MAX RECOVERY LIMITED
(Registered Number: 4994176)

Annual report for the period from 1 December 2007 to 31 December 2008

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Directors' report for the period from 1 December 2007 to 31 December 2008

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

Principal activity

The principle activity of the Company is the purchase and recovery of certain distressed debt from various third parties predominantly in Europe.

Change in accounting reference period

On 17 July 2009, the Board of Directors resolved to change the accounting reference date of the Company from 30 November to 31 December. Accordingly, these financial statements have been prepared for the period from 1 December 2007 to 31 December 2008.

Review of business

The directors were satisfied with the performance of the Company.

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 had 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 (KPIs)

The results are monitored against expectations of the business activities. The board of directors monitors progress on the performance of the Company by reference to the following KPIs:

	31 December 2008	30 November 2007
Operating profit variance (%)	**110**	156
Operating margin (%)	**90**	73
Total assets variance (%)	**(51)**	112

A more detailed description of the Group key performance indicators may be found within the Group annual report.

Results and dividends

The results for the period are set out on page 5 and show the Company's profit for the financial period after taxation is $46,436,000 (2007: $22,014,000).

No dividend was paid or proposed during the period (2007: $nil).

Directors

The directors of the Company who served during the period and up to the date of signing the financial statements were as follows:

D.R. Baker	(Appointed 12 June 2008 and resigned 30 April 2009)
M. Pearlman	(Appointed 12 June 2008 and resigned 19 June 2009)
A.G. Sadler	(Resigned 27 June 2008)
A. Berardi	(Resigned 26 May 2009)
C. Rusbasan	(Resigned 26 May 2009)
D. Weyman	(Appointed 15 December 2008 and resigned 17 July 2009)
M.G. Norris	(Appointed 15 December 2008)
C.D. Lane	(Appointed 17 July 2009)
T.E. Stapleford	(Appointed 16 July 2009)
T. Marano	(Resigned 2 May 2008)
A. Powell	(Appointed 1 September 2009)

Directors' interests

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

Statement of directors' responsibilities

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

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

In preparing those financial statements, the directors are required to:

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

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

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

Disclosure of information to auditors

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

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

Liability insurance for Company officers

As permitted by Section 233 of the Companies Act 2006, the directors of the Company are covered for insurance purposes by the ultimate holding company, JPMorgan Chase & Co.'s Group blanket insurance maintained at a consolidated level.

Company secretary

The secretaries of the Company who served during the period were as follows:

K.L. Edlow	(resigned: 31 May 2008)
N.A. Constantine	(resigned: 27 June 2008)
J.P. Morgan Secretaries (UK) Limited	(appointed: 27 June 2008)

Registered address
20-22 Bedford Row
London WC1R 4JS
England

Independent auditors

The auditors, PricewaterhouseCoopers LLP, were appointed on 14 January 2009 and have expressed their willingness to continue in office.

By order of the Board

Director

26 OCT 2009

Independent auditors' report to the members of Max Recovery Limited

We have audited the financial statements of Max Recovery Limited for the period from 1 December 2007 to 31 December 2008 on pages 5 to 17 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of the directors and auditors

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

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008 and of its profit for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London 27 Oct 2009

MAX RECOVERY LIMITED

Profit and loss account for the period from 1 December 2007 to 31 December 2008

	Notes	1 December 2007 to 31 December 2008 $'000	Restated 1 December 2006 to 30 November 2007 $'000
Operating income	2	91,516	53,338
Administrative expenses		(9,598)	(14,384)
Operating profit		81,918	38,954
Interest payable and similar charges	4	(27,133)	(22,881)
Profit on ordinary activities before taxation	5	54,785	16,073
Tax (charge)/credit on profit on ordinary activities	6	(8,349)	5,941
Profit for the financial period		46,436	22,014

The profit for the period resulted from continuing operations.

The reconciliation of movement in shareholder's funds during the period is detailed in note 13.

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

Statement of total recognised gains and losses for the period from 1 December 2007 to ended 31 December 2008

	Notes	1 December 2007 to 31 December 2008 $'000	1 December 2006 to 30 November 2007 $'000
Profit for the financial period		46,436	22,014
Prior year adjustments	1.13	(32,861)	-
Total recognised gains and losses for the period		13,575	22,014

The notes on pages 7 - 17 form an integral part of these financial statements.

MAX RECOVERY LIMITED
Balance sheet as at 31 December 2008

	Notes	31 December 2008 $'000	Restated 30 November 2007 $'000
Current assets			
Financial assets designated at fair value through profit or loss	7	**340,619**	476,485
Debtors	8	**56,566**	356,573
Cash at bank and in hand	9	**12,173**	1,844
		409,358	834,902
Creditors: amounts falling due within one year	10	**(329,665)**	(801,645)
Net current assets		**79,693**	33,257
Total assets less current liabilities		**79,693**	33,257
Net assets		**79,693**	33,257
Capital and reserves			
Called-up share capital	11	**5,000**	5,000
Profit and loss reserve	12	**74,693**	28,257
Total shareholder's funds	13	**79,693**	33,257

On behalf of the Board:

Director

2 6 OCT 2009

The notes on pages 7 - 17 form an integral part of these financial statements.

MAX RECOVERY LIMITED

Notes to the financial statements for the period from 1 December 2007 to ended 31 December 2008

1. Accounting policies

1.1 Accounting convention

The financial statements have been prepared on the going concern basis and under the historical cost convention, as modified by the revaluation of certain financial instruments, as explained in the accounting policies below. The financial statements have also been prepared in accordance with applicable accounting standards in the United Kingdom and in accordance with the requirements of the Companies Act 1985.

In the opinion of the Directors, disclosure of turnover is most appropriately represented for the Company by operating income, comprising gains and losses on the financial assets designated at fair value through profit or loss. This represents an adaptation of the profit and loss account format laid down in Schedule 4 to the Companies Act 1985 due to the nature of the Company's business.

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

1.2 Changes in accounting policy

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

1.3 Change in accounting reference period

On 17 July 2009, the Board of Directors resolved to change the accounting reference date of the Company from 30 November to 31 December. Accordingly, these financial statements have been prepared for the period from 1 December 2007 to 31 December 2008.

1.4 Cash flow statement

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

1.5 Related party transactions

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

MAX RECOVERY LIMITED

Notes to the financial statements for the period from 1 December 2007 to ended 31 December 2008 (continued)

1 Accounting policies (continued)

1.6 Foreign currency translation

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

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

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

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

Period/year end exchange rate (USD/GBP)	1.44296	(2007: 2.0565)
Average rate for the period/year (USD/GBP)	1.85343	(2007: 2.0060)

1.7 Income and expense recognition

Interest receivable and payable are recognised on an accruals basis.

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

1.8 Financial assets and financial liabilities

The Company classifies its financial assets and financial liabilities as 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 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 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 unless the embedded derivative does not significantly modify the cash flows required by the contract or when a similar hybrid instrument is considered that separation of the embedded derivative is prohibited.

1 Accounting policies (continued)

1.8 Financial assets and financial liabilities (continued)

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.

1.9 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.

1.10 Impairment

Financial assets

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.

1.11 Offsetting financial assets and liabilities

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

1.12 Provisions for liabilities and charges

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

MAX RECOVERY LIMITED

Notes to the financial statements for the period from 1 December 2007 to ended 31 December 2008 (continued)

1 Accounting policies (continued)

1.13 Prior year adjustments

In the prior year comparative information, financial assets designated at fair value through profit or loss have been restated by $32,860,732 with a corresponding decrease of $6,696,850 in opening profit and loss reserve and decrease in operating income by $25,890,882. This arises from a change in the valuation of financial assets designated at fair value through profit or loss in accordance with FRS 26. These effects have been reflected in the statement of total recognised gains and losses.

Certain distressed debt acquired from various third parties have been reclassified from 'Inventory' to 'Financial assets designated at fair value through profit or loss' to reflect more accurately the nature of the balances.

In the 2007 comparative information bank balances, amounting to $1,843,618 were included in 'Debtors'. These have been reclassified to 'Cash at bank and in hand' to reflect more accurately the nature of the balances.

2. Operating income

	1 December 2007 to 31 December 2008	Restated 1 December 2006 to 30 November 2007
	$'000	$'000
Net gains from financial assets designated at fair value through profit or loss	91,516	53,338

3. Directors' emoluments and staff costs

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

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

The Company had no employees, other than directors, at any time during the period.

4. Interest payable and similar charges

	1 December 2007 to 31 December 2008	1 December 2006 to 30 November 2007
	$'000	$'000
Interest payable and similar charges	27,133	22,881

All interest payable and similar charges are payable to other Group undertakings.

5. Profit on ordinary activities before taxation

The auditors' remuneration of $148,192 (2007: $120,384) is met by another Group company and not recharged.

MAX RECOVERY LIMITED

Notes to the financial statements for the period from 1 December 2007 to ended 31 December 2008 (continued)

6. Tax charge/(credit) on profit on ordinary activities

	2008	Restated 2007
	$'000	**$'000**
(a) Analysis of tax charge/(credit) for the period		
Current taxation		
UK Corporation tax on current period profits	8,349	-
Adjustments in respect of prior years	-	(5,941)
Current tax charge/(credit) for the period	8,349	(5,941)

(b) Factors affecting the current tax charge/(credit) for the period

The current tax charge for the period differs from the standard rate of corporation tax in the UK (28% reduced from 30% effective from 1 April 2008). The differences are explained below:

	2008	Restated 2007
Profit on ordinary activities before taxation	54,785	16,073
Profit on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK	15,674	4,822
Effects of:		
Disallowed expenses and other permanent differences	15	158
Losses surrendered for nil consideration	(7,141)	(4,771)
Adjustments in respect of prior years	-	(5,941)
FRS 26 adjustment	(199)	(209)
Current tax charge/(credit) for the period	8,349	(5,941)

7. Financial assets designated at fair value through profit or loss

	Note	31 December 2008	Restated 30 November 2007
		$'000	**$'000**
Opening balance		509,346	291,244
Prior year adjustments	1.13	(32,861)	(6,970)
Opening balance as restated		476,485	284,274
Movements during the period		(135,866)	192,211
Closing balance		340,619	476,485

Financial assets designated at fair value through profit or loss represent certain distressed debt acquired from various third parties. Distressed debt relates to customers that are in bankruptcy or insolvency.

All fair value changes related to financial assets designated at fair value through profit or loss are recognised in the profit and loss account as they arise.

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Notes to the financial statements for the period from 1 December 2007 to ended 31 December 2008 (continued)

8. Debtors

	31 December 2008	Restated 30 November 2007
	$'000	$'000
Amounts owed by Group undertakings	56,566	356,573

9. Cash at bank and in hand

Bank balances include those held with Group undertakings.

10. Creditors: amounts falling due within one year

	31 December 2008	30 November 2007
	$'000	$'000
Amounts owed to Group undertakings	319,845	801,459
Other taxation and social security	8,349	-
Other liabilities	1,471	186
	329,665	801,645

11. Called-up share capital

	31 December 2008	30 November 2007
	$'000	$'000
Authorised share capital		
10,000,000 ordinary shares of $1 each	10,000	10,000
Issued and fully paid share capital		
5,000,000 ordinary shares of $1 each	5,000	5,000

12. Reconciliation of movements in the profit and loss reserve

	Note	Profit and loss reserve
		$'000
At 30 November 2007 as previously reported		61,118
Prior year adjustments	1.13	(32,861)
At 1 December 2007 as restated		28,257
Profit for the financial period		46,436
At 31 December 2008		74,693

MAX RECOVERY LIMITED

Notes to the financial statements for the period from 1 December 2007 to ended 31 December 2008 (continued)

13. Reconciliation of movement in shareholder's funds

	Note	1 December 2007 to 31 December 2008	1 December 2006 to 30 November 2007
		$'000	$'000
Opening shareholder's funds as previously reported		66,118	18,213
Prior year adjustments	1.13	(32,861)	(6,970)
Opening shareholder's funds as restated		33,257	11,243
Profit for the financial period		46,436	22,014
Closing shareholder's funds		79,693	33,257

14. Financial risk management

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

Risk management and oversight begins with the Operating Committee of the Board of Directors of the Group, which approves the governance of activities, delegating the formulation of policy and day to day risk oversight and management to the relevant sub-committee i.e. the IB Risk Committee.

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

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, 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 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:

	31 December 2008 Less than 1 year	31 December 2008 Total	30 November 2007 Less than 1 year	30 November 2007 Total
	$'000	$'000	$'000	$'000
Amounts owed to group undertakings	319,845	319,845	801,459	801,459
Other taxation and social security	8,349	8,349	-	-
Other liabilities	1,471	1,471	186	186
	329,665	329,665	801,645	801,645

14. Financial risk management (continued)

Credit risk

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.

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.

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

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

	31 December 2008	30 November 2007
	$'000	$'000
Financial assets designated at fair value through profit or loss	340,619	476,485
Amounts owned by Group undertakings	56,566	356,573
Cash at bank and in hand	12,173	1,844
	409,358	834,902

Financial assets designated at fair value through profit or loss include external sub investment grade assets, all other financial assets are investment grade or held with other Group undertakings.

14. Financial risk management (continued)

Market risk

Market risk represents the potential loss in value of portfolios and financial instruments caused by adverse movements in market variables such as interest and foreign exchange rates, credit spreads and 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 seek 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
- Earning-at-risk stress tests
- Other measures of position size and sensitivity to market movements

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 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.

Foreign exchange risk

Foreign exchange risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company manages its exposure to Sterling and other currencies against US dollar (the functional currency of the Company) to within acceptable risk management limits on a daily basis. The following table shows the effect of a reasonably possible change in exchange rates on the financial profit of the Company:

	2008	2007
	$'000	$'000
5% increase in GBP/USD exchange rate	2,295	3,283
5% decrease in GBP/USD exchange rate	(2,295)	(3,283)

14. Financial risk management (continued)

Market risk (continued)

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 financial assets designated through profit or loss and cash at bank on the balance sheet. The following table shows the effect of a reasonably possible change in interest rates on the financial profit of the Company:

	2008	2007
	$'000	$'000
50 basis points increase in local interest rates	(1,300)	(2,225)
50 basis points decrease in local interest rates	1,300	2,225

Price risk

Price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of movements in market price for those instruments. The financial assets designated at fair value through profit or loss include assets subject to price risk from changes in the credit risk profiles and other market indicators. The following table shows the effect of changes in credit spreads by 10% with all other variables constant on the pretax profit of the Company:

	2008	2007
	$'000	$'000
10% widening of the credit spread	38,458	44,538
10% shortening of the credit spread	(38,458)	(44,538)

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.

15. Parent undertaking

The Company's immediate parent undertaking is The Bear Stearns Companies LLC, which is incorporated in United States of America.

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

The groups' consolidated financial statements can be obtained from:

125 London Wall
London
EC2Y 5AJ
England