incorporated outside Great Britain. The directors are not required to notify the Company of any interests in shares of that or any other body incorporated outside Great Britain.

J.P. MORGAN CAPITAL FINANCING LIMITED

Directors' report for the year ended 31 December 2007 (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company Law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for the year.

In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

Each person who is a director of the Company at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware, and
- each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Liability insurance for Company officers

As permitted by Section 310(3) of the Companies Act 1985, the directors of the Company are covered for insurance purposes by the ultimate holding company, JPMorgan Chase & Co's group blanket insurance maintained at a consolidated level.

Company secretary

The joint secretaries of the Company serving during the year were as follows:

I R Lyall
J P Morgan Secretaries (UK) Limited

Companies Act 1985

An Elective Resolution under the Companies Act 1985 was passed on 22 December 2004 dispensing with the requirement for the holding of Annual General Meetings, the laying of accounts before shareholders at General Meetings and the annual re-election of auditors.

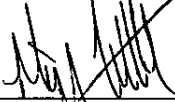
J.P. MORGAN CAPITAL FINANCING LIMITED

Directors' report for the year ended 31 December 2007 (continued)

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have expressed their willingness to continue in office

By order of the Board

A handwritten signature in black ink, consisting of several loops and strokes, positioned above a horizontal line.

Director

28 October 2008

J.P. MORGAN CAPITAL FINANCING LIMITED

Independent auditors' report to the members of J.P. Morgan Capital Financing Limited

We have audited the Group and the Company financial statements of J P Morgan Capital Financing Limited for the year ended 31 December 2007 on pages 7 to 27 which comprise the Group Profit and Loss Account, the Group Statement of Total Recognised Gains and Losses, the Group and Company Balance Sheets and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

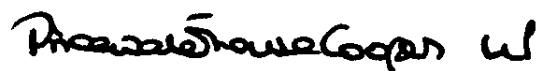
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the Company's affairs as at 31 December 2007 and of the Group's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

28 October 2008

J.P. MORGAN CAPITAL FINANCING LIMITED

Consolidated profit and loss account for the year ended 31 December 2007

	Notes	2007 \$'000	Restated 2006 \$'000
Operating income	4	32,677	16,107
Administrative expenses		(1,790)	(36)
Other income/(expenses)	5	4,758	(98,291)
Dividend income		2,307	294
Operating profit/(loss)		37,952	(81,926)
Other interest receivable and similar income	6	71,672	52,516
Interest payable and similar charges	7	(96,488)	(18,673)
Provision for impairment	8	-	(1,170)
Profit/(loss) on ordinary activities before taxation	9	13,136	(49,253)
Tax charge on profit/(loss) ordinary activities	10	(11,501)	(20,348)
Profit/(loss) for the financial year		1,635	(69,601)

Consolidated statement of total recognised gains and losses for the year ended 31 December 2007

		2007 \$'000	Restated 2006 \$'000
Profit/(loss) for the financial year		1,635	(69,601)
Prior period adjustment	1 20	2,854	-
Foreign currency translation adjustment		11,370	96,839
Total recognised gains and losses since last annual report		15,859	27,238

The profit for the year resulted from continuing operations

The reconciliation of movements in shareholder's funds during the year is detailed in note 23

There are no material differences between the profit on ordinary activities after taxation as stated above and their historical cost equivalents

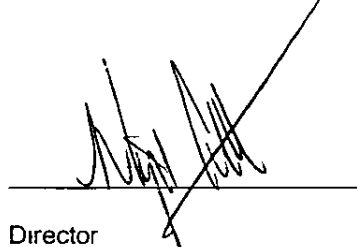
The notes on pages 10 to 27 form an integral part of the financial statements

J.P. MORGAN CAPITAL FINANCING LIMITED

Consolidated balance sheet as at 31 December 2007

	Notes	2007 \$'000	Restated 2006 \$'000
Fixed assets			
Intangible assets	11	(28,682)	(31,400)
Investments in Group undertakings	12	106,480	36,480
Other investments	13	28,950	-
		106,748	5,080
Current assets			
Financial assets held for trading	14	2,918,910	591,951
Financial assets designated at fair value through profit or loss	15	1,133,646	820,715
Loans and receivables amounts falling due before one year	16	15,037	2,494
Loans and receivables amounts falling due after more than one year	16	192,271	134,053
Debtors	17	1,139,381	1,001,289
Other assets	18	11,645	4,102
Cash at bank and in hand	19	36,431	64,710
		5,447,321	2,619,314
Creditors amounts falling due within one year	20	(4,385,554)	(1,718,233)
Net current assets		1,061,767	901,081
Total assets less current liabilities		1,168,515	906,161
Creditors amounts falling due after more than one year	20	(84)	(735)
Net assets		1,168,431	905,426
Capital and reserves			
Called-up share capital	21	107	107
Other reserves	22	1,050,395	1,784,405
Profit and loss reserve	22	117,929	(879,086)
Total shareholder's funds	23	1,168,431	905,426

On behalf of the Board



Director

28 October 2008

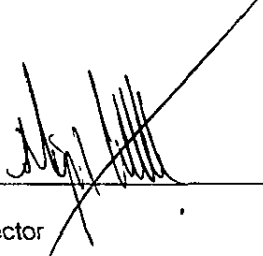
The notes on pages 10 to 27 form an integral part of the financial statements

J.P. MORGAN CAPITAL FINANCING LIMITED

Company balance sheet as at 31 December 2007

	Notes	2007 \$'000	2006 \$'000
Fixed assets			
Investments in Group undertakings	12	1,032,781	734,281
Other investments	13	16,698	-
		1,049,479	734,281
Current assets			
Debtors	17	25	2,863
Cash at bank and in hand	19	6,451	1,143
		6,476	4,006
Creditors amounts falling due within one year	20	(96,080)	(8,514)
Net current liabilities		(89,604)	(4,508)
Total assets less current liabilities		959,875	729,773
Net assets		959,875	729,773
Capital and reserves			
Called-up share capital	21	107	107
Other reserves	22	938,913	1,688,913
Profit and loss reserve	22	20,855	(959,247)
Total shareholder's funds	23	959,875	729,773

On behalf of the Board



Director

28 October 2008

The notes on pages 10 to 27 form an integral part of the financial statements

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2007

1 Accounting policies

1.1 Accounting convention

The consolidated financial statements have been prepared on the going concern basis and under the historical cost convention. The consolidated financial statements have also been prepared in accordance with applicable accounting standards in the United Kingdom and in accordance with the requirements of the Companies Act 1985.

In the opinion of the Directors, disclosure of turnover is most appropriately represented for the Group by operating income, comprising profits from trading activities, fees and commissions receivable and interest income from loans and receivables. This represents an adaptation of the profit and loss account format laid down in Schedule 4 to the Companies Act 1985 due to the nature of the Group's business.

The directors have taken advantage of the exemption available under section 230 of the Companies Act 1985, and not presented a profit and loss account for the Company alone. The Company made a loss of \$19.9 million after taxation (2006: \$96.2 million).

The principal accounting policies which have been consistently applied throughout the year are as set out below.

1.2 Changes in accounting policy

On 1 January 2007, the Group adopted FRS 29, 'Financial instruments: disclosures'. FRS 29 introduces new disclosures relating to financial instruments and does not have any impact on the classification, recognition and measurement of the Group's financial instruments. This standard was applied retrospectively in accordance with its transitional provisions, and comparative information has been disclosed accordingly.

1.3 Consolidation

The consolidated financial statements include the results of the Company and of its subsidiaries for the year ended 31 December 2007. The results of subsidiaries acquired or sold are included from the date of acquisition or to the date of sale respectively. All intra-group transactions, balances, and unrealised gains on transactions between the Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

1.4 Cash flow statement

The Group has taken advantage of the provisions of FRS 1 'Cash Flow Statements (revised 1996)', which exempt the Group from preparation of a cash flow statement because it is at least a 90% owned subsidiary of the group, JPMorgan Chase & Co. whose financial statements are publicly available.

1.5 Related party transactions

In accordance with the exemption afforded by FRS 8 'Related Party Disclosures', certain details of transactions with parent and fellow subsidiary companies are not disclosed as they are included in the consolidated financial statements of the group, JPMorgan Chase & Co. which are publicly available.

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2007 (continued)

1 Accounting policies (continued)

1.6 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.

Non-monetary items denominated in foreign currencies that are stated at fair value are translated into US dollars at foreign exchange rates ruling at the dates when the fair values were determined. Translation differences arising on non-monetary items measured at fair value are recognised in the profit and loss account.

The assets, including related goodwill where applicable, and liabilities of foreign operations whose functional currency is not US dollars, are translated into the Group's presentation currency at the rate of exchange ruling at the balance sheet date. The results of foreign operations whose functional currency is not US dollars are translated into US dollars at the average rates of exchange for the reporting period. Exchange differences arising from the retranslation of opening foreign currency net investments, and exchange differences arising from retranslation of the results for the reporting period from the average rate to the exchange rate prevailing at the period end, are recognised through the consolidated statement of total recognised gains and losses in the translation reserve. On disposal of a foreign operation, exchange differences relating thereto and previously recognised in reserve are recognised in the consolidated profit and loss account.

The financial statements have been presented in US dollars as the directors are of the opinion that this is the functional currency of the Company.

Year end exchange rate (USD/GBP)	1.99279	(2006: 1.95986)
Average rate for the year (USD/GBP)	2.00640	(2006: 1.85577)

1.7 Income and expense recognition

Interest receivable and payable 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 determined using the effective interest rate method. The 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.

Provisions for losses are determined by reference to specific loans and advances as and when considered necessary, and take account of guarantees received.

Profits and losses resulting from the purchase and sale of securities and the revaluation of financial instruments are recognised as trading gains or losses on a trade date basis.

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

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2007 (continued)

1 Accounting policies (continued)

1.8 Dividend recognition

Dividend income is recognised when the right to receive payment is established

Dividend distributions are recognised in the period in which they are declared and approved

1.9 Intangible fixed assets

Goodwill represents the excess of cost over the fair value of the identifiable net assets of businesses acquired. Goodwill is capitalised as an intangible fixed asset and amortised on a straight-line basis over the period that the directors estimate that the values of the underlying businesses acquired are expected to exceed the value of the underlying assets.

For the purpose of calculating goodwill, fair values of acquired assets and liabilities are determined by reference to market prices.

Negative goodwill up to the fair values of the non-monetary assets acquired is recognised in the profit and loss account in the periods in which the non-monetary assets are disposed.

1.10 Investments in group undertakings

Investments in group undertakings are held at cost less provision for any impairment.

1.11 Other investments

Other investments include unlisted investments carried at cost less provision for any impairment.

1.12 Financial assets and financial liabilities

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

The Group 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 Group 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 both securities and derivatives. These instruments are either held for trading purposes or used for hedging certain assets, liabilities, positions, cash flows or anticipated transactions. Included in financial assets held for trading are the reported receivables (unrealised gains) and in financial liabilities held for trading the reported payables (unrealised losses) related to derivatives. The instruments are measured 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.

Since both the securities and derivatives are managed on a unified basis as part of the trading strategy, which includes hedging relationships between cash securities and derivatives, it is not meaningful to show the gains and losses on the cash instruments separately from the gains and losses on the derivatives, the net gain or loss is reported as trading profits, in operating income.

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2007 (continued)

1 Accounting policies (continued)

1 12 Financial assets and financial liabilities (continued)

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

Financial assets and financial liabilities that the Group 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 Group 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 Group 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.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market except those that are classified as held for trading or fair value through profit or loss. Loans and receivables are initially recognised at fair value including directly related incremental transaction costs. They are subsequently measured at amortised cost, using the effective interest method less any impairment losses. They are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership.

1 13 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.

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2007 (continued)

1 Accounting policies (continued)

1 14 Recognition of deferred day one profit and loss

The Group has entered into transactions where fair value is determined using valuation models for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as 'day one profit and loss', is not recognised immediately in profit and loss.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the profit and loss account without reversal of deferred day one profit and losses.

1 15 Impairment

Financial assets

The Group 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.

Fixed assets

Tangible fixed assets and goodwill are reviewed for impairment if there are events or changes in circumstances that indicate that the carrying values may not be recoverable. In addition, goodwill is reviewed for impairment at the end of the first full financial year following acquisition as required by FRS 10 'Goodwill and Intangible Assets'.

1 16 Provisions for liabilities and charges

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

1 17 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.

1 18 Bad and doubtful debts

Provisions are made in the course of the year for bad and doubtful debts and potential credit losses arising from trading products. Provisions are either specific, against known bad or doubtful debtors, or are general according to prescribed formulae.

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2007 (continued)

1 Accounting policies (continued)

1 19 Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis

1 20 Prior year adjustment

In the prior year comparative information, financial assets designated at fair value through profit or loss have been restated by \$2.8 million with a corresponding increase in retained earnings as at 1 January 2006. This arises from a change in the valuation of financial assets designated at fair value through profit or loss in accordance with FRS 26. These effects have been reflected in the consolidated statement of total recognised gains and losses. The net profit for the year has remained unchanged due to this adjustment.

1 21 Prior year restatement

In 2006, exchange differences amounting to \$96.8 million arising from retranslation of opening net investments and results of foreign operations for the year were recognised in the consolidated profit and loss account which have been restated to translation reserve. Further, cumulative exchange differences of \$3.3 million relating to prior years have also been transferred from profit and loss reserve to translation reserve. The financial impact of this restatement is to increase foreign exchange translation loss by \$96.8 million and transfer \$100.1 million from opening profit and loss reserve to translation reserve. The net assets for the year have remained unchanged due to these restatements.

2 Segmental reporting

In the opinion of the directors, the Group conducts only one class of business, the provision of international investment banking services. Group companies and branches operating outside of Europe do not generate material revenues. Consequently any segmental analysis of the Group's revenues and assets is deemed to be inappropriate.

3 Directors' emoluments and staff costs

The directors are employees of other companies in the JPMC Group and all expenses, including remuneration, are paid by those companies and not recharged.

The directors do not consider that a significant element of their remuneration relates to the Group for the current financial year.

The Group had no employees, other than directors, at any time during the year.

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2007 (continued)

4 Operating income

	2007	2006
	\$'000	\$'000
Trading (loss)/profit	(17,508)	13,165
Fees and commissions receivable	5,700	858
Interest income – financial assets held for trading	22,428	-
Interest income – loans and receivables	18,110	8,498
Financial assets designated at fair value through profit or loss	3,947	(6,414)
	32,677	16,107

5 Other income/(expenses)

	2007	Restated 2006
	\$'000	\$'000
Foreign exchange translation gain/(loss)	7,589	(98,807)
Release of negative goodwill	3,246	-
Other (expense)/income	(6,077)	516
	4,758	(98,291)

6 Other interest receivable and similar income

	2007	2006
	\$'000	\$'000
Other interest receivable and similar income	71,672	52,516

Included within other interest receivable and similar income, are the following balances with JPMC Group undertakings

	2007	2006
	\$'000	\$'000
Other interest receivable and similar income	70,848	49,007

7 Interest payable and similar charges

	2007	2006
	\$'000	\$'000
Interest payable and similar charges	96,488	18,673

All interest payable and similar charges are payable to JPMC Group undertakings

8 Provision for impairment

	2007	2006
	\$'000	\$'000
At 1 January	-	-
Charged during the year	-	1,170
Released during the year	-	(1,170)
At 31 December	-	-
Amounts written off	-	1,170

9 Profit on ordinary activities before taxation

The auditors' remuneration is met by the another JPMC Group company and not recharged

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2007 (continued)

10 Tax charge on profit/(loss) on ordinary activities

Group	2007	Restated 2006
	\$'000	\$'000
(a) Analysis of tax charge for the year		
UK Corporation tax for the year at 30% (2006 30%)	14,469	20,203
Overseas taxation	24	150
Adjustment in respect of previous years	(2,992)	(5)
Total tax charge	11,501	20,348
(b) Factors effecting tax charge for the year		
The current tax charge for the year differs from the standard rate of corporation tax in the UK of 30% (2006 30%) The differences are explained below		
Profit/(loss) on ordinary activities before tax	13,137	(49,253)
Less (Profit)/loss subject to tax in overseas jurisdictions	(243)	5,722
	12,894	(43,531)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2006 30%)	3,868	(13,059)
Effects of		
Non deductible expenses	4,760	31,969
Losses surrendered to fellow companies outside the Group	5,841	1,293
Overseas taxation	24	150
Adjustments in respect of previous years	(2,992)	(5)
Current corporate tax	11,501	20,348
Company	2007	2006
	\$'000	\$'000
(a) Analysis of tax charge for the year		
UK corporation tax on current year's profits	-	-
Adjustments to tax charge in respect of previous years	-	-
Total tax charge	-	-
(b) Factors affecting current tax charge for the year		
The current tax charge for the year differs from the standard rate of corporation tax in the UK of 30% (2006 30%) The differences are explained below		
Loss on ordinary activities before tax	(19,898)	(96,219)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2006 30%)	(5,969)	(28,866)
Effects of		
Non deductible expenses	5,816	27,573
Losses surrendered to fellow companies outside the Group	153	1,293
Current tax charge for the year	-	-

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2007 (continued)

11 Intangible fixed assets - Group

	2007	2006
	\$'000	\$'000
At 1 January	(31,400)	(27,651)
Released to consolidated profit and loss account	3 246	-
Exchange adjustment	(528)	(3,749)
At 31 December	(28 682)	(31 400)

In 2003, as part of a Group reorganisation, the Company acquired 96% of the issued share capital of Robert Fleming Holdings Limited and 100% of the issued share capital of J P Morgan Strategic UK Limited (disposed in 2004) from J P Morgan Fleming Asset Management Holdings Inc for a combined total of \$1,723,390,000

Negative goodwill of \$27 986,000 represents the difference between the consideration paid \$1,723,390 000 and the fair value transferred \$1,751,376,000

In accordance with the provisions of FRS10 'Goodwill and Intangible Assets', as set out in the accounting policies negative goodwill is recognised in the profit and loss account in the periods in which the non-monetary assets are recovered, whether through depreciation or sale

12. Investments in Group undertakings

	Group 2007	Company 2007	Group 2006	Company 2006
	\$'000	\$'000	\$'000	\$'000
At 1 January	36,480	734,281	-	-
Effect of adopting FRS 26	-	-	36,480	734,281
Additions	70,000	320,000	-	-
Impairment	-	(21,500)	-	-
At 31 December	106,480	1,032,781	36 480	734 281

The Company received an unconditional capital contribution of US\$100 million and US\$150 million on 12 April 2007 and 27 April 2007 respectively from its parent company, JPMorgan Chase & Co

Subsequently, the Company increased its investment in Aldermanbury Investments Limited by US\$100 million and in J P Morgan Capital International Financing Limited by US\$150 million

On 3 December 2007, J P Morgan Securities Ltd allotted 7 000 ten year fixed rate preference shares of \$10,000 each to the Company in consideration of cash to the value of \$70,000,000

The principal subsidiaries of the Company J P Morgan Capital Financing Limited, are as follows

<u>Subsidiary</u>	<u>Nature of Business</u>
Robert Flemings Holdings Limited	Investment company
Aldermanbury Investments Limited	Investment company
J P Morgan Chase International Financing Limited	Finance company
Copthall Overseas Limited	Investment company
Robert Fleming Investment Trust Limited	Investment company
PIMCO Pars Aspire Fund*	Investment company

Each subsidiary is either owned 100% by the Company or is owned 100% by a subsidiary of the Company The above companies are incorporated in Great Britain

- This is a special purpose vehicle formed in November 2007 which meets the definition (as per section 258 Companies Act 1985) of a subsidiary undertaking The following summarised results have been consolidated

	2007	2006
	\$'000	\$'000
Total assets	793,237	-
Total liabilities	(658,659)	-
Net profit	-	-

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2007 (continued)

13 Other investments

	Group 2007	Company 2007	Group 2006	Company 2006
	\$'000	\$'000	\$'000	\$'000
At 1 January	-	-	43,259	740,235
Additions	28,950	16,698	-	-
Effect of adopting FRS 26	-	-	(43,259)	(740,235)
At 31 December	28,950	16,698	-	-

14 Financial assets held for trading

	Group 2007	Group 2006
	\$'000	\$'000
Financial assets held for trading	2,918,910	591,951

Included within financial assets held for trading are the following balances with JPMC Group undertakings

	Group 2007	Group 2006
	\$'000	\$'000
Financial assets held for trading	758,776	26,197

15 Financial assets designated at fair value through profit or loss

	Group 2007	Company 2007	Group 2006	Company 2006
	\$'000	\$'000	\$'000	\$'000
At 1 January	819,293	-	-	-
Financial assets designated at fair value on 1 January	-	-	6,779	5,954
Prior period adjustment (note 1 20)	-	-	2,854	-
At 1 January as adjusted for FRS 26	819,293	-	9,633	5,954
Movements during the year	314,353	-	811,082	(5,954)
At 31 December	1,133,646	-	820,715	-

Gains and losses on the financial assets designated at fair value through profit or loss are recognised in the consolidated profit and loss account as they arise

16. Loans and receivables

	Group 2007	Group 2006
	\$'000	\$'000
Loans and receivables to customers amounts falling due before one year	15,037	2,494
Loans and receivables to customers amounts falling due after more than one year	192,271	134,053

The Group has accepted collateral amounting to \$179 million as security for loans and receivables to customers under terms that are customary to standard lending activities

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2007 (continued)

17 Debtors

	Group 2007 \$'000	Company 2007 \$'000	Group 2006 \$'000	Company 2006 \$'000
Amounts owed by JPMC Group undertakings	764,426	25	1,000,631	2,863
Trade debtors	374,955	-	658	-
	1,139,381	25	1,001,289	2,863

18 Other assets - Group

	Group 2007 \$'000	Group 2006 \$'000
Prepayments and accrued income	11,645	4,102
	11,645	4,102

19 Cash at bank and in hand

Bank balances include those held with JPMC Group undertakings

20 Creditors

Group

	Creditors due within one year 2007 \$'000	Creditors due after more than one year 2007 \$'000	Total 2007 \$'000	Creditors due within one year 2006 \$'000	Creditors due after more than one year 2006 \$'000	Total 2006 \$'000
Amounts owed to JPMC Group undertakings	2,990,816	-	2,990,816	1,670,072	-	1,670,072
Deferred income	111	84	195	163	735	898
Financial liabilities held for trading	970,911	-	970,911	15,536	-	15,536
Trade creditors	49,853	-	49,853	11,879	-	11,879
Corporation tax	7,561	-	7,561	20,563	-	20,563
Other creditors	366,302	-	366,302	20	-	20
	4,385,554	84	4,385,638	1,718,233	735	1,718,968

Company

	2007 \$'000	2006 \$'000
Amounts owed to JPMC Group undertakings	96,080	8,514
	96,080	8,514

21 Called up share capital

	Company 2007 \$'000	Company 2006 \$'000
Authorised 60,000 ordinary shares of £1 each	107	107
Issued, allotted, called up and fully paid 60,000 ordinary shares of £1 each	107	107

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2007 (continued)

22 Reconciliation of movements in reserves

Group

	Capital contribution reserve 2007	Translation reserve 2007	Total other reserve 2007	Profit and loss reserve 2007
	\$'000	\$'000	\$'000	\$'000
At 31 December 2006 as previously reported	1,688,913	-	1,688,913	(786,448)
Prior year adjustment (note 1.20)	-	-	-	2,854
Prior year restatement (note 1.21)	-	100,112	100,112	(100,112)
At 1 January 2007 as restated	1,688,913	100,112	1,789,025	(883,706)
Profit for the financial year	-	-	-	1,635
Increase in capital contribution reserve	250,000	-	250,000	-
Foreign currency translation adjustment	-	11,370	11,370	-
Transfer to profit and loss reserve	(1,000,000)	-	(1,000,000)	1,000,000
At 31 December	938,913	111,482	1,050,395	117,929

Company

	Capital contribution reserve 2007	Profit and loss reserve 2007
	\$'000	\$'000
At 1 January	1,688,913	(959,247)
Increase in capital contribution reserve	250,000	-
Loss for the year	-	(19,898)
Transfer to profit and loss reserve	(1,000,000)	1,000,000
At 31 December	938,913	20,855

The Company received an unconditional capital contribution of US\$100 million and US\$150 million on 12 April 2007 and 27 April 2007 respectively from its parent company, JPMorgan Chase & Co

Subsequently, the Company increased its investment in Aldermanbury Investments Limited by US\$100 million and in J P Morgan Capital International Financing Limited by US\$150 million

On 3 December 2007 J P Morgan Securities Ltd allotted 7,000 ten year fixed rate preference shares of \$10,000 each to the Company in consideration of cash to the value of \$70,000,000

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2007 (continued)

23 Reconciliation of movements in shareholder's funds

	Group	Company	Restated Group	Company
	2007	2007	2006	2006
	\$'000	\$'000	\$'000	\$'000
Opening shareholder's funds as previously reported	902,572	729,773	875,334	825,992
Prior year adjustment	2,854	-	2,854	-
Opening shareholder's funds as restated	905,426	729,773	878,188	825,992
Profit/(loss) for the financial year	1,635	(19,898)	(69,601)	(96,219)
Foreign currency translation adjustment	11,370	-	96,839	-
Increase in capital contribution reserve	250,000	250,000	-	-
Closing shareholder's funds	1,168,431	959,875	905,426	729,773

Total shareholder's funds constitute the managed capital of the Group which consists entirely of issued share capital, capital contribution reserve, foreign exchange reserve and profit and loss reserve

The directors are responsible for setting the objectives, policies and processes relating to the management of the Group's capital and maintain a set of policy documents to assist in discharging their responsibilities. The major risk categories considered by the Group are those pertaining to credit risk, market risk and operational risk. The Group is not subject to any external capital requirements.

24 Commitments

	2007	2006
	\$'000	\$'000
Other lending commitments	75,487	330,331
Total commitment items	75,487	330,331

All lending commitments are with external counterparties

25 Contingent liability

The Group's subsidiary Robert Fleming Holdings Limited (RFH) was the principal employer of the Robert Fleming Group Pension Scheme. On 18 December 2003, the Trustee of the Robert Fleming Group Pension Scheme transferred the assets and liabilities of the scheme to the JPMC UK Retirement Plan. As RFH was the principal employer of the Robert Fleming Group Pension Scheme, it now acts as a guarantor to ensure that former members of the Scheme accrue the same benefits and protection as would have applied under previous arrangements in the event of the JPMC UK Retirement Plan being wound up.

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2007 (continued)

26 Financial risk management

Risk management is an inherent part of the JPMC Group's business activities and the Group has adopted the same risk management policies and procedures as the JPMC Group as a whole. The Group's risk management framework and governance structure are intended to provide comprehensive controls and ongoing management of its major risks. The Group exercises oversight through the Board of Directors and delegation from the Board to various sub-committees which are organised in line with the JPMC Group Risk Management policy.

An overview of the key aspects of risk management and use of financial instruments is provided below. A more detailed description of the policies and processes adopted by the Group may be found within the JPMC Group annual report.

Liquidity risk

Liquidity risk arises from the general funding needs of the Group's activities and in the management of its assets and liabilities. The Group's funding needs are provided by JPMC Group companies whose liquidity management frameworks are intended to maximise liquidity access. To accomplish this, 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 following table provides details on the contractual maturity of all liabilities.

Group

	Less than 1 year 2007 \$'000	More than 1 year 2007 \$'000	Total 2007 \$'000	Less than 1 year 2006 \$'000	More than 1 year 2006 \$'000	Total 2006 \$'000
Amounts owed to Group undertakings	2,990,816	-	2,990,816	1,670,072	-	1,670,072
Deferred income	111	84	195	163	735	898
Financial liabilities held for trading	970,911	-	970,911	15,536	-	15,536
Trade creditors	49,853	-	49,853	11,879	-	11,879
Corporation tax	7,561	-	7,561	20,563	-	20,563
Other creditors	366,302	-	366,302	20	-	20
	4,385,554	84	4,385,638	1,718,233	735	1,718,968

Company

	Less than 1 year 2007 \$'000	Total 2007 \$'000	Less than 1 year 2006 \$'000	Total 2006 \$'000
Amounts owed to Group undertakings	96,081	96,081	8,514	8,514
	96,081	96,081	8,514	8,514

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.

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2007 (continued)

26 Financial risk management (continued)

Credit risk

Each business within the Group has its own independent credit risk management function, reporting to the Business Executive and the Chief Credit Officer. These units are responsible for making credit decisions on behalf of the Group. 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 the monitoring the credit risk profile of the portfolio and reporting monthly to the JPMC Group's Operating Committee.

To measure credit risk, the Group employs several methodologies for estimating the likelihood of the obligor or counterparty default. These methodologies vary depending on certain factors, including type of asset, risk measurement parameters and collection processes. Credit risk measurement is based upon the amount of exposure should the obligor or the counterparty default, the probability of default and the loss sensitivity given a default event. Based upon these factors and related market-based inputs the Group estimates both probable and unexpected losses for its assets portfolio.

The amounts in the table show below show the maximum credit exposure of the Group

	Group 2007 \$'000	Group 2006 \$'000
Balance sheet		
Investments in group undertakings	106,480	36,480
Other investments	28,950	-
Financial assets held for trading	2,918,910	591,951
Financial assets designated at fair value through profit or loss	1,133,646	820,715
Loans and receivables amounts falling due before one year	15,037	2,494
Loans and receivables amounts falling due after more than one year	192,271	134,053
Debtors	1,139,381	1,001,289
Cash at bank and in hand	36,431	64,710
Off balance sheet		
Other lending commitments	75,487	330,331
	5,646,593	2,982,023

Financial assets held for trading, financial assets designated at fair value through profit or loss and loans and receivables include certain external sub investment grade assets. All other financial assets are investment grade or held with JPMC Group undertakings.

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2007 (continued)

26 Financial risk management (continued)

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 Management (MRM) is a function within the JPMC Group that is independent of the businesses and identifies, measures, monitors and controls market risk. MRM works in partnership with the business segments within the JPMC Group and the directors within the Group.

Since no single measure can reflect all aspects of market risk, the Group uses several measures, both statistical and non-statistical, including

Statistical Risk Measures

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

Non-Statistical Risk Measures

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

JPMC Group's VAR statistical measure gauges the potential loss from adverse market moves in an ordinary market environment. Through the JPMC 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 JPMC Group and the directors to identify further earnings vulnerabilities. MRM regularly reviews and updates risk limits, and the JPMC Group's Operating Committee reviews and approves risk limits at least twice a year. VAR is not calculated on a legal entity basis therefore the following risk disclosures have been made.

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. The Group manages its exposure to Sterling and Euro against US dollar (the functional currency of the Group) to within acceptable risk management limits on a daily basis. The following table shows the effect of a reasonably possible change in exchange rates on the financial profit of the Group.

	Group 2007 \$'000	Group 2006 \$'000
5% increase in GBP/USD exchange rate	42,782	37,757
5% decrease in GBP/USD exchange rate	(42,782)	(37,757)
5% increase in EUR/USD exchange rate	9,579	16
5% decrease in EUR/USD exchange rate	(9,579)	(16)

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 Group is subject to cash flow and fair value interest rate risk. The table below shows the effect of sensitivity of the combined balance sheet portfolio of cash, loans, debt securities and borrowings to a reasonably possible change of 50 basis points increase or decrease in local interest rates in which the balances are held on the financial profit of the Group.

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2007 (continued)

26 Financial risk management (continued)

Interest rate risk

	Group 2007 \$'000	Group 2006 \$'000
50 basis points increase in local interest rates	4,742	3 925
50 basis points decrease in local interest rates	(4,742)	(3,925)

Fair value of financial assets and financial liabilities

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

Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of movements in market price for those instruments. Financial assets held for trading include derivatives, equities and hedge funds that are subject to price risk movements from changes in their credit risk profile or movements in indices and other market indicators. Loans and receivables are subject to price risk from changes in the credit risk profiles of the loans. Equity price risk is measured using fundamental analysis at a name level with consideration of risk profile for specific industries and potential exposures for adverse market movements. The following table shows the effect on the pre-tax profits of changes in credit spreads, hedge fund research indices and equity price movements by 5%-10% with all other variables remaining constant

	Group 2007 \$'000	Group 2006 \$'000
10% widening of the credit spread	(15 046)	(2,027)
10% shortening of the credit spread	15,046	2 027
5% increase in equity prices	20,555	-
5% decrease in equity prices	(20,555)	-
5% increase across hedge fund research indices	55,236	21,735
5% decrease across hedge fund research indices	(55 236)	(21,735)

Fair value of financial assets and financial liabilities

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

27 Parent undertakings

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

The parents Groups' consolidated financial statements are available to the public and can be obtained from the registered office

125 London Wall
London
EC2Y 5AJ
England

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2007 (continued)

28 Post balance sheet events

The Company received an unconditional capital contribution of US\$500 million on 8 August 2008 from its parent company, JPMorgan Chase & Co. Subsequently, the Company increased its investment in Aldermanbury Investments Limited by US\$500 million.

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.

During 2008, the carrying values of certain financial assets held for trading, financial assets designated at fair value through profit or loss and loans and receivables as at the balance sheet date have declined by an estimated \$294 million as a result of the uncertain and volatile market conditions.