ANNUAL REPORT OF J.P. MORGAN AG

2007

JPMorgan

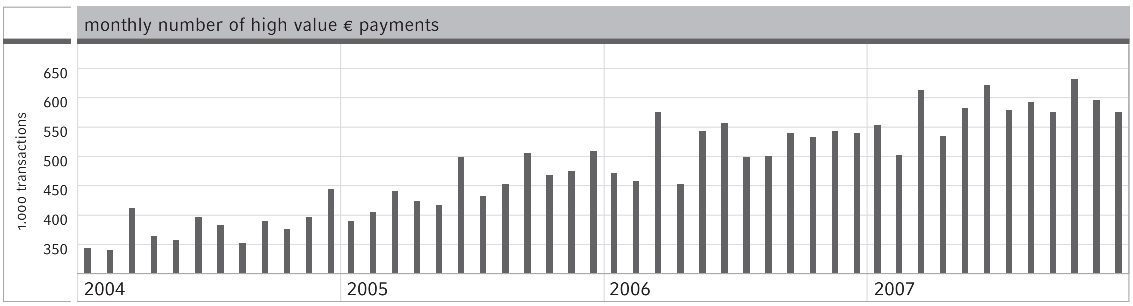
KEY FIGURES J.P. MORGAN AG

MIO €	2007	2006	2005	2004
Total net revenues	116.3	115.3	94.7	90.1
Total Expenses	87.4	77.3	88.1	84.2
Income before Tax	28.9	38.0[1]	11.5	7.2
Equity	143.5	143.5	143.5	143.5
ROE	20 %	26 %	8 %	5 %
Cost/income ratio	75 %	67 %	93 %	93 %
Pretax margin ratio	25 %	33 %	12 %	8 %

[1] without special item: ROE 15 %, Pretax margin ratio 18 %

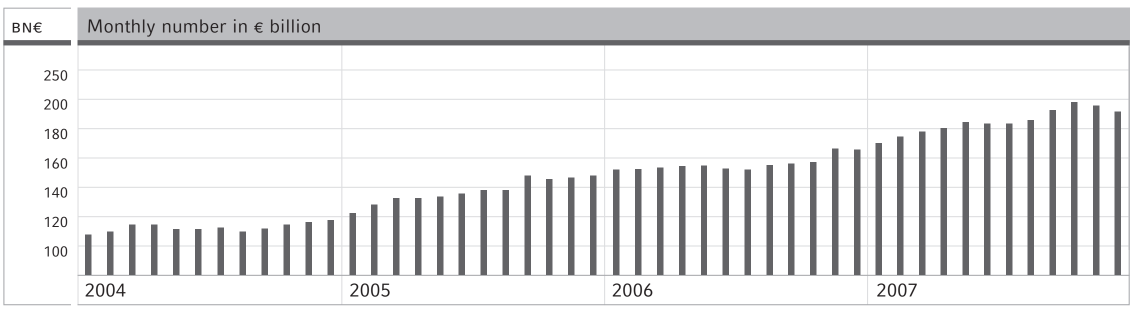
HIGH VALUE PAYMENTS

> PAGE 4: TREASURY SERVICES



ASSETS UNDER CUSTODY

> PAGE 5: WORLDWIDE SECURITIES SERVICES



Content

Annual Report 2007

Management report 2007

The Board of J.P. Morgan AG is pleased to report on another successful year at J.P. Morgan AG. In Germany, 2007 was shaped by the ongoing positive real economic cycle, something that proved to be remarkably impervious to the noticeable tension in liquidity conditions in the interbank market in the second half of 2007 owing to the subprime crisis emanating from the United States.

We succeeded in further growing business volumes and operating profits in both Treasury Services and Worldwide Securities Services. Thanks to our corporate governance model, which we advanced further during the course of the year, as well as to the final implementation of BaFin's minimum requirements for risk management (MaRisk) guided by a clear business and risk strategy we succeeded once again in avoiding any write-offs or losses. Without the income from last year's sale of a larger portfolio stake, total income in 2007 did not reach last year's level. Most importantly, however, earnings from our operating activities rose further in 2007.

J.P. Morgan AG is an integral part of the global JPMorgan Group and forms the backbone of JPMorgan's operations in Germany. The full integration into JPMorgan's global Treasury & Securities Services segment provides us with the necessary international production network to deliver client services that do full justice to JPMorgan's mission "First class business in a first class way". In 2007, the Bank continued to concentrate on its core businesses in order to meet JPMorgan's endeavor to develop J.P. Morgan AG as its European flagship bank for €-payment transactions and as the global custodian for the German investment market.

TREASURY SERVICES

We focused on a variety of activities to give Treasury Services an even sharper profile and achieve growth rates above the market average. J.P. Morgan AG is globally responsible for the Group's €-clearing operations, which are handled by a cash management team in Frankfurt/Main and additional teams in Bournemouth (UK) and Mumbai (India).

With the realization of TARGET2, all European branch offices of JPMorgan were linked via the Bank to the TARGET2 clearing system. In this way, J.P. Morgan AG offers international financial institutions across the world the opportunity as indirect participants to gain direct access to €-clearing. Needless to say, on November 19, 2007 J.P. Morgan AG was one of the first banks to perform payment transactions for its clients via the new pan-European platform. The average payment volume rose by 12 % year on year.

J.P. Morgan AG expressly welcomes the trends in European mass payment transactions, in particular the development of the Single Euro Payment Area (SEPA). We believe that they will not only improve the overall payments process for companies and retail clients in Europe, but will also enable globally active banks such as JPMorgan to fully enter this market segment. With the preparations already made, our current projects in the market for mass payments, and our collaboration with our sister companies, we expect to deliver our leading global technology centrally from J.P. Morgan AG to a growing number of corporate clients and financial institutions throughout the world.

On the basis of our global payment capabilities, our sales teams offer highly-advanced solutions in the areas of cash, treasury and trade finance management for both corporate clients and financial institutions. As regards payments, we have further enhanced our products and services specifically in the field of urgent payments with clear liquidity advantages for our clients. Within our Corporate Banking concept, in which we offer key corporate clients extensive advisory services relating to a broad range of products and issues, we sparked further growth in cash management and supply chain financing. We have also intensified our Trade Finance customer focus by introducing an operations window at J.P. Morgan AG that offers our clients a one-stop shopping opportunity.

WORLDWIDE SECURITIES SERVICES

Within the Group's global Worldwide Securities Services segment, the Bank plays the role of a fully-licensed custody bank, and has been offering services as a global custodian to German institutional clients since as long ago as 1995. In 2007, J.P. Morgan AG again outgrew the market in this segment and is now one of Germany's top global custodians with € 86.5 billion assets under custody in special and mutual funds and € 40 billion assets under custody in direct investments. As a global custodian the Bank services some 200 investment funds with over 600 different segments on behalf of its clients.

Alongside global custody services relating to securities safe keeping and trade settlement, our extended service range includes diversified products and additional services as well as client reporting.

Providing a cutting-edge technological infrastructure and ensuring a strong client focus are essential elements of our strategy of generating future organic growth in additional client segments. Initiated originally in 2006, during 2007 we put the finishing touches to the new client reporting system Views Portfolio Reporting (VPR), enabling our institutional clients to directly access all their reports for various products, with all user interfaces and the available reports from custodian account management and fund accounting now fully available in German language for the first time.

Implementing VPR clearly enhanced our client services and customer focus. Through the internet access portal JPMorgan ACCESS™ we now offer clients and asset managers alike countless report compilation and reporting functions tailored to the needs and wishes of their respective customers. Moreover, our transaction management module provides asset managers and capital investment companies who do not have their own link to the S.W.I.F.T. network with direct and efficient access to JPMorgan when placing their business instructions and payment orders.

Worldwide Securities Services' business strategy for Germany, Austria and Switzerland provided the background to a particularly successful market entry as global custodian in Switzerland in 2007, when we won the mandate to act as global custodian for the largest Swiss pension fund. In legal terms, the new Swiss custody Bank will be hosted by our sister company J.P. Morgan (Suisse) SA, which has been successfully active in the Swiss market for many years. We received the requisite approval from the Swiss Confederate Banking Commission in early 2008.

Corporate Governance

Considerable efforts have once again been put into the field of risk management when finalizing the implementation of BaFin's minimum requirements for risk management (MaRisk) at a level appropriate to the high standards defined by the Bank. Risk assessments of all individual functions and outsourced business segments, the risk capacity concept, the business and risk strategy, our operational risk manual, and the newly-structured Internal Audit approach are all integrated and risk-oriented, laying the basis for the Board's first-class management of the Bank.

In addition to regular meetings of the Management Board and the Supervisory Board, a local operating committee with all key corporate functions manages corporate governance in everyday business on behalf of the Management Board. J.P. Morgan AG's corporate functions support not only the Bank's business segments but all other Group units in Germany, in particular the Investment Bank, Private Bank and Investment Management.

In order to do justice to the growth in business volume, in March 2007 we raised the Bank's regulatory equity by means of a subordinated loan from J.P. Morgan Capital Holding Ltd., Luxembourg, by $135 million.

J.P. Morgan AG's integration into the global JPMorgan Group facilitates steady business growth and simultaneously provides for efficiency gains. Today, we can offer our discerning clientele "First class business in a first class way" by relying on the Group's worldwide production and settlement platforms, coupled with business processes aligned to client needs, prime customer focus and geographical proximity to clients. Thus our global network contributes directly to maintaining and expanding high-end jobs in Germany. In coming years we will continue to exploit all the opportunities the Group offers in order to further expand our already strong presence in Frankfurt / Main.

Earnings position

In 2007, J.P. Morgan AG continued the successful performance of prior years and further grew its business volumes and segment results. Interest income rose in the reporting year by 39 % to € 37 million, commission income by 28 % to € 59 million. Both our Treasury Services and Worldwide Securities Services segments drove this positive trend. In addition to expanding business with existing clients, the performance was bolstered by new customers as well as the greater volume of deposits and loans during the course of the year.

By contrast, other operating income, first and foremost entailing services to other Group units, fell 21 % owing to changed intra-Group invoicing modalities. Administrative expenses rose 14 % in business 2007 to € 84 million, whereby more than half the rise is attributable to expenses for pension provisions owing to an adjustment of pensions.

Earnings from ordinary activities were 24 % less and reached € 29 million in business 2007. The reduction is solely due to the fact that prior-year figures included earnings from the one-time sale of shares in a participation as well as shares and other non-fixed-income securities of € 17 million.

As a fiscal entity, the Bank is part of its sole shareholder J.P. Morgan Beteiligungs- und Verwaltungsgesellschaft mbH, Frankfurt / Main, with whom a control and profit / loss transfer agreement exists.

Assets position

Both deposits by our non-bank clients and short-term loans taken up as part of overdraft lines for cash management purposes increased in the course of the year by € 328 million and € 377 million respectively by year-end. By contrast, deposits by banks and loans to banks decreased by year-end by € 1,755 million and € 1,833 million respectively, whereby the year-before figures were influenced by an extraordinary Treasury transaction at year-end 2006.

On aggregate, the balance reflects growing business by our two major segments Treasury Services and Worldwide Securities Services. Both generate deposits and thus liquidity which we place in the interbank market and within the Group. Only in exceptional cases does J.P. Morgan AG grant over-draft loans based on €-clearing business or security settlements in custodian business; these loans are on principle repaid immediately.

In Trade Finance, the credit risks assumed by the AG itself in the form of contingent liabilities are by and large secured within the Group. All types of credit exposure including transactions in the interbank market and exposures from €-clearing are subject to the lines approved by the Board as part of its business and risk strategy, and are monitored daily.

Liabilities from the issuance of structured notes that we specially customize to Investment Bank clients' needs were slightly lower in business 2007 owing to market conditions.

All components of the equity remained unchanged as at year-end. In order to meet the 27 % higher business volume and its inherent risks, in March 2007 and by means of a subordinated loan from J.P. Morgan Capital Holding Ltd., Luxembourg, we raised the Bank's regulatory equity by $ 135 million. J.P. Morgan AG's solvability ratio at year-end was 19.3 and the average for the year was 20.0. As at March 2008 the figure was 16.6.

LIQUIDITY POSITION

Despite the tension in the money market in the second half of the year, J.P. Morgan AG always had sufficient liquidity available. The liquidity ratio at year-end was 3.42 and averaged 2.76 for the year; in March 2008 it came to 3.33. The high liquidity ratio reflects both our cautious assessment of the market and the strong links to the JPMorgan Group's Treasury function.

RISK POSITION

J.P. Morgan AG's business and risk strategy exhaustively details the strategy set for the Bank for client business in the Treasury Services and Worldwide Securities Services segments as well as the additional functions of issuing structured notes and of Treasury tasks within the Group.

The existing J.P. Morgan AG risk management was again further advanced both quantitatively and qualitatively during the year under review by the final implementation of BaFin's minimum requirements for risk management (MaRisk) at a level appropriate to the high standards defined by the Bank. Risk assessments of all individual functions and outsourced business segments, the risk capacity concept, the business and risk strategy, our operational risk manual, and the newly-structured Internal Audit approach are all integrated and risk-oriented, enabling the Board to manage the Bank at a first class level. A local operating committee with all key corporate functions manages corporate governance in everyday business on behalf of the Management Board and the monthly business control committees ensure the Bank's regular inclusion in JPMorgan's international risk management.

The Bank's risk capacity concept defines all material risks in terms of the categories of operational risk, liquidity risk, credit risk and reputation risk. The individual risk categories are based on the following standards: in 2007 BIA and as of 2008 AMA for operational risk, and for 2007 Principle I and as of 2008 A-IRB for credit risk. All other risks are contained by an integrated, risk-based system of internal limits, controls and explicitly defined corporate governance functions. The calculations for economic capital in 2007 show utilization of about 70 % of J.P. Morgan AG's Tier 1 capital as at year-end.

Outlook 2008

Even if in our opinion the tension that arose in the international financial markets last year will not dissipate so quickly, and we feel the macroeconomic forecasts for 2008 essentially need to be revised somewhat downward, the first few months of the new business year prove that J.P. Morgan AG's business is continuing to grow. We remain confident that 2008 will see further growth in our core businesses as our business model means the Bank is only marginally exposed to strain from the deterioration in credit risks. J.P. Morgan AG's Q1 2008 interest and commission income were up on the prior year figures by 15 % and 23 % respectively, and we therefore anticipate posting further growth in 2008.

We will continue our focus on J.P. Morgan AG's core businesses, just as we will consistently advance the quality of our corporate governance management modules and exploit the opportunities for global outsourcing into the JPMorgan Group's highly efficient settlement and production centers. In this way, in 2008 we will again move forward within our established strategy of enhancing the key factors for our business success: client focus, investments in technology, personnel development, and optimization of risk management.

Assurance by the Board

We hereby assure that to the best of our knowledge and in line with the applicable accounting principles for financial reporting, this report offers a fair picture of the Bank's assets, financial / liquidity and earnings that corresponds to the facts and that the course of business, the business results and the Bank's position are presented in such a way as to convey a true and fair picture, and that the material opportunities and risks of the Bank's presumable future performance in the remainder of the current business year are described.

Frankfurt am Main, April 29, 2008

J.P. Morgan AG
Frankfurt am Main
The Board

THOMAS MEYER   OLIVER BERGER   MARTIN SCHÜTZ

Financial statements for 2007
J.P. Morgan AG, Frankfurt am Main

Balance sheet as at December 31, 2007
J.P. Morgan AG, Frankfurt am Main

ASSETS

in € thousands	Notes	2007	2006
Cash and due from banks	2.1.	0	38,490
Interbank placings	2.2.	7,910,121	9,743,392
Commercial and industrial loans	2.3.	468,391	91,267
Bonds and other fixed-income securities	2.4.	302,008	296,826
Shares and other non-fixed-income securities	2.5.	108,041	104,751
Equity investments	2.6.	89	89
Fixed assets	2.7.	17,617	20,446
Other assets		10,595	20,389
Prepaid and deferred expenses		105	122
Total assets		**8,816,967**	**10,315,772**

LIABILITIES AND STOCKHOLDERS' EQUITY

in € thousands	Notes	2007	2006
Liabilities to banks	2.9.	4,783,948	6,539,371
Liabilities to customers	2.10.	3,224,083	2,987,420
Certificated liabilities	2.11.	322,926	369,070
Other liabilities	2.12.	69,945	95,946
Deferred income and accrued expenses		44	55
Provisions	2.13. + 2.14.	98,266	98,019
Subordinated debt	2.15.	91,864	–
Profit participation rights	2.16.	26,076	26,076
Fund for general banking risks	2.17.	56,300	56,300
Stockholders'equity	2.18. – 2.20.	143,515	143,515
Total liabilities and stockholders'equity		**8,816,967**	**10,315,772**
Contingent liabilities	2.23.	94,685	22,189
Other commitments	2.24.	–	934

Income statement
J.P. Morgan AG, Frankfurt am Main

FOR THE PERIOD JANUARY 1, 2007 THROUGH DECEMBER 31, 2007

in € thousands	**Notes**	**2007**	**2006**
Interest income		308,352	215,187
Interest expense		271,119	188,370
	3.1.	**37,233**	**26,817**
Income from shares and other variable rate securities		7	0
Income from investments		3	3
		10	**3**
Commission Income	3.2.	68,269	53,498
Commission Expenses		9,063	7,282
		59,206	**46,216**
Net income from financial operations		41	–79
Other operating income	3.3.	19,746	24,899
General administrative expenses	3.4.	84,072	73,970
Amortization and depreciation of fixed and intangible assets		3,263	3,258
Other operating expenses		11	13
Write downs of and provisions against receivable and certain securities and additions to accruals relating to the credit business		8	–
Income from write-ups of receivables and securities and write-backs of credit provisions	3.5.	49	17,354
		41	**17,354**
Net operating income		**28,931**	**37,968**
Income taxe		–	–
Other taxes, if not recorded under other operating expenses		9	28
		9	**28**
Profits transferred as a result of a profit transfer of partial profit transfer agreement		28,922	37,940
Net income for the year		**–**	**–**
Profit available for appropriation		**–**	**–**

Notes to the financial statements of J.P. Morgan AG, Frankfurt am Main, for 2007

1. GENERAL REMARKS

1.1. GENERAL PRINCIPLES

J.P. Morgan AG, Frankfurt am Main, is a registered joint stock corporation under German law, active in Germany in the main fields of transaction banking, securities custody business, deposits and loans business.

The J.P. Morgan AG balance sheet and income statement have been prepared in accordance with the provisions of the German Commercial Code (HGB) and the Regulation on Accounting Principles for Banks and Financial Service Institutions.

The balance sheet and income statement formats are consistent with those in the previous year.

1.2. CHANGED ACCOUNTING AND VALUATION POLICIES

As of 2007, intra-Group invoicing and major events are carried as gross figures, which increases earnings as well as expenses in the year under review.

Conversion of remuneration from the local pension plan is entered in the income statement under aa) wages and salaries (prior year; Social Benefits and Expenses for Old-Age Provisions and Support).

1.3. FOREIGN CURRENCY TRANSLATION

Receivables and liabilities in foreign currencies were translated using the reference exchange rate determined by the European Central Bank on the balance sheet date. Foreign currency transactions were translated at the time of the underlying business transaction at the respective end-of-month rate. Gains from exchange rate conversions were entered in the income statement under the item for “Other operating income”.

2. KEY ACCOUNTING AND VALUATION PRINCIPLES AND EXPLANATIONS

2.1. CASH RESERVE

in € thousands	Dec. 31, 2007	Dec. 31, 2006
Cash reserve	**0**	**38,490**
Cash balances	0	–
Deposits at central banks	–	38,490
of which: at the Deutsche Bundesbank	–	38,490

Cash balances are carried at their nominal value.

2.2. INTERBANK PLACINGS

in € thousands (section 9 RechKredV)	Dec. 31, 2007	Dec. 31, 2006
Other interbank placings	**7,910,121**	**9,743,392**
Structure of remaining maturities:		
– Due on demand	6,358,444	6,606,659
– With a remaining maturity or notice period of		
1. up to three months,	1,551,677	3,135,989
2. three months up to one year,	–	744
3. one year up to five years,	–	–
4. more than five years	–	–
of which: loans to associated companies	7,798,506	9,719,745

Interbank placings are entered at nominal value or at the lower of cost / market plus interest deferrals.

The decrease in interbank placings is attributable to the lower volume of cash deposits with other Group entities.

2.3. COMMERCIAL AND INDUSTRIAL LOANS

in € thousands (section 9 RechKredV)	Dec. 31, 2007	Dec. 31, 2006
Commercial and industrial loans	**468,391**	**91,267**
Structure of remaining maturities:		
– without a fixed maturity	458,033	75,974
– with a remaining maturity or notice period of		
1. up to three months,	6,128	8,298
2. three months up to one year,	–	959
3. one year up to five years,	2,017	3,283
4. more than five years	2,213	2,753
of which: loans to associated companies	276,126	10,079

Commercial and industrial loans are entered at nominal value or at the lower of cost / market plus interest deferrals.

These items result primarily from short-term overdrawn positions by clients and non-banks who are Group members.

2.4. BONDS AND OTHER FIXED-INCOME SECURITIES

in € thousands	Dec. 31, 2007	Dec. 31, 2006
Bonds and other fixed-income securities	**302,008**	**296,826**
– Due the following year	302,008	296,826
Bonds and fixed-income securities		
– issued by public bodies	302,008	296,826
of which: eligible as collateral for Deutsche Bundesbank	302,008	296,826
Of which publicly-listed securities		
• Exchange-listed	302,008	296,826
• Not exchange-listed	–	–

The bonds and other fixed-income securities were valued pursuant to section 253 para. 3 HGB strictly according to the lower of cost and market at purchase cost or nominal value plus interest deferrals, the lower publicly quoted price or the lower market value. Bonds that were held owing to a securities lending transactions were valued at the date they were loaned.

2.5. SHARES AND OTHER NON-FIXED-INCOME SECURITIES

This item exclusively covers retail and special funds to secure pension obligations.

The equities and other floating-rate securities are carried at purchase cost or at the lower market value.

in € thousands	Dec. 31, 2007	Dec. 31, 2006
Shares and other non-fixed-income securities	**108,041**	**104,751**
Of which publicly-listed securities		
• Exchange-listed	12,094	8,299
• Not exchange-listed	7,272	7,778

2.6. EQUITY INVESTMENTS

in € thousands	Dec. 31, 2007	Dec. 31, 2006
Equity investments:	**89**	**89**
of which: to banks	89	89

The participations are valued at purchase cost. There is a double liability from investments in the amount of € 600.000.

2.7. CHANGES IN FIXED ASSETS

in € thousands	Other assets and business equipment	Technical plant and equipment	Total
Tangible asset			
Cumulative purchase costs as at Jan. 1, 2007	**20,053**	**7,660**	**27,713**
Additions	356	78	434
Disposals	− 61	− 90	− 151
Cumulative purchase costs as at Dec. 31, 2007	**20,348**	**7,648**	**27,996**
Scheduled depreciation in the current year	2,076	1,187	3,263
Cumulative depreciation as at Dec. 31, 2007	**6,347**	**4,032**	**10,379**
Status as at Dec. 31, 2007	**14,001**	**3,616**	**17,617**
Net carrying value	15,721	4,725	20,446

Fixed assets are made up entirely of office equipment, furnishings and fittings.

Tangible assets are carries at purchase cost less straight-line depreciation. Additions of minor-value assets are fully written off in line with section 6 para. 2 German Income Tax Act (EstG).

2.8. OTHER ACCOUNTING AND VALUATION METHODS

Other assets and liabilities are valued strictly in line with the principle of lower of cost or market. Deferred expenses or income has been entered and allocated to the respective balance-sheet item.

Liabilities are carried at the sums repayable and certificated liabilities are entered at nominal value.

Due provisions have been made for uncertain liabilities. There were no losses threatened from pending business transactions.

Interest from interest swaps and total return swaps were deferred on a pro-rated basis and carried at receivables or liabilities, with interest claims being netted against interest commitments for the respective transaction. Interest swaps were values at present value, whereby future cash flows due was discounted at market interest rates as at the balance sheet date. No provision for unrealized losses needed to be established. Unrealized losses from hedging transactions that compared with liabilities on the balance sheet were not considered in the annual financial statements.

2.9. LIABILITIES TO BANKS

in € thousands (section 9 RechKredV)	Dec. 31, 2007	Dec. 31, 2006
Liabilities to banks	**4,783,948**	**6,539,371**
Structure of remaining maturities:		
– Due on demand	2,478,112	1,957,152
– with agreed maturities or notice period of		
1. up to three months,	1,554,594	3,763,932
2. three months up to one year,	501,123	617,874
3. one year up to five years,	–	139
4. more than five years	250,119	200,274
of which: liabilities due to associated companies	3,038,916	2,825,438

Liabilities due to banks have fallen owing to the lesser volume of open-market transactions as at year-end.

2.10. LIABILITIES TO CUSTOMERS

in € thousands (section 9 RechKredV)	Dec. 31, 2007	Dec. 31, 2006
Liabilities to customers	**3,224,083**	**2,987,421**
Structure of remaining maturities:		
– Due on demand	2,398,674	2,278,590
– with agreed maturities or notice period of		
1. up to three months,	336,960	319,370
2. three months up to one year,	399,864	314,711
3. one year up to five years,	68,585	48,225
4. more than five years	20,000	26,525
of which: liabilities due to associated companies	435,518	416,625

Liabilities due to customers arose primarily owing to higher deposits by non-banks that were Group members.

2.11. CERTIFICATED LIABILITIES

in € thousands (section 9 RechKredV)	Dec. 31, 2007	Dec. 31, 2006
Certificated liabilities	**322,927**	**369,070**
Bonds issued	322,927	369,070
– Due the following year	322,927	369,070
Other certificated securities	–	–
Structure of remaining maturities:		
– with agreed maturities or notice period of		
1. up to three months,	–	–
2. three months up to one year,	–	–
3. one year up to five years,	–	–
4. more than five years	–	–
of which: own acceptances and promissory notes outstanding	–	–

Certificated securities result from bonded loans issued and other registered bonds issued. The categorization by remaining period to maturities also considers possible advance termination notice.

2.12. OTHER LIABILITIES

Other liabilities are mainly made up of the profit transfer of € 28.922 million and the profit share of € 4.917 million attributable to J.P. Morgan Beteiligungs- und Verwaltungsgesellschaft mbH, Frankfurt am Main on the basis of profit participation rights. Liabilities for withholding tax and turnover tax come to € 34.247 million.

2.13. PENSION PROVISIONS

in € thousands	Dec. 31, 2007	Dec. 31, 2006
Provisions	**98,266**	**98,019**
of which for		
– pensions and similar commitments	86,536	85,623

Pension provisions were formed on the basis of an actuarial report in line with the regulations of section 6a EStG. The calculation of the provision is a computed interest rate of 6 % and is based on the actuarial tables by Prof. Dr. Klaus Heubeck 2005 G.

2.14. PROVISIONS

in € thousands	Dec. 31, 2007	Dec. 31, 2006
Provisions	**98,266**	**98,019**
of which for		
– other provisions	11,730	12,396

The provisions stated contain all discernible commitments that relate to past business occurrences or past events.

Other provisions consist largely of accrued expenses for personnel expenses and reconversion commitments for the rented office building.

2.15. SUBORDINATED DEBT

in € thousands	Dec. 31, 2007	Dec. 31, 2006
Subordinated debt	**91,864**	**–**
of which: Subordinated debt relating to associates	91,864	–

The subordinated debts meets the criteria set out in section 10 para. 5a German Banking Act.

As contractually agreed, the debt is originally denominated in US dollars; and interest payments are made quarterly as of the loan being taken up, starting as of March 20, 2007. Interest is calculated on the respective 3-months USD-LIBOR (London Interbank Offered Rate). A prop-rated interest deferral of € 158,231 is likewise carried under the item for “subordinated debt”.

2.16. PROFIT PARTICIPATION RIGHTS

in € thousands	Dec. 31, 2007	Dec. 31, 2006
Porfit participation rights	**26,076**	**26,076**
J.P. Morgan Beteiligungs- und Verwaltungsgesellschaft mbH, Frankfurt am Main		

2.17. FUNDS FOR GENERAL BANKING RISKS

in € thousands	Total
Funds for general banking risks	
Status as at Dec. 31, 2006	56,300
Additions	–
Disposals	–
Status as at Dec. 31, 2007	**56,300**

2.18. STOCKHOLDERS' EQUITY

in € thousands	Subscribed capital*	Capital reserves	Total
Schedule of changes in stockholders´equity			
Status as at Dec. 31, 2006	60,000	53,737	113,737
Additions	–	–	–
Disposals	–	–	–
Status as at Dec. 31, 2007	**60,000**	**53,737**	**113,737**

2.19. *SUBSCRIBED CAPITAL

The capital stock amounts to € 60,000,000, subdivided into 11,735 common shares. All 11,735 common shares are held by J.P. Morgan Beteiligungs- und Verwaltungsgesellschaft mbH, Frankfurt am Main.

2.20. CHANGES IN RETAINED EARNINGS

in € thousands	Statutory reserves	Other retained earnings reserves	Total
Schedule of changes in retained earnings			
Status as at Dec. 31, 2006	6,000	23,778	29,778
Additions	–	–	–
Disposals	–	–	–
Status as at Dec. 31, 2007	**6,000**	**23,778**	**29,778**

2.21. OTHER ITEMS RELATING TO ASSOCIATES

in € thousands	Dec. 31, 2007	Dec. 31, 2006
Other items relating to associates		
Other assets	643	654
Other liabilities	33,840	44,391

2.22. ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

in € thousands	Dec. 31, 2007	Dec. 31, 2006
Assets and liabilities in foreign currencies		
Assets	1,646,132	1,406,746
Liabilities	1,639,852	1,479,685

2.23. CONTINGENT LIABILITIES

in € thousands	Dec. 31, 2007	Dec. 31, 2006
Contingent liabilities		
Liabilities from guarantees and indemnification agreements	94,685	22,189

The increase is the result of greater business activities in 2007.

2.24. OTHER COMMITMENTS

in € thousands	Dec. 31, 2007	Dec. 31, 2006
Other commitments		
Irrevocable lines of credit	–	934

As at year-end 2007 there were no longer any irrevocable credit approvals.

3. NOTES TO THE INCOME STATEMENT

3.1. NET INTEREST INCOME

in € thousands	Dec. 31, 2007	Dec. 31, 2006
Net interest income	**37,233**	**26,817**
Interest income from	**308,352**	**215,187**
Lending and money market transactions	308,352	215,187
Fixed-income securities and debt securities interest expense	–	–
Interest expenses	**271,119**	**188,370**

The increase in interest income reflects the greater volume of payment transactions and custody business.

3.2. COMMISSION INCOME

in € thousands	Dec. 31, 2007	Dec. 31, 2006
Commission income	**68,270**	**53,498**

The increase in commission income stems from the favorable course of business in 2007 and the changes in the classification of intra-Group invoicing. This led to an increase in income and to a rise in expenses in the business year.

3.3. OTHER OPERATING INCOME

in € thousands	Dec. 31, 2007	Dec. 31, 2006
Other operating income	**19,746**	**24,899**
of which from:		
Services provided for Group entities	17,491	24,132
Other operating income	2,255	767

Other operating income includes services provided for Group entities, turnover tax reimbursements from prior years and income from a major event.

3.4. GENERAL ADMINISTRATIVE EXPENSES

in € thousands	Dec. 31, 2007	Dec. 31, 2006
General administrative expenses	**84,072**	**73,970**
• of which for: Personnel expenses		
– Wages and salaries	25,376	24,220
– Social security contributions, retirement benefits and welfare	8,528	5,772
of which: for retirement benefits	5,864	3,158
• Other administrative expenses	50,168	43,978

The increase in expenses for retirement benefits stems from considering adjustments to pensions. The rise in other administrative expenses is primarily attributable to the changed classification for intra-Group invoicing.

3.5. INCOME FROM WRITE-UPS OF RECEIVABLES AND SECURITIES AND WRITE-BACKS OF CREDIT PROVISIONS

in € thousands	Dec. 31, 2007	Dec. 31, 2006
Income from write-ups		
of receivables and securities and write-backs of credit provisions	49	17,354

The income from the prior year result from the sale of shares in a participation and equities and from other non-fixed-income securities.

4. FURTHER INFORMATION

in € thousands	Market values as at Dec. 31, 2007		Market values as at Dec. 31, 2006	
	positive	negative	positive	negative
Interest-related transactions				
Interest swaps	2,237	2,237	4,100	6,546
Equity-related transactions				
Total return swaps	122,830	26,031	92,194	29,998
Total	**125,066**	**28,267**	**96,294**	**36,544**

On the balance sheet date, the following forward transactions existed that had not been settled: interest swaps and total return swaps.

The interest rate forward contracts relate to closed positions in which the bank acting as intermediary. The total return swaps were concluded to hedge against market risks.

4.1. RELATED PARTY TRANSACTIONS

J.P. Morgan Beteiligungs- und Verwaltungsgesellschaft mbH, Frankfurt am Main, is sole shareholder and a profit transfer agreement exists with it. Therefore, no dependent companies report pursuant to section 312 German Stock Corporation Act (AktG) needs to be compiled.

The consolidated financial statements for the largest and smallest groups of companies are prepared by JPMorgan Chase & Co., New York, whose shares are traded on the New York Stock Exchange and on various European and Asian stock exchange. The consolidated financial statements can be obtained on request from J.P. Morgan AG, Frankfurt am Main.

The bank is a member of the deposit guaranty fund run by the Federation of the German Banking Industry.

4.2. EMPLOYEES

On average for the year the bank had 269 staff members. As at Dec. 31, 2007 the schedule for employees was as follows:

in € thousands	Dec. 31, 2007	Dec. 31, 2006
Payroll structure	**269**	**250**
Average for the year		
Authorized officers	20	21
Officers	110	102
Commercial clerks	136	123

4.3. TOTAL COMPENSATION OF ACTIVE BOARD MEMBERS

Total compensation of the Management Board came to € 1.385 million. Thereon applied € 216 thousands on restricted stock units. Total compensation of Supervisory Board members totaled € 5 thousands.

In the year under review, no loans were granted to Board members.

4.4. TOTAL COMPENSATION OF FORMER BOARD MEMBERS AND THEIR SURVIVING DEPENDENTS

Retirement benefit obligations for this group of persons totaled € 21.807 million as at Dec. 31, 2007. Total compensation for former Board members and their surviving dependents came € 305 thousands.

Management Board		
Thomas Meyer, Banker		Chairman
Oliver Berger, Banker		
Martin Schütz, Banker		
Supervisory Board		
Mark S. Garvin, Managing Director Chairman of Treasury & Securities Services International, J PMorgan Chase Bank, National Association		Chairman
Alexander Caviezel, Managing Director Treasury Services EMEA, JPMorgan Chase Bank, National Association	(as of January 1, 2007)	Deputy Chairman
Peter T. Schwicht, Managing Director Asset Management, JPMorgan Asset Management (Europe) S.à r.l.	(as of January 1, 2007)	
John Jetter, Banker	(as of January 1, 2007)	
Carl H. Schneppensiefer, Banker	(until March 17, 2008)	(Employee representative)
Rudolf Wissel, Banker	(as of January 1, 2007)	(Employee representative)
Thomas Freise, Client Service Manager	(as of March 17, 2008)	(Employee representative)

Frankfurt am Main, April 29, 2008

J.P. Morgan AG
Frankfurt am Main
Management Board

THOMAS MEYER   OLIVER BERGER   MARTIN SCHÜTZ

Auditor´s Report

(Translation of the auditor's report issued in German language on the annual financial statements prepared in German language by the management of J.P. Morgan AG, Frankfurt am Main.)

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the book-keeping system, and the management report of the J.P. Morgan AG, Frankfurt am Main, for the business year from January 1 to December 31, 2007. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, April 29, 2008

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

CHRISTIAN F. RABELING	ppa. KIRSTEN BLOM
Wirtschaftsprüfer	Wirtschaftsprüferin
(German Public Auditor)	(German Public Auditor)

Report of the Supervisory Board

SUPERVISORY AND CONTROL

The Supervisory Board supervised the Management Board throughout the year on the basis of written and oral reports and discharged its duties according to the law. Important matters of business management were examined by the Supervisory Board and reviewed together with the Management Board. The Supervisory Board met twice to discuss the Bank's economic situation, its strategy and risk management. In particular, the Supervisory Board was informed about default risks in the lending business and operational risks in all business areas.

PERSONNEL CHANGES OF THE MANAGEMENT BOARD

There were no changes to the Management Board during the year. The Management Board consists of Thomas Meyer (Chairman) as well as Oliver Berger and Martin Schütz.

PERSONNEL CHANGES OF THE SUPERVISORY BOARD

Effective January 16, 2007 Rudi Wissel was elected as representative of the employees to the Supervisory Board. During the year the Supervisory Board was comprised of:

Mark S. Garvin (Chairman), Alexander Caviezel, John Jetter, Peter Schwicht, and, elected by the employees, Carl Schneppensiefer and Rudolf Wissel (effective January 16, 2007).

ANNUAL STATEMENT OF ACCOUNTS

The year-end Financial Statements and the Management Report for 2007 fiscal year as well as all relevant accounting records have been examined by the duly appointed auditing firm PricewaterhouseCoopers AG, Frankfurt am Main. The auditing firm issued an unqualified audit opinion.

Based on the final examination of the year-end Financial Statements and the Management Report by the Supervisory Board, the Financial Statements as of December 31, 2007 and the Management Report have been approved by the Supervisory Board. The annual statement of accounts is herewith determined.

The Supervisory Board would like to express its thanks to the Board of Management and to all employees for their performance and commitment.

May 19, 2008

The Supervisory Board

MARK S. GARVIN
Chairman

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