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FEDERAL RESERVE BANK OF NEW YORK
NEW YORK, N.Y. 10045-0001

April 15, 2008

Envelope addressed:
c/o Mr. Jamie Dimon
Chairman and CEO

BY HAND

Board of Directors
JPMorgan Chase & Co.
270 Park Avenue
New York, New York 10017

Enclosed please find the annual report of inspection of JPMorgan Chase & Co. (JPMC) prepared by the Federal Reserve Bank of New York as of December 31, 2007.

The report conveys our overall assessment of JPMC and is based on the results of our continuous supervision program over the past year, which consists of monitoring activities conducted by the onsite team and a select number of targeted examinations and horizontal reviews conducted by our examination staff. The findings of our examinations and horizontal reviews were communicated to senior management through letters issued and formal meetings after the conclusion of each review.

The holding company remains in satisfactory condition and is assigned a composite supervisory rating of satisfactory ("2"), with similar assessments assigned to two of the primary components of the RFI rating system, namely Risk Management and Impact. The Financial Condition component continues to be rated strong ("1"), reflecting the firm's asset quality and earnings performance, and maintenance of strong capital and liquidity levels to support business activities.

In determining the Risk Management rating, we drew upon our observations and examination findings covering the risk governance and internal controls framework of the firm. Most notable was the leadership demonstrated by senior management during the latter half of 2007 as the markets became more volatile and less liquid. Furthermore, the escalation of emerging issues and comprehensiveness of risk management reports supported timely decision-making throughout the market turmoil. Nevertheless, the market events also highlighted control framework and exposure measurement shortcomings that require improvement, such as the effect of loosened underwriting standards on the firm's lending activities, including third-party originations, and the need to measure the impact of market illiquidity on the firm's trading portfolio and "originate to distribute" strategy. Given these observed challenges, it is incumbent upon management to direct the requisite level of resources to address these needs and other aspects covered in more detail in the attached report.

Going forward, our supervisory efforts will be focused on actions taken by management to address the issues identified in this report, including the build-out of the firm's economic capital models and governance framework, implementation of Basel II compliant credit, market and operational risk processes, and continued enhancements to stress testing practices. Additionally, given the potential for the current economic and market environment to adversely affect the firm's asset quality, capital and reserves, we plan to continue to actively assess the firm's Financial Condition. Lastly, although not addressed in the report, we will be evaluating the integration of Bear Stearns businesses, the adequacy of business controls and compliance oversight over new businesses, and the impact of acquired portfolios upon the risk profile of the combined firm.

As you are aware I, and other representatives of the Federal Reserve Bank of New York will attend your April 15, 2008 joint meeting of the Board's Audit and Risk Committees to discuss the findings of our annual assessment. After you have had an opportunity to review the report, and within 60 days of the receipt of this letter, we would appreciate management's written response to the matters discussed in the report.

In closing, we wish to note that this letter contains confidential examination material and should be treated accordingly by your organization. As such, the comments in this letter are subject to the rules of the Board of Governors of the Federal Reserve System regarding the disclosure of confidential supervisory information.

Sincerely yours,

Barbara J. Yelcich

Barbara J. Yelcich
Assistant Vice President
Federal Reserve Bank of New York

Enclosure

SUMMARY OF SUPERVISORY ACTIVITY AND FINDINGS

Name:	JPMorgan Chase & Co.	Financial Date as of:	December 31, 2007
Location:	New York, New York	Inspection Date as of:	December 31, 2007
RSSD ID Number:	1039502		

THIS REPORT OF INSPECTION IS STRICTLY CONFIDENTIAL

This report has been prepared by an examiner selected or approved by the Board of Governors of the Federal Reserve System. The report is the property of the Board of Governors and is furnished to directors and management for their confidential use. The report is strictly privileged and confidential under applicable law, and the Board of Governors has forbidden its disclosure in any manner without its permission, except in limited circumstances specified in the law (12 U.S.C 1817(a) and 1831m) and in the regulations of the Board of Governors (12 C.F.R. 261.11). Under no circumstances should the directors, officers, employees, trustees or independent auditors disclose or make public this report or any portion thereof except in accordance with applicable law and the regulations of the Board of Governors. Any unauthorized disclosure of the report may subject the person or persons disclosing or receiving such information to the penalties of Section 641 of the U.S. Criminal Code (18 U.S.C. 641). Each director or trustee, in keeping with his or her responsibilities, should become fully informed regarding the contents of this report. In making this review, it should be noted that this report is not an audit, and should not be considered as such.

FEDERAL RESERVE BANK OF NEW YORK

BHC No. 0373
BHC RSSD No. 1039502

Summary of Supervisory Activity and Findings

JPMorgan Chase & Co.	270 Park Avenue	New York
Bank Holding Company Name	**Street**	**City**
New York	New York	10017
County	**State**	**Zip Code**

Barbara J. Yelcich
Federal Reserve Examiner-in-Charge

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Inspection Date:	**December 31, 2007**	Previous Inspection/Examination Date:	**December 31, 2006**
Financial Statements:	**December 31, 2007**	Financial Statements:	**December 31, 2006**

Composite Supervisory Rating

JPMorgan Chase & Co. (JPMC) continues to be assigned a composite supervisory rating of "2" reflecting its overall satisfactory condition. Satisfactory ratings continue to be assigned to the Risk Management ("2") and Impact ("2") component ratings. The firm's Financial Condition rating remains strong ("1"). Additionally, JPMC's banking subsidiaries remain in satisfactory condition.

JPMorgan Chase & Co.		12/31/2007	12/31/2006	12/31/2005
Composite		**2**	**2**	**2**
R	Risk Management	2	2	2
F	Financial Condition	1	1	2
I	Impact of Parent & Non-banks	2	2	2
(D)	Depository Institutions	2	2	2

Financial Condition Rating

JPMC is financially sound and is assessed a Financial Condition rating of strong ("1"), unchanged from prior year. The component ratings also remain unchanged with continued strong ratings assigned to asset quality, liquidity and capital, and earnings that remain satisfactory.

Financial Condition	**2007**	**2006**
Composite Rating	**Strong (1)**	**Strong (1)**
Asset Quality	Strong (1)	Strong (1)
Liquidity	Strong (1)	Strong (1)
Earnings	Satisfactory (2)	Satisfactory (2)
Capital	Strong (1)	Strong (1)

Risk Management

JPMC's risk management program remains satisfactory ("2") based upon the effective Corporate-wide processes in place to identify, measure, monitor and control risk. Noteworthy is that the rating for Board and Senior Management Oversight has been upgraded to strong ("1") at this assessment based on management's ability to identify, understand and manage risk during the period of market disruption that occurred in 2007.

Risk Management	**2007**	**2006**
Composite Rating	**Satisfactory (2)**	**Satisfactory (2)**
Board & Senior Management Oversight	Strong (1)	Satisfactory (2)
Policies, Procedures and Limits	Satisfactory (2)	Satisfactory (2)
Risk Monitoring & Management Information Systems	Satisfactory (2)	Satisfactory (2)
Internal Controls	Satisfactory (2)	Satisfactory (2)

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Executive Summary

The market challenges that occurred in 2007 and continue to exist in 2008 shed light on both the strengths of JPMC's risk management processes and controls, as well as some enhancement needs that require further attention by management.

As our strong assessment of Board and Senior Management Oversight indicates, management's actions were largely responsible for successfully navigating the firm through the volatile markets over the past year. Management's decision-making during 2007 is reflective of its ability to understand the risks inherent in its businesses, take timely actions to reduce exposures where necessary, and is attributable to the firm's recent favorable performance relative to peer. In particular, the effectiveness of the firm's risk committee structure is worth noting. At both the line of business level and across lines of business (e.g., the Markets Committee), JPMC's various risk committees provided a strong and effective mechanism for cross-business and cross-risk discussions amongst line of business (LOB) managers and risk officers. More importantly, the results of these discussions were acted upon through successful coordination of cross-business risk management activities and timely escalation of risk issues to senior management and the board of directors. Actions taken were further supported by sound risk analytics, sufficiently detailed and/or newly created reports, and a process of continuous enhancement to meet the ongoing information needs of senior management and the board of directors.

Despite the unusual circumstances and challenges presented by recent market events, management continued to move a number of important infrastructure projects and initiatives forward in 2007. Effective steering committee oversight and sufficient resource allocation were critical to the successful completion of certain initiatives (e.g., Wholesale Deposit Conversion and Global Finance Infrastructure Project), and the continued progress of others (e.g., Credit Risk, Market Risk, and Firm-wide Stress Initiatives; and regulatory reporting). Other enhancements noted during 2007 included improved reporting and exposure measurement of leveraged lending activities, including initial views on stress testing this portfolio, and strengthened valuation and price testing controls. Management's actions concerning the tightening of underwriting standards across consumer and leveraged lending activities were also noted; however, these corrective actions largely address the risk taking decisions made by management in more benign markets and as such, may warrant further tightening.

Notwithstanding these enhancements, the credit market stress events of 2007 disclosed breakdowns in the "originate to distribute" model, namely weak underwriting standards and investor concentration risk in collateralized loans obligations. Specifically, the events revealed the need to strengthen the exposure measurement and limit framework around leveraged lending, particularly as it relates to better assessing the impact of market illiquidity on warehoused credits and the risks associated with forward pipeline exposures. Management's attention is also drawn to other areas of increased supervisory attention, including the development of a more risk-sensitive economic capital framework, and the need to continue to enhance the firm's Corporate-wide compliance, BSA/AML and information security programs.

Additionally, a sufficiently robust economic capital and governance framework is expected for an institution of JPMC's size and complexity. The firm has chosen to use economic capital, which is a core principle of the Basel II capital framework, and a requirement under

Supervisory Letter SR 99-18, to meet the expectations of a comprehensive and risk-sensitive internal capital adequacy assessment. While management has developed a comprehensive plan to improve these processes, efforts have only recently commenced to develop risk-sensitive models developed for portfolios in Retail Financial Services (RFS) and to strengthen governance of economic capital across the lines of businesses. Upon completion, we believe these improvements will provide for more meaningful measurement of economic capital across the firm as well as move JPMC closer to the requirements under Basel II.

Legal, Compliance, and BSA/AML risk continues to be well-managed; however, opportunities exist to further strengthen and ensure consistent application the firms' Client Sponsorship and KYC policy. Additionally, the firm-wide BSA/AML risk assessment should be further strengthened to better identify and monitor specific transactions against the individual customers' risk profile; and the automated processes used to monitor customer activity against JPMC's expectations should be re-calibrated to monitor individual rather than net transactions. While legal risk is well-managed, the firm's risk profile is high and the direction of risk is increasing primarily due to several significant legal matters, including ongoing investigations into JPMC's bidding practices in the municipal bond guaranteed investment contracts market. Given these developments, there may be additional opportunities to strengthen compliance policies and practices, including management's oversight of employee conduct and practices governing competitive bidding practices. Concerning the need to strengthen information security, we observed that "privileged access" controls were a common issue across a majority of adversely-rated Internal Audit reviews during 2007 and recommend that management accelerate remediation efforts in this area to prevent unauthorized access to core systems and processes.

Going forward our supervisory focus for 2008 will entail active monitoring of the firm's financial condition and risk profile given the potential for continued deterioration in market conditions. Emphasis will be placed on monitoring conditions affecting loan portfolio quality and ensuring the adequacy of loan loss reserves and related methodologies. Forward expectations include prudent risk taking in market-related trading activities as well as ongoing sufficiency of earnings, liquidity and balance sheet management to ensure adequate capital levels.

Additionally, we will monitor closely management's progress in implementing a Basel II-compliant risk management framework. Along these lines, much of our planned supervisory work will target the roll-out and successful implementation of policy and risk management infrastructure enhancements relative to the firm's Basel II implementation plan that is scheduled for review by the board of directors in 2008. Our reviews will not only entail our assessment of the firm's adherence to the capital regulation, but also include evaluation of Internal Audit's testing of systems and processes, thereby increasing the importance of the role of Internal Audit in conducting test work relative to the implementation plan as well as ongoing adherence to the Final Rule.

Finally, LOB strategic plans identify certain growth areas, including commodities and businesses in overseas markets. Our supervisory work will focus on assessing any increased risk these activities and markets bring to the firm as well as management's continued attention to infrastructure projects designed to ensure that systems, controls and risk management remain adequate to support this business growth across the firm.

Inspection Comments & Conclusions 12 CFR 261

The paragraphs below provide details of our assessment of the firm and matters requiring attention by management.

Financial Condition

JPMC is financially sound and is assessed a Financial Condition rating of strong ("1"), unchanged from the prior year rating. The component ratings also remain unchanged with continued strong ratings assigned to asset quality, liquidity and capital, and earnings that remain satisfactory.

Financial Condition	**2007**	**2006**
Composite Rating	**Strong (1)**	**Strong (1)**
Asset Quality	Strong (1)	Strong (1)
Liquidity	Strong (1)	Strong (1)
Earnings	Satisfactory (2)	Satisfactory (2)
Capital	Strong (1)	Strong (1)

Note: The financial ratings under this rating system reflect past and current performance and do not consider future performance. As such, the ratings may be modified on an interim basis.

In terms of the component ratings assigned, asset quality remains strong, reflecting continued stability of overall credit quality metrics. Distribution of wholesale and retail exposures remains stable, as does the credit quality of the wholesale portfolio. Despite some credit quality deterioration in the retail portfolio, reserve coverage and provisioning have strengthened and compare favorably to peer, however, represent an area of increased supervisory focus going forward. Liquidity continues to be strong, reflecting a liquid balance sheet, ready access to global markets on favorable terms, and increased levels of excess liquidity at the Bank and the Holding Company. JPMC's earnings remain satisfactory, reflecting consistent core earnings growth and revenue growth that outpaced peer in the challenging market environment. Due to the firm's earnings stability, key profitability indicators such as return on equity and operating return on tangible common equity have improved relative to peer. Moreover, as a result of continued strength in asset quality and the continued stability of earnings, JPMC's capital remains strong. JPMC continues to maintain a sizable cushion above "well-capitalized" levels, and the firm's capital adequately supports the known risk position of the firm.

Risk Management

JPMC's risk management program remains satisfactory based upon the firm's effective Corporate-wide processes for identifying, measuring, monitoring and controlling risk. The firm operates in a sound manner with some modest weaknesses that are correctable in the normal course of business.

Risk Management	**2007**	**2006**
Composite Rating	**Satisfactory (2)**	**Satisfactory (2)**
Board & Senior Management Oversight	Strong (1)	Satisfactory (2)
Policies, Procedures and Limits	Satisfactory (2)	Satisfactory (2)
Risk Monitoring & Management Information Systems	Satisfactory (2)	Satisfactory (2)
Internal Controls	Satisfactory (2)	Satisfactory (2)

Board and Senior Management Oversight

Board and senior management oversight is upgraded to strong based on management's overall performance in 2007, with particular emphasis on management's actions during the market crisis events in the second half of the year. Management's informed decision making supported by appropriate MIS, timely escalation of portfolio vulnerabilities and the effectiveness of cross LOB Risk Committee structures was essential to management's success in navigating through the market turmoil. Additionally, management continued to strengthen its risk management practices in 2007, in part, through continued progress in completing critical infrastructure projects, including those designed to strengthen credit and market risk management, financial reporting, corporate operational risk, and information technology.

The senior management team has considerable experience, and was reinforced with the filling of the vacant Chief Risk Officer and IT Risk Manager positions, as well as the creation of a new Chief Information Officer position.

Policies, Procedures and Limits

JPMC's firm-wide policies and procedures are generally comprehensive and appropriately outline responsibilities across control functions, including issue escalation and risk tolerance levels, and provide a strong foundation for a sound control environment. The company has also established a sound limit framework complemented by a sufficiently robust oversight process. In areas where challenges remain, such as the stress measurement of syndicated lending pipeline exposures and associated limits, management has initiated corrective actions to address these gaps. In some areas, however, the implementation of corporate policies across the company is not always consistent and there were noted instances of noncompliance with policies and procedures, including the inconsistent application of firm-wide corporate operational risk and information technology risk management policies and procedures.

Risk Monitoring and Management Information Systems

JPMC's risk monitoring and management information systems (MIS) are satisfactory. Management continues to demonstrate effective risk governance through comprehensive monitoring and reporting that is commensurate with the risk profile of the firm and sufficiently flexible to address changes in that risk profile. MIS reports prepared for board committees and senior management appropriately capture the information necessary to evaluate the firm's financial condition, internal controls environment, and key risk exposures to support informed decision-making. While improvements were noted, development needs remain for operational risk management, liquidity stress testing, and the implementation of a Basel II-compliant risk measurement and control framework, including a robust process for internally assessing capital adequacy with respect to risk (i.e., economic capital). In addition, some aspects of the firm's market and credit risk stress testing framework still need to be further developed. We recognize that the completion and full implementation of certain projects such as the Firm-wide Stress and Market Risk Initiatives are expected to address risk monitoring and MIS needs related to stress testing. We also plan to meet with management in the near future to discuss the results of the interagency Hedge Fund Multi-Lateral review which identifies additional opportunities to further enhance counterparty credit risk stress testing for the firm's hedge fund clients.

Internal Controls

The quality of JPMC's internal controls remains satisfactory. Control functions, including risk management, compliance, and the legal group, demonstrate a solid understanding of the risks facing the company. Internal Audit (IA) continues to achieve high audit plan completion rates, regularly monitors audit results, and is supported by a Directors' Audit Committee that is both active and engaged. Further, IA and credit review continue to demonstrate their ability to function effectively as independent control functions which has helped to reinforce limits on risk tolerance within the company and ensure a sound internal control environment. While the control environment is considered sound, weaknesses identified through regulatory examinations and internal audits performed in 2007 are considered relatively modest and correctable in the normal course of business.

Key Challenges in Risk Management

Credit Risk Management

During 2007 we viewed management's actions and oversight during the difficult market conditions favorably. Underwriting standards, although weak in certain areas at the onset of the market crisis, were quickly adjusted and tightened to reflect changing market conditions. Throughout the latter half of 2007, we observed frequent and detailed ad-hoc risk reporting of credit exposure to areas of the firm's businesses impacted by ongoing market turbulence. Continued enhancements to credit risk measurement practices, systems infrastructure and MIS clearly supported senior management's efforts to assess exposure levels and potential risks across portfolios. Although noted enhancements in stress testing were useful to identify certain portfolio risks (e.g., bridge book), additional stress testing of other portfolios (e.g., counterparty and syndicated loan pipeline exposures) is warranted. While the firm continues to make progress in strengthening credit risk management processes, the following areas highlight aspects of continued supervisory interest that warrant further enhancement:

Counterparty Credit Risk Management

The firm's estimates of potential exposure and modeling of events through stress testing provided management with an informed and conservative view of the level of risk in derivative counterparty credit exposures. Despite increased volumes of derivative transactions, we are encouraged that the level of valuation and collateral disputes has remained manageable while the duration of collateral disputes has been declining. Further refinement of counterparty credit exposure calculations must continue to be an important focus of senior management as it strengthens the firm's risk management platform. Continued advancements in Sampras, as well as on-boarding of offline trades, and recent improvements to JPMC's Strategic Exposure and Limits Monitoring (SELM) system are viewed as important initiatives to support effective measurement and monitoring of counterparty credit risk exposures. We also view the recent changes to the collateral exposure calculation in COAST (Collateral Operations System) as a positive development.

Notwithstanding the above improvements, we plan to meet with management in the near future to discuss the results of the interagency Hedge Fund Multi-Lateral review which identifies additional opportunities to further enhance counterparty credit risk stress testing for the firm's hedge fund clients. To cite some key observations, we found that a material portion of the firm's risk calculations for over-the-counter (OTC) derivatives are performed outside of Sampras resulting in the calculation of "add-on exposures". Management should evaluate the impact of using these "add-ons" and the relative accuracy of resulting exposure estimations. In addition, we identified some limitations in hedge fund stress testing scenarios which consisted largely of single factor shocks and lacked views on the non-linearity or illiquidity of counterparty exposures. Finally, during the review we also observed a less formal and comprehensive validation platform for counterparty credit risk exposure models versus peer institutions and recommend strengthening of the firm's validation processes. It is our expectation that appropriate management attention be placed on these matters.

Leveraged Finance Risk Management

During our continuous monitoring activities, we observed a few areas within leveraged finance risk management practices that warrant further work by management. While stress test scenarios were developed at the onset of market events in the summer of 2007, certain segments of the portfolio were more aptly captured than others. As such, management should enhance the articulation of risk appetite within this sector through nominal, stress, and capital measures against forward pipeline exposures across the portfolio. Furthermore, sub-limits against transactions containing no material adverse change (MAC) clauses could also provide some added control. More broadly, management should review distribution activities and all warehoused credits that are dependent on market liquidity to ensure the appropriateness of the current exposure measurement and limit framework.

Retail Credit Risk Management

During 2007 we observed deterioration in the quality of the firm's consumer portfolios - the direct result of an environment of loosened underwriting standards, shortcomings in oversight and controls governing third party mortgage loan origination activities (i.e., brokered loans), and declining housing prices across the US. That being said, steps taken by management to enhance portfolio risk metrics and MIS have helped to highlight emerging risks and have resulted in tightening of underwriting standards across mortgage and other consumer products (i.e., cards and autos). As a result, the quality of new originations has improved across the various portfolios. Going forward, plans for growth and related business expansion, particularly growth through the broker channel, must be governed by adherence to more stringent due diligence and underwriting standards in order to maintain the quality of the portfolio. Effective oversight of the "managed" portfolios will also be critical to minimizing potential future losses. Furthermore, additional opportunities exist to improve MIS to better assess the effectiveness of loss mitigation programs.

Concerning economic capital, we noted the implementation of a new model within Cards Services that reasonably captures the key sensitivities of the diverse portfolios within that LOB. Nevertheless, and as noted in our discussions with senior management, the significant mortgage portfolios within RFS were not addressed in any substantive manner. Since our Economic Capital horizontal, management has developed remedial action plans to address key shortcomings, however, implementation of the plan is in its early stages. We plan to conduct quarterly meetings with management to assess progress against implementing an appropriate economic capital framework.

Market Risk Management

JPMC's market risk management framework continues to be effective. Senior management and the board of directors demonstrated strong leadership and forward-looking oversight of market risk exposures during 2007, which was apparent in actions taken by management relative to sub-prime and other credit portfolios' warehouse positions.

Additionally, continued enhancements to infrastructure and controls were made over the course of 2007. To cite some examples, meaningful progress was made on furthering implementation of infrastructure projects [e.g., the Market Risk Initiative (MRI) and Firm-wide Stress Initiative (FSI)] and improving valuation processes, as well as rebuilding the firm's Global Commodities business. The separation of the Finance Valuation and Policy Group (FVP) from Market Risk Management is viewed positively as it provides clarity of roles and responsibilities. Over the course of 2007 the FVP group successfully implemented the fair value measurement concept, which has become more complex as a result of the implementation of FAS157 and FAS159, and continues to make improvements. Going forward, the FVP group is encouraged to continue its efforts to enhance valuation methodologies and price-testing documentation to assure consistency in valuing similar products across global locations. Additionally, preliminary findings from our review of JPMorgan Ventures Energy Corporation in 2008 indicate that controls and risk management surrounding the commodities business are consistent with supervisory expectations.

Liquidity Risk Management

JPMC's liquidity risk management framework was strengthened in 2007 and continues to be effective. Management enhanced communication between the lines of business and risk management and also improved the quality and frequency of liquidity MIS and reporting in response to the market turmoil. Additionally, the 2007 FRBNY Liquidity Risk Management Horizontal review concluded that management's oversight, internal controls and processes used to manage the firm's intra-day liquidity risks are effective. The review also found JPMC's Payment System Risk Control framework to be well-managed and management's practices were at or above those of its peer. Noteworthy is the inclusion of credit risk management as part of the daily operational processes was considered by examiners as a best practice. MIS reports were also found to be clear, comprehensive and tailored to the unique business risk and activities. Furthermore, the contingency funding plan and liquidity policy were revised and we would encourage that these policies be finalized and approved by ALCO.

Operational Risk Management

Payments Systems

JPMC plays a key role in the US payment system, particularly the government securities clearing tri-party repo market, which is concentrated in two large financial institutions. In recent years, transaction volumes and market financing have increased significantly, intra-day credit extension has grown, and underlying collateral is more diversified and less liquid, posing challenges to the smooth functioning of US securities markets that depend, in large part, on a seamless functioning of the tri-party repo market. The Federal Reserve is concerned that a default intra-day by a major dealer could have a significant systemic effect on the other dealers' ability to finance in the tri-party repo market, and potentially affect the securities markets more broadly. Management is encouraged to work with all market participants, including tri-party dealers and investors, to develop vigorous liquidity and credit risk management plans to enhance the resiliency of tri-party repo financing activities, including an orderly wind-down in the event of a dealer default or other significant problem.

Operational Risk Management

Board and senior management oversight of the firm's operational risk is strong with continued sound corporate oversight and interaction through senior management level steering committees. We are encouraged to see that in 2007, the Risk Working Group (RWG), a sub-committee of the Operating Committee, assumed direct oversight of the firm's corporate operational risk process. To ensure that operational risk is adequately identified, monitored, controlled, we expect continued executive and senior management leadership, sponsorship and oversight.

Management continues to successfully manage execution risk. In August 2007 JPMC's multiple wholesale deposit systems were converted to a single corporate-wide platform. This was a significant accomplishment in terms of project management and oversight, and demonstrated management's commitment to improving efficiency, scalability and control in its operations. Toward this end, the firm has also continued its efforts to complete other management initiatives (e.g., improving regulatory reporting) and further rationalize its technology infrastructure (e.g., continued consolidation of global data centers and refresh/replacement of the core network). Strong project management and oversight will continue to be critical as the firm moves forward to upgrade, integrate and expand its business activities and systems.

With regard to Basel II AMA, a joint target examination conducted with the OCC to assess JPMC's readiness in relation to its planned 2008 parallel run found that progress was made in developing an effective governance structure and an information technology platform. To ensure that the firm successfully achieves this important regulatory objective, management must ensure compliance with Corporate Operational Risk policies and procedures, completion of models needed to quantify regulatory capital, and enhance MIS reports to include information about risk tolerances and future exposures. Additionally, we also note that non-operational losses, such as credit losses known as "Boundary Events", should be excluded from the operational loss event database.

Internal Audit

Our joint 2007 review of Internal Audit (IA), conducted with the OCC, concluded that IA resolved or was in the process of resolving all of the issues identified in our 2006 annual letter. We note that changes to the audit plan are now reported to the Audit Committee, and that the quality of strategy memoranda used to support risk assessments of auditable entities has significantly improved. We also noted that, after two annual audit cycles following IA's headcount reduction in 2005, we have not observed any adverse affect on the quality or coverage provided by IA.

As identified by IA management, areas of business expansion should be adequately covered by IA staff. In 2007, IA increased its headcount to keep pace with business expansion within the IB and in JPMC's offshoring activities (e.g., India & Philippines). In addition, the position of regional auditor was created for the Asia Pacific region. We see this as an important step toward ensuring independent oversight of controls as business activities continue to expand in this region.

While we continue to consider IA effective, we note opportunities to enhance the documentation of its coverage of Basel II-related implementation initiatives. With the exception of audits performed on the operational risk loss event database, IA needs to further demonstrate, through an adequate, documented audit trail, the level of AMA-related IA testing and verification performed across the firm. Furthermore, IA coverage of firm's implementation of the Advanced Internal Ratings-Based (IRB) approach for credit risk requires further clarification. As the firm has completed or is undertaking a number of credit risk management initiatives that have IRB implications, IA should appropriately document its coverage of the adherence of these controls relative to the requirements of the Final Rule. As such, we expect IA management to develop and maintain documentation that clearly links, and demonstrates appropriate testing and validation of the Basel II requirements for IRB and AMA.

Information Technology

Technology projects and focus are appropriately directed and managed. Progress has been notable against key service performance levels, internal control benchmarks, and in upgrading and strengthening numerous technology platforms and systems across the firm. Information technology capacity planning has been advanced through the usage of formal models, quality assurance oversight and monthly capacity forecasting. This was a contributing factor to the firm's ability to support substantial increases in transaction volumes during the second half of 2007.

Over the past few years senior management has made significant progress in strengthening and streamlining JPMC's technology infrastructure with an emphasis on improving information security as demonstrated through the Access Control Remediation Project. This point notwithstanding, through our on-site continuous monitoring program, we observed that approximately 40 percent of all adversely rated audit reports were driven by inadequate information technology controls, notably controls around information security. As such, management should expedite the completion of this project, particularly as it relates to privileged access to operating systems, databases, applications, and user access to systems containing customer data (i.e., Personal Identifying Information) – areas that require greater priority than that afforded in the current project plan.

Business Resiliency and Pandemic Planning

JPMC continues to maintain a satisfactory disaster recovery/contingency program and continues to meet the expectations of the Interagency Sound Practices Paper. Procedures are kept up-to-date and the Resiliency Risk Management team demonstrates robust vigilance in monitoring adherence with the overall Business Continuity program. Periodic tests are made at various backup sites, globally. However, recent internal audit reports disclosed that "non-

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significant" businesses resiliency tests in EMEA, across T&SS, IB and AM, have encountered certain issues that led to tests being cancelled, incomplete or failing. Currently, significant business and technology change agendas are creating challenges in scheduling re-tests. As a result, 18-24 months have passed since certain processes and applications were successfully tested on an end-to-end basis. As further progress is warranted to ensure consistency and sustainability of the overall business continuity testing process, management should identify and resolve root causes for tests that were incomplete, cancelled or failed; and re-test in a timely manner.

In 2007, a joint review conducted by the FRB and OCC found JPMC's Pandemic planning effective and in-line with the requirements of the World Health Organization and the Government Accounting Office. Pandemic planning is appropriately incorporated within the business resiliency process. Senior management provides satisfactory oversight and is actively engaged. While IA independently observes business resiliency tests including Pandemic planning, opportunities for IA to better document its coverage and oversight of Pandemic contingency tests were communicated to management.

Regulatory Reporting

In 2007, through both our continuous monitoring efforts and in our communication with the Federal Reserve Bank of New York's Statistics Department, we have observed that JPMC has made progress in preparing more timely and accurate regulatory reports. The regulatory reporting process has become more streamlined and effective as the level of manual entries has been reduced. However, we note that data quality issues remain, such as loan classification errors, differences in inter-entity balances, and off-balance sheet reporting problems. Thus, additional progress is necessary for us to consider the overall regulatory reporting process satisfactory. In 2008, we anticipate that the regulatory reporting process will further benefit from the completion of the general ledger infrastructure and financial data warehouse projects, and by the resultant reduction in manual entries and inter-entity differences. We will continue to monitor the progress of management's efforts as well as the quality and timeliness of regulatory reporting.

Legal, Compliance and Reputational Risk Management

Board and senior management oversight of legal, compliance and reputational risk continues to be effective. Through our continuous monitoring effort we observed active engagement of board and senior management in the oversight of compliance as effected through Audit, Risk Policy, and Public Responsibility committees of the board. In addition, we found that LOB risk committees appropriately escalate compliance issues to the Operating Committee and that the Reputational Risk committee remains an effective focal point to review, approve and monitor complex transactions.

During 2007 compliance oversight was further strengthened as the Head of Global Compliance presents, on a periodic basis, updates on the status of compliance programs, including Fiduciary matters, directly to board committees. We view this as a positive development as direct interface with board committee members will serve to elevate and highlight compliance risk issues.

Compliance Risk Program

Last year, in our annual assessment, we expressed concern with the pace of the firm-wide implementation of an automated compliance risk assessment and testing program, particularly in Asia and Latin America. Additionally, we encouraged compliance management to continue its efforts to refine performance metrics provided to senior management. Since that time, management's progress in implementing the Global Compliance Program has been largely successful and includes a global semi-annual Compliance Risk Assessment process that is now fully deployed. Additionally, the compliance module within Phoenix to capture and aggregate non-bank and international compliance risk self-assessments was implemented and deployed to the LOBs. However, staffing challenges in Asia and Latin America have impeded the expansion of compliance monitoring and testing program in these regions. We understand that an experienced compliance director has recently been appointed to oversee implementation of the compliance program in Asia and Latin America. Our expectation is for the compliance monitoring and testing program to be fully implemented and validated as expeditiously as possible to ensure appropriate compliance risk management oversight in these regions.

MIS reporting has been enriched to incorporate performance metrics pertaining to control initiatives including compliance risk ratings by LOB and location, self-assessment evaluations, and AML and privacy incident reporting. MIS provided to the Operating Committee highlights compliance risk migration analysis as a result of changes in inherent business risks and the control environment. Additionally, enhanced metrics support effective oversight of LOB compliance testing programs and remediation against plans. Currently, the FRBNY is conducting a horizontal review of Compliance risk metrics in the industry, with JPMC being one of the firms reviewed. Upon completion of the horizontal review we will provide feedback to management on the results of the review.

BSA/AML Compliance Program

BSA/AML processes remain well-controlled and policies have been strengthened to include due diligence and enhanced due diligence standards for high-risk customers. Additionally, during 2007, an enhanced due diligence process for mutual funds and alternative investments was implemented.

Continued management attention is provided through enhancements to reporting processes and risk measures as well as identification and correction of BSA/AML gaps and issues. Notably, management formed a new Business Analysis and Work Flow team to analyze AML business processes across all LOBs (products, services, and client types) and disciplines, including information technology, on an "end-to-end" basis. The key objectives are to gain a holistic view of AML monitoring processes, identify trends and document lessons learned. We view this as a leading practice and will monitor the results of the teams' analyses.

While ongoing initiatives to enhance oversight of the BSA/AML monitoring systems parameter selection criteria are underway, more work is required to strengthen their effectiveness across businesses. Specifically, within the ongoing KYC remediation program in Private and Business Banking, management should give priority to the development of an appropriate methodology and implementation plan to complete the review of its existing medium to low risk clients.

In addition, the monitoring of foreign correspondent banking should be enhanced by reviewing detailed transaction activity rather than just the net activity, and should also include transactions outside of funds transfer. Corporate policy and minimum screening standards should also be developed to govern the KYC screening process for Politically Exposed Persons. We encourage management to complete these efforts.

Fiduciary Risk

The Fiduciary internal control environment remains satisfactory with continued effective senior management oversight. Fiduciary issues are appropriately escalated to the Risk Policy Committee through LOB Fiduciary Risk Committees. The firm acts in various fiduciary capacities to multiple client types, including ERISA clients. To ensure that JPMC meets its fiduciary responsibilities, the firm's Conflicts of Interest (COI) policies should be extended to cover Investment Management and other activities across Treasury and Security Services (T&SS) where potential conflicts may exist. A review should also be conducted to ensure that disparate fees are not being charged to investment management, ERISA, mutual fund clients, etc. Additionally, it is recommended that monitoring and testing programs be strengthened to include reviews for "wall crossings" (i.e., the Greek Bond issue) as identified by the UK FSA for the Investment Bank in London, and to identify potential conflicts on an ongoing basis.

Legal and Reputational Risk Management Program

Effective processes are in place to assess the potential legal and reputational risks associated with complex transactions and others that may pose heightened risk, as are efforts to assess the risk of products to be disseminated to retail customers.

The firm is involved in several significant legal matters, including several investigations involving the conduct of certain employees. Specifically, JPMC is one of several financial market participants named in the Department of Justice's (DOJ) and Securities and Exchange Commission's (SEC) investigations into potential anti-competitive bidding practices and securities fraud in the municipal bond guaranteed investment contracts market. Successful resolution of these legal matters, particularly the DOJ and SEC's allegations is critical. We encourage management's continued cooperation with the both the DOJ and SEC to appropriately resolve this issue.

In last year's letter, we encouraged management to continue its focus on implementing the Client Sponsorship (CS) program and to ensure that all client relationships are reviewed for accuracy. In its response, management indicated that all LOBs have developed and approved their own LOB-specific CS policies, implemented sponsorship at the on-boarding of new clients, and is in the process of reviewing existing clients and performing periodic recertification. Given the differences in client types, geographic locations and product dispersions, it was unclear to us how the new program was being consistently applied across the firm. Late last year, Internal Audit (IA) conducted a horizontal review across the IB, CB, T&SS, and RFS focusing on the execution of the CS policy. IA observed that the CS program shares many of the same objectives as the firm's KYC policy, and that several businesses already consider those requirements in concert. However, a few LOBs are challenged in executing the incremental work needed to achieve the requirements of the CS policy. Additionally, IA found that the CS program is not consistently applied across the LOBs.

In response, the firm recently formed a senior management working group comprised of the Global Heads of Anti-Money Laundering, Corporate Compliance, Risk Management and Internal Audit functions and senior LOB representatives to address IA's findings across the LOBs. We are encouraged by management's heightened awareness of this issue and we will continue to monitor actions taken to ensure consistent application of the CS policy.

Impact of Parent and Nonbank Subsidiaries

The parent company and the nonbank subsidiaries present limited likelihood of a significant negative impact to banking subsidiaries through a major drawdown or a liquidity crisis and, as such, the Impact rating is "2." Although the parent company is more reliant on external sources than peer, it is well positioned to absorb short-term disruptions in funding based on holding company liquidity indicators and access to collateral. Of the non-bank subsidiaries, the broker dealer poses the highest degree of potential risk through losses or litigation costs. The subsidiaries related to private equity also expose the depository institutions to risk through earnings volatility, although the exposure is limited.

Inspection Comments & Conclusions 12 CFR 261

JPMorgan International, Inc. ("JPMII") is a subsidiary of JPMorgan Chase Bank, National Association ("JPMCB") and the top-tier investment Edge Corporation. In accordance with statutory requirements for Edge Corporations, the Federal Reserve assigns a CAMEO rating on an annual basis.

Supervisory Ratings – Edge Act Corporation

J.P. Morgan International Inc.				
Composite Rating		**2**	**2**	**2**
C	Capital	1	1	1
A	Asset Quality	1	1	1
M	Management	2	2	2
E	Earnings	2	2	2
O	Operations and internal controls	2	2	2

Summary Comments and Conclusions

A satisfactory composite rating has been assigned to JPMorgan International Inc., (JPMII). The Edge Act Corporation, whose direct and indirect subsidiaries comprise approximately 32% of JPMCB total assets and 27% of JPMC's consolidated assets, continues to be effectively managed and maintains a strong capital base. This assessment incorporates our assessment of JPMII and its subsidiary Edge corporations, JPMorgan International Finance, Ltd., and Bank One International Holding Corporation.

Overall, capital and asset quality remained strong as the level of classified and criticized assets at September 2007 were low and manageable. Management, earnings, operations and internal controls are considered satisfactory. The earnings and asset quality ratings are primarily based on the operating results reported in the entities' regulatory reports. The ratings assigned to management, operations and internal controls are based on the effectiveness of the overall firm's corporate governance structure, compliance monitoring processes, and the strength of the other CAMEO components.

Risk Management

Risk management practices at JPMII are satisfactory. In those countries where JPMII subsidiaries have significant JPMC business activities, country level management has been largely effective in managing franchise risk. To cite an example, our examination of J.P. Morgan Whitefriars Inc. and its affiliates found that local management was competent and effective in managing both franchise and country governance risks. Additionally, our review of JPMC's Asia Pacific Data Center concluded that management oversight of information technology within the region is effective, and that technology risk management practices are in compliance with the firm's global policies and standards. We see strong management and controls at the corporate level as essential for JPMII to continue to operate within a compliance and governance environment that has adequate and effective internal controls across all geographies.

CONFIDENTIAL FRBNY to FCIC-JPMC0006954

Signature of Directors 12 CFR 261

We, the undersigned directors of JPMorgan Chase & Co. have personally reviewed the contents of the summary report dated December 31, 2007.

Signature of Director	Date

NOTE: This form should remain attached to the report of inspection/examination and be retained in the entity's file for review during subsequent examinations. The signature of committee members will suffice only if the committee includes outside directors and a resolution has been passed by the full board delegating the review to such committee.

Supervisory Strategy

Given the constant change within the financial system the Federal Reserve continues to seek opportunities to improve its supervisory framework. Accordingly, our priority in this stress environment is to understand financial market and economic developments; to assess their impact on the resilience of financial firms; and to incorporate material changes in the risk exposures faced by firms into our analysis of their financial strength. Toward this end, the Federal Reserve Bank of New York will employ an enhanced approach to continuous supervision of large complex banking organizations such as JPMC. Under this approach, our supervisory strategy will include ongoing continuous monitoring by a core team of resident examiners, a series of target examinations and horizontal reviews conducted by multidisciplinary examination teams, and supervisory initiatives undertaken in coordination with other regulators (e.g., the President's Working Group and Senior Supervisors exercises).

The supervisory plan developed for JPMC's consolidated organization will consider to the extent to which reliance can be placed on 1) the Federal Reserve's understanding and assessments of key corporate governance, risk management and control functions, as well as material portfolio risk management and business lines; 2) any assessments developed by the primary bank supervisor for business lines, risk management or control functions or financial factors; 3) any findings developed by host country supervisors for activities under their jurisdiction; and, 4) external factors, including development affecting the financial marketplace (e.g., current credit market stress).

In addition to its role as consolidated bank holding company (BHC) supervisor, the Federal Reserve serves as the primary supervisor for Edge or Agreement Corporations. In developing our supervisory strategy for the Edge Corporation, the Federal Reserve conducts a risk focused assessment of those elements that are unique to the Edge versus those that are shared with the parent bank or BHC, and then deploys supervisory resources to the highest risk areas, leveraging the examination work conducted by other regulators, where possible.

2007 Supervisory Events

The examinations and other supervisory events completed since the issuance of the prior inspection report, as of December 31, 2006, are listed below. The results of the targeted examinations, which are focused primarily on validating controls in key risk management processes and reviewing select business activities that pose significant risk to the firm, have been and/or are in the process of being finalized and formally communicated to management in separate letters or discussions.

Liquidity Risk Management Horizontal: This horizontal examination assessed current liquidity risk management practices and potential limitations in managing intra-day payment flows at JPMC. The exam focused on the drivers of Fedwire payments and JPMC's flexibility in managing the timing of payments given IT, operational, and liquidity management factors.

Payment System Risk Policy Review: In accordance with the Payment System Risk Policy of the Board of Governors of the Federal Reserve System, this review evaluated the firm's self-assessment process which ultimately determines the maximum dollar amount of uncollateralized daylight overdraft that JPMCB may incur in its Federal Reserve account.

Economic Capital Horizontal: This was a horizontal examination to review Economic Capital management processes across large financial institutions. The JPMC examination leveraged results from the OCC joint review conducted in 2006, and followed up on noted concerns including the substantiation of capital processes governing JPMC's retail businesses.

Hedge Fund Multi-Lateral Review: This Interagency effort focused on the review of firms' counterparty credit risk management practices vis-à-vis hedge funds. The review focused specifically on the ability of firms' counterparty credit risk measurement and management processes to support complex products and sophisticated counterparties that could result in large exposures to hedge funds in volatile markets. The review covered three parts involving analysis of 1) Exposure Data; 2) Risk Management Practices; and 3) Risk Models and Measurement Methodologies.

Operational Risk Management: In 2006 the supervisory team in conjunction with the firm-wide risk specialists and the OCC performed a target review to evaluate JPMC's progress toward meeting the 32 operational risk standards. In 2007, additional testing was performed with a focus on corporate governance and the gathering of internal loss events. A cursory review of the operational risk models was also performed because some models were not finalized.

Internal Audit: In 2007, a follow-up review, conducted jointly with the OCC, was performed to update the findings from the 2006 examination. The focus of the review was to assess the changes made in the Continuous Auditing methodology, the Quality Assurance process and the Work Paper Documentation standards.

JP Morgan International Inc. (JPMII) - Edge Act Corporation Review: JPMII is a subsidiary of JP Morgan Chase Bank, National Association (JPMCB) and the top-tier investment Edge Corporation. As the chartering authority and primary supervisory, the Federal Reserve is required to assign a CAMEO rating in accordance with statutory requirements to Edge Act Corporations on an annual basis. The rating is assigned on the basis of our continuous monitoring efforts, target reviews conducted in the business lines, and a Regulation K year-end review.

Edge Corporation Risk Management Practices: This discovery review was performed in London in order to gain a better understanding of the accounting and market risk practices of J.P. Morgan Whitefriars, Inc., and its' affiliates.

Asia Pacific Data Center Review (participation with the OCC): This was an integrated review performed to understand and document the technology environment and business IT activities supported in the Asian Pacific region. The focus was on assessing the status of the global data center strategies impacting the region as well as evaluating management's progress in addressing resiliency, capacity, and control issues identified by the Hong Kong Monetary Authority, Internal Audit and IT Risk Management.

Regulation W Target Examination: The scope of the examination includes a review of policies, procedures and controls in place to effect Regulation W compliance, training, and other enhancements to the compliance program.