

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

**Annual report for the year ended 31 December 2008**

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

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# **J.P. MORGAN STRUCTURED PRODUCTS B.V.**

## **Directors' report for the year ended 31 December 2008**

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

### **Principal activity**

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

### **Review of business**

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

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

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

### **Principal risks and uncertainties**

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

### **Key performance indicators**

The results are monitored against expectations of the business activities.

### **Results and dividends**

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

The directors do not recommend payment of an ordinary dividend.

## **J.P. MORGAN STRUCTURED PRODUCTS B.V.**

### **Directors' report for the year ended 31 December 2008 (continued)**

#### **Financial risk management**

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

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

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

#### **Liquidity risk**

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

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

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

#### **Credit risk**

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

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

## **J.P. MORGAN STRUCTURED PRODUCTS B.V.**

### **Directors' report for the year ended 31 December 2008 (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 (MR) is a corporate risk governance function within the Group that is independent of the lines of business and identifies, measures, monitors and controls market risk. MR works in partnership with the business segments within the Group and the directors of the Company and seeks to facilitate efficient risk/return decisions, reduce volatility in operating performance and refine and monitor market risk policies and procedures.

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

- Statistical risk measures
  - Value-at-Risk (VAR)
  - Risk identification for large exposures (RIFLE)
- Non-statistical risk measures
  - Economic value stress tests
  - Earnings-at-risk stress tests
  - Other measures of position size and sensitivity to market moves

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

#### **Operational risk**

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

#### **Directors**

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

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

#### **Creditor payment policy**

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

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

## **J.P. MORGAN STRUCTURED PRODUCTS B.V.**

### **Directors' report for the year ended 31 December 2008 (continued)**

#### **Registered address**

Strawinskylaan 3105, Floor 7  
1077 ZX Amsterdam,  
The Netherlands

#### **Independent auditors**

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

By order of the Board

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J.P. Everwijn

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J.C.W. van Burg

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J.C.P. van Uffelen

Date: 30 March 2009

**J.P. MORGAN STRUCTURED PRODUCTS B.V.**  
**Balance sheet as at 31 December 2008**

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

By the order of the Board

\_\_\_\_\_  
J.P. Everwijn

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J.C.W. van Burg

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J.C.P. van Uffelen

Date: 30 March 2009

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

**J.P. MORGAN STRUCTURED PRODUCTS B.V.**  
**Income statement for the year ended 31 December 2008**

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

The profit for the year resulted from continuing operations.

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



# J.P. MORGAN STRUCTURED PRODUCTS B.V.

## Statement of changes in equity for the year ended 31 December 2008

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

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

**J.P. MORGAN STRUCTURED PRODUCTS B.V.**  
**Cash flow statement for the year ended 31 December 2008**

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

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

# **J.P. MORGAN STRUCTURED PRODUCTS B.V.**

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

### **1. General information**

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

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

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

### **2. Summary of significant accounting policies**

#### **2.1 Accounting convention**

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

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

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

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

#### **Standards, amendments and interpretations effective in 2008**

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

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

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

# **J.P. MORGAN STRUCTURED PRODUCTS B.V.**

## **Notes to the financial statements for the year ended 31 December 2008 (continued)**

### **2 Summary of significant accounting policies (continued)**

#### **2.1 Accounting convention (continued)**

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

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

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

#### **2.2 Foreign currency translation**

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

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

# J.P. MORGAN STRUCTURED PRODUCTS B.V.

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 2 Summary of significant accounting policies (continued)

#### 2.3 Functional and presentation currency

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

The exchange rates used are:

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

#### 2.4 Financial assets and financial liabilities

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

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

##### Financial assets and financial liabilities held for trading

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

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

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

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

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

##### Derecognition of financial assets and financial liabilities

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

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

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

# **J.P. MORGAN STRUCTURED PRODUCTS B.V.**

## **Notes to the financial statements for the year ended 31 December 2008 (continued)**

### **2 Summary of significant accounting policies (continued)**

#### **2.5 Fair value**

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

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

#### **2.6 Impairment**

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

#### **2.7 Income and expense recognition**

Interest income and expense are recognised on an accruals basis.

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

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

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

#### **2.8 Cash and cash equivalents**

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

#### **2.9 Share capital**

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

# **J.P. MORGAN STRUCTURED PRODUCTS B.V.**

## **Notes to the financial statements for the year ended 31 December 2008 (continued)**

### **2 Summary of significant accounting policies (continued)**

#### **2.10 Trade and other receivables**

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

#### **2.11 Trade and other payables**

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

#### **2.12 Deferred income tax**

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

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

#### **2.13 Offsetting financial assets and liabilities**

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

#### **2.14 Prior year restatements**

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

### **3. Critical accounting estimates and judgments**

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



# J.P. MORGAN STRUCTURED PRODUCTS B.V.

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 4. Financial assets held for trading

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

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

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

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

### 5. Trade and other receivables

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

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

### 6. Cash and cash equivalents

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



# J.P. MORGAN STRUCTURED PRODUCTS B.V.

## Notes to the financial statements for the year ended 31 December 2008 (continued)

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

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

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

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

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

### 8. Trade and other payables

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

### 9. Share capital

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

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

### 10. Fee and commission

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

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

# J.P. MORGAN STRUCTURED PRODUCTS B.V.

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 11. Operating profit/(loss)

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

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

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

### 12. Interest and similar income

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

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

### 13. Interest expense

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

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

### 14. Current income tax

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

# **J.P. MORGAN STRUCTURED PRODUCTS B.V.**

## **Notes to the financial statements for the year ended 31 December 2008 (continued)**

### **15. Financial risk management**

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

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

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

#### **Market risk**

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

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

- Statistical risk measures
  - Value-at-Risk (VAR)
  - Risk identification for large exposures (RIFLE)
- Non-statistical risk measures
  - Economic value stress tests
  - Earnings-at-risk stress tests
  - Other measures of position size and sensitivity to market moves

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

#### **Foreign exchange risk**

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

## J.P. MORGAN STRUCTURED PRODUCTS B.V.

### Notes to the financial statements for the year ended 31 December 2008 (continued)

#### 15. Financial risk management (continued)

##### Liquidity risk

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

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

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

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

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

Included within the above assets, the balances held with other Group undertakings are \$19,424 (2007: \$0,153).

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

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

# J.P. MORGAN STRUCTURED PRODUCTS B.V.

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 15. Financial risk management (continued)

#### Credit risk

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

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

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

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

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

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

#### Interest rate risk

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

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

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

## **J.P. MORGAN STRUCTURED PRODUCTS B.V.**

### **Notes to the financial statements for the year ended 31 December 2008 (continued)**

#### **15. Financial risk management (continued)**

##### **Price risk**

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

##### **Operational risk**

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

##### **Fair value of financial assets and financial liabilities**

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

#### **16. Managed capital**

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

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

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

# J.P. MORGAN STRUCTURED PRODUCTS B.V.

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 17. Related party transactions

Related parties comprise:

- (a) Directors and shareholders of the Company and companies in which they have an ownership interest;
- (b) Group undertakings of the Company.

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

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

#### (i) Outstanding balances at period end

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

#### (ii) Income and expenses

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

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

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

J.C.W. van Burg

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

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

## **J.P. MORGAN STRUCTURED PRODUCTS B.V.**

### **Notes to the financial statements for the year ended 31 December 2008 (continued)**

#### **18. Parent undertaking**

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

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

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

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

The Company Secretary  
125 London Wall  
EC2Y 5AJ  
London



## **J.P. MORGAN STRUCTURED PRODUCTS B.V.**

### **Other information**

#### **Profit appropriation according to the Articles of Association**

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

#### **Proposed appropriation of net results**

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

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

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Accountants N.V.**  
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## Auditor's report

### Report on the financial statements

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

#### *The directors' responsibility*

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

#### *Auditor's responsibility*

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

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

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

*Opinion*

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

**Report on other legal and regulatory requirements**

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

Amsterdam, 30 March 2009  
PricewaterhouseCoopers Accountants N.V.

Originally signed by J.M. de Jonge RA