2014 BASEL II PILLAR 3 DISCLOSURES

J.P. Morgan Bank Luxembourg S.A.

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J.P.Morgan

2014 Basel II Pillar 3 qualitative disclosures

JPMorgan Chase & Co's view is that the full force of Basel II should apply at the consolidated level. We believe that the application of Pillar 3 at the individual entity level is unduly burdensome and potentially misleading. In accordance with the guidance of the Commission de Surveillance du Secteur Financier (CSSF), J.P. Morgan Bank Luxembourg S.A. is making Pillar 3 "Light" disclosures in 2014, adding additional information as required. We do not believe these disclosures to be an accurate reflection of the risk profile of our Luxembourg entity, as J.P. Morgan manages its risks on a Line of Business basis. Users are advised that the information should not be used for decision-making purposes.

The Basel II Pillar 3 disclosures included herein are made solely to meet the requirements in Luxembourg, and relate to the activities of J.P. Morgan Bank Luxembourg S.A.

Pillar 3 disclosures comprise of:

- Quantitative disclosures relating primarily to actual risk exposures
- Qualitative disclosures relating primarily to risk management practices

Qualitative disclosures applicable to all J.P. Morgan entities globally

J.P. Morgan has published the required qualitative disclosures in the JPMorgan Chase & Co. Annual Report and more recent quarterly United States Securities and Exchange Commission Form 10-Q filings, which can be accessed via the following links:

JPMorgan Chase & Co. 2013 Annual Report

JPMorgan Chase & Co. Form 10-K 31 December 2013

JPMorgan Chase & Co. Form 10-Q: 31 March 2014

Additional qualitative disclosures applicable only to relevant Luxembourg entities

Pillar 1 Operational Risk Capital Requirement

J.P. Morgan Bank Luxembourg S.A., which is subject to local capital requirements for operational risk, has adopted the Basic Indicator Approach for Pillar 1 purposes.

Nominated ECAIs for Pillar 1 Standardised Credit Risk Capital Requirement

The external credit assessment institutions ("ECAIs") used in the determination of credit quality steps are Fitch, Moody's and Standard and Poor's. The ratings from each of these ECAIs are used for all standardised risk classes apart from risk classes weighted 100% by default.

Remuneration Policies and Disclosures

Qualitative compensation disclosures are set out in the following link:

EU Remuneration Disclosure

Quantitative disclosures

Capital Resources

As at December 31, 2013, J.P. Morgan Bank Luxembourg S.A. had capital resources which were more than the required minimum.

The following table shows the Company's capital resources as at December 31, 2013.

Minimum Capital Requirements

The details below show the minimum capital requirements for the Company, for Credit risk and Operational risk, using the Standardised approach and the Basic Indicator Approach respectively.

Tier 1, Tier 2 and Tier 3 Capital Resources	
As at 31 Dec 13	**$MM**
Tier 1 Capital (excluding innovative Tier 1)	
Called-up share capital	11
Eligible reserves	866
Minority interests	-
Tier 1 Notes	-
Perpetual non-cumulative preference shares	-
Total Tier 1 capital before deductions (excluding innovative Tier 1)	**877**
Deductions from Tier 1	
None	-
Total deductions from Tier 1	-
Total Tier 1 capital after deductions and restrictions	**877**
Tier 2 Capital	
None	-
Tier 3 Capital	
None	**-**
Total net capital resources	**877**

Minimal Capital Requirements for Credit Risk under the Standardised Approach	
Minimum Capital	
As at 31 Dec 13	**$MM**
Credit Risk Exposure: Analysis by Exposure Class	
Institutions	159
Corporates	4
Other items	8
Total	**171**

The entity in scope does not have any minimum capital requirements for market risk, counterparty risk and concentration risk.

Minimum Capital Requirement for Operational Risk	
Minimum Capital	
As at 31 Dec 13	**$MM**
Operational Risk - Basic Indicator Approach	47
Total	**47**

Methodology for determining impairment provisions

Primary responsibility for determining impairment provisions is managed according to the Firm's Credit Policy. Specifically, responsibility resides with Global Credit Risk Management (credit analysis) and Credit Executives (credit approval). Credit risk associated with operational overdrafts is mitigated by Credit Risk Mitigation techniques including pledges/liens over assets under custody.

Credit Risk Exposures before Credit Risk Mitigation (CRM)

The following shows the Credit Risk Exposures before the application of credit risk mitigation. With regard to the geographical analysis, the exposures relate to the location in which the customer is based.

Credit risk exposure under the Standardised approach	**Exposure Pre CRM**	**Average Exposure Pre CRM over the year**
As at 31 Dec 13	**$MM**	**$MM**
Credit Risk Exposure Class Pre CRM		
Central governments or central banks	87	83
Institutions	9,912	9,295
Corporates	45	117
Other items	100	101
Total	**10,144**	**9.596**

Geographical analysis of Credit risk exposure under the Standardised approach	**Luxem-bourg**	**Other Euro-pean Union**	**United States**	**Asia**	**Rest of the World**	**Total**
As at 31 Dec 13	**$MM**	**$MM**	**$MM**	**$MM**	**$MM**	**$MM**
Credit Risk Exposure Class Pre CRM						
Central governments or central banks	87	-	-	-	-	87
Institutions	-	4,873	-	-	5,039	9,912
Corporates	39	-	-	-	6	45
Other items	100	-	-	-	-	100
Total	**226**	**4,873**	**-**	**-**	**5,045**	**10,144**

Industry analysis of Credit risk exposure under the Standardised approach	**Banks**	**Mutual Funds**	**Other**	**Total**
As at 31 Dec 13	**$MM**	**$MM**	**$MM**	**$MM**
Credit Risk Exposure Class Pre CRM				
Central governments or central banks	87	-	-	87
Institutions	9,912	-	-	9,912
Corporates	-	39	6	45
Other items	-	-	100	100
Total	**9,999**	**39**	**106**	**10,144**

Residual maturity analysis of Credit risk exposure under the Standardised approach							
Exposure Pre CRM Standardised Approach Credit Risk Exposure Class							
	On demand and qualifying revolving	**Under one year**	**Over one year but not more than three years**	**Over three years but not more than five years**	**Over five years but not more than ten years**	**Over ten years or undated**	**Total**
As at 31 Dec 13	**$MM**	**$MM**	**$MM**	**$MM**	**$MM**	**$MM**	**$MM**
Credit Risk Exposure Class Pre CRM							
Central governments or central banks	87	-	-	-	-	-	87
Institutions	9,912	-	-	-	-	-	9,912
Corporates	39	-	-	-	-	6	45
Other items	8	90	-	-	-	2	100
Total	**10,146**	**90**	**-**	**-**	**-**	**8**	**10,144**

Industry analysis and Geographical analysis of impaired and past due exposures and allowance for impairment

As at December 31, 2013 there were no impaired and/or past due exposures.

Credit quality steps before and after Credit Risk Mitigation using the Standardised Approach

Credit quality step analysis of Pre CRM exposure and capital deductions under the Standardised Approach									
	Credit exposure								
Credit Exposure / Capital Pre CRM As at 31 Dec 13	**Credit Quality Step 1 $MM**	**Credit Quality Step 2 $MM**	**Credit Quality Step 3 $MM**	**Credit Quality Step 4 $MM**	**Credit Quality Step 5 $MM**	**Credit Quality Step 6 $MM**	**Unrated $MM**	**Total $MM**	**Capital deducted from Capital Resources $MM**
Central governments or central banks	87	-	-	-	-	-	-	87	-
Institutions	4,873	-	1,514	-	-	-	3,525	9,912	-
Corporates	-	-	-	-	-	-	45	45	-
Other items	-	-	-	-	-	-	100	100	-
Total	**4,960**	**-**	**1,514**	**-**	-	-	**3,670**	**10,144**	-

Credit quality step analysis of Post CRM exposure and capital deductions under the Standardised Approach									
	Credit exposure								
Credit Exposure / Capital Post CRM	**Credit Quality Step 1**	**Credit Quality Step 2**	**Credit Quality Step 3**	**Credit Quality Step 4**	**Credit Quality Step 5**	**Credit Quality Step 6**	**Unrated**	**Total**	**Capital deducted from Capital Resources**
As at 31 Dec 13	**$MM**	**$MM**	**$MM**	**$MM**	**$MM**	**$MM**	**$MM**	**$MM**	**$MM**
Central governments or central banks	87	-	-	-	-	-	-	87	-
Institutions	4,873	-	1,514	-	-	-	3,525	9,912	-
Corporates	-	-	-	-	-	-	45	45	-
Other items	-	-	-	-	-	-	100	100	-
Total	**4,960**	**-**	**1,514**	**-**	-	-	**3,670**	**10,144**	**-**

Sensitivity of the Banking Book to interest rate changes

Sensitivity of the Banking Book to interest rate changes		
As at 31 Dec 13	**Change in Economic Value of Equity**	
	$MM	**$MM**
Currency	**+ 200 basis points**	**- 200 basis points**
EUR	-	-
USD	-	-
GBP	-	-
Other	-	-
Total Economic Value of Equity (EVE)	**-**	**-**
Percentage of EVE to Tier 1 and Tier 2 Capital	**-**	**-**

There is a nil impact on the Banking Book.

Collateral and Guarantees for Standardised Approach

As at December 31, 2013, no financial collateral or guarantees were applied to the Credit Risk Exposure under the Standardised Approach.

Quantitative Remuneration Disclosures

Table 1: Aggregate remuneration for Identified Staff in 2013

	EUR 000's
Total Remuneration *(includes salary, cash allowances, cash incentives and restricted stock units)*	**1,604**

Table 2: Aggregate remuneration for Identified Staff, by remuneration type, in 2013

Number of beneficiaries		6
		EUR 000's
Fixed remuneration *(includes salary and any cash allowances paid throughout the year)*		**1,127**
Variable remuneration *(paid in January 2013 for 2012 performance)*		
	Cash	*373*
	Long Term Incentive	*104*
		1,604

Table 3: Outstanding aggregate deferred remuneration for Identified Staff in 2013

	# of shares
Unvested as of 31 Dec 2012 [1]	5,393
Awarded during financial year 2013 [2]	2,916
Vested during financial year 2013	(1,113)
Lapsed	-
Outstanding as of 31 Dec 2013	**7,196**

[1] Change to previous report due to change in population of identified staff
[2] Awarded in 2013 for performance year 2012

Table 4: Aggregate sign-on, buy-out and severance payments for Identified Staff in 2013

	# of beneficiaries	**EUR 000's**
Sign-on payments	N/A	-
Buy-out payments	N/A	-
Severance payments	N/A	-

Internal Capital Adequacy Assessment Process (ICAAP, Pillar 2)

Besides the regulatory capital requirement, J.P. Morgan Bank Luxembourg S.A. ("JPMBL") performs an Internal Capital Adequacy Assessment Process ("ICAAP") in accordance with circular CSSF 07/301 (as amended by circulars CSSF 08/338, 09/403, 11/506, 12/537, 12/552, 13/563 and 13/574).

The purpose of the ICAAP is to assess the current and potential risks run by JPMBL and to determine whether the current and forecasted levels of capital are sufficient relative to those risks. The document leverages the work performed internationally within JPMorgan Chase Bank, N.A. to perform capital assessments under Pillar 2 of the revised Basel framework.

The approach to calculating **credit risk** for the purposes of the ICAAP (Pillar 2) has been to apply the Basel 2 Advanced Internal Ratings Based ("AIRB") approach to the exposures on the Banks balance sheet. The US-AIRB approach is more risk-sensitive than the approach used to calculate capital under Pillar 1 and uses the Firm's own internal credit assessments.

The minimum internal capital requirement has been set to 8% along with the regulatory limit under Pillar 1.

For the purposes of Pillar 2 **operational risk** quantification the corresponding operational risk weighting factor for each line of business is used, known as a 'beta'. The beta is defined as the line of business operational risk capital divided by the line of business operating revenue. Investor Services is allocated a 28.93% beta. The approach used is to calculate an apportionment of the capital calculated by the firm wide Advanced Modelling Approach (AMA) model. JPMBL's Pillar 2 operational risk capital assessment in 2013 is higher than the equivalent assessment in 2012. This significant increase is due to changes in the firm wide AMA capital calculation methodology resulting in an increase to the global beta factors. JPMBL is allocated its share of this more conservative AMA modeled number.

Capital is allocated to the lines of business for operational risk using a risk-based capital allocation methodology which estimates operational risk on a bottom-up basis. The operational risk capital model is based upon actual losses and potential scenario-based stress losses, with adjustments to the capital calculation to reflect changes in the quality of the control environment or the use of risk-transfer products.

Selective judgmental overrides can be applied to the capital numbers if the Bank believes that its "riskiness" of the business is higher or lower than the riskiness of the business as a whole.

All activities of the Bank fall under the same line of business (Investor Services). Control frameworks and processes are comparable across the firm for each line of business, therefore the use of the firm wide modelled capital numbers as a basis for the JPMBL allocations is considered reasonable.

If additional capital was to be required, JPMBL would turn to its actual shareholder, JPMorgan Chase Bank, N.A. Capital forecasting for JPMBL is based on a combination of factors including stress testing, potential new business, forecasted market conditions, forecasted business activity, etc.

We do not expect JPMBL to be asking for more capital in the foreseeable future because the businesses performed are not balance sheet intensive, profits are relatively stable and JPMBL is not actively marketing credit as a product.

Furthermore, as at December 31, 2013, the actual capital of JPMBL represented approximately 4 times the Pillar I credit and operational risk capital requirements. This highlights the fact that JPMBL is well capitalised relative to its risks.

Our conclusion based on the Risk Assessment and Quantification and the capital position analysis is that JPMBL is adequately capitalised relative to the risks it is running, and relative to the projected business in JPMBL. This assessment will be kept under review as the business profile of JPMBL changes, and in any event at least annually.