Company No.

316347	D

J.P. MORGAN CHASE BANK BERHAD

(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

Company No.

316347	D

J.P. MORGAN CHASE BANK BERHAD
(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

1 OVERVIEW

The Pillar 3 Disclosures is governed under the Bank Negara Malaysia ("BNM")'s revised Risk-Weighted Capital Adequacy Framework ("RWCAF") – Pillar 3, which aims to enhance transparency of financial institution activities and risks by setting minimum disclosure standards on risk exposures, risk management practices and capital adequacy.

The following disclosure information is based on 31 December 2012 year end data. However, where data is equivalent to that included in the Bank's financial report and statements, such data have been subject to external auditor's formal review and verification process.

2 SCOPE OF APPLICATION

The Pillar 3 Disclosures attached herewith relates to J.P. Morgan Chase Bank Berhad ("the Bank") only.

The capital adequacy ratios of the Bank are computed in accordance with BNM's revised RWCAF – Basel II. The Bank has adopted the Standardised Approach for credit risk and market risk, and Basic Indicator Approach for operational risk.

During the financial year, the Bank did not experience any restrictions or impediments in the transfer of funds or regulatory capital and did not report any capital deficiencies.

3 CAPITAL STRUCTURE AND ADEQUACY

The Bank aims to maintain appropriate capital levels relative to regulatory minimum requirements and to maintain an adequate buffer to accommodate future business growth plans. The capital adequacy position, together with the results of the stress testing on material risks, are reviewed on a monthly basis and tabled to the Risk Management Committee for deliberation.

The Bank's regulatory capital is determined under BNM's revised RWCAF – Basel II and the capital adequacy ratios were higher than BNM's minimum requirements.

The following table presents the capital adequacy ratio and risk-weighted assets as at 31 December 2012.

Company No.

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J.P. MORGAN CHASE BANK BERHAD
(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

3 CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

The capital adequacy ratios of the Bank are as follows:

	2012 RM'000	2011 RM'000
Tier-I capital		
Paid-up share capital	85,500	85,500
Share premium	42,000	42,000
Retained earnings	534,354	503,087
Option reserves	6,263	5,060
Statutory reserve	97,778	97,778
	765,895	733,425
Deferred tax assets	(1,765)	(1,086)
Total Tier I capital	764,130	732,339
Tier-II capital		
Collective assessment allowance *	409	421
Total capital base	764,539	732,760
Core capital ratio	22.92%	29.20%
Risk-weighted capital ratio	22.93%	29.22%

* Excludes collective assessment allowance attributable to loans and advances classified as impaired but not individually assessed for impairment pursuant to BNM's Guideline on "Classification and Impairment Provision for Loans/Financing" issued on 8 January 2010 and subsequently updated on 26 January 2010 and 17 December 2010.

J.P. MORGAN CHASE BANK BERHAD
(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

3 CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

Total risk weighted assets and capital requirements as at 31 December 2012:

Exposure Class		Gross exposures RM'000	Net exposures RM'000	Risk weighted assets RM'000	Capital requirements RM'000
(a) Credit Risk					
On-balance sheet exposures					
Sovereigns/central banks		2,391,895	2,391,895	-	-
Banks		2,761,189	2,761,189	557,853	44,628
Insurance companies, securities firms and fund managers		20,139	20,139	20,139	1,611
Corporates		21,080	21,080	20,982	1,679
Residential mortgages		6,114	6,114	2,240	179
Higher risk assets		15	15	23	2
Other assets		9,124	9,124	8,437	675
Defaulted exposures		400	400	491	39
Total on-balance sheet exposures		5,209,956	5,209,956	610,165	48,813
Off-balance sheet exposures					
Over-the-counter ('OTC') derivatives		2,179,459	2,179,459	770,522	61,642
Off balance sheet exposures other than OTC derivatives		322,392	322,392	167,881	13,430
Total off-balance sheet exposures		2,501,851	2,501,851	938,403	75,072
Total on and off-balance sheet exposures		7,711,807	7,711,807	1,548,568	123,885
	Long position	Short position			
(b) Market risk					
Interest rate risk	30,877,913	30,713,117		852,437	68,195
Foreign currency risk	-	108,390		108,390	8,671
Options risk				610,188	48,815
(c) Operational risk				214,982	17,199
Total risk weighted assets and capital requirements				3,334,565	266,765

3 CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

Total risk weighted assets and capital requirements as at 31 December 2011:

Exposure Class	Long position	Gross exposures RM'000	Net exposures RM'000	Risk weighted assets RM'000	Capital requirements RM'000
(a) Credit Risk					
On-balance sheet exposures					
Sovereigns/central banks		4,080,316	4,080,316	-	-
Banks		1,766,766	1,766,766	353,353	28,268
Insurance companies, securities firms and fund managers		20,146	20,146	20,146	1,612
Corporates		4,496	4,496	4,301	344
Residential mortgages		7,238	7,238	2,667	213
Higher risk assets		15	15	-	-
Other assets		8,152	8,152	7,531	602
Defaulted exposures		826	826	550	44
Total on-balance sheet exposures		5,887,955	5,887,955	388,548	31,083
Off-balance sheet exposures					
Over-the-counter ('OTC') derivatives		2,264,297	2,264,297	920,440	73,636
Off balance sheet exposures other than OTC derivatives		119,860	119,860	92,031	7,362
Total off-balance sheet exposures		2,384,157	2,384,157	1,012,471	80,998
Total on and off-balance sheet exposures		8,272,112	8,272,112	1,401,019	112,081
	Long position	Short position			
(b) Market risk					
Interest rate risk	58,140,476	57,182,635		807,313	64,585
Foreign currency risk	-	10,811		10,811	865
Options risk				83,422	6,674
(c) Operational risk				205,445	16,436
Total risk weighted assets and capital requirements				2,508,010	200,641

4 RISK MANAGEMENT

Risk Management Framework

Risk is an inherent part of JPMorgan Chase & Co. ("JPMC")'s business activities and the overall risk tolerance is established in the context of the earnings power, capital, and diversified business model. JPMC and the Bank's risk management framework and governance structure are intended to provide comprehensive controls and an ongoing management of the major risks inherent in its business activities. It is also intended to create a culture of risk awareness and personal responsibility throughout Bank. The Bank's ability to properly identify, to measure, to monitor and to report risk is critical to both its soundness and profitability.

Risk Governance

The Board of Directors ("BOD") is ultimately responsible for the operations, conduct and the financial soundness of the Bank through competent management, reviewing and monitoring the objectives, strategies and business plans of the Bank, ensuring that proper controls are in place and that the business of the Bank is carried out with a high standard of integrity.

The Board Risk Committee ("BRC") is responsible for oversight of the management's responsibility to assess and manage the Bank's credit risk, market risk, interest rate risk, liquidity risk, operational risk, strategic risk and reputation risk. The Risk Management Committee ("RMC") is delegated by the BOD to be responsible for the overall risk management for the Bank.

The RMC's responsibilities include establishing, reviewing, monitoring and implementing policies and procedures and limits with regard to market risk, liquidity risk, credit risk, and generally the management of risk relating to the Bank. The RMC also ensures a consistent approach to risk management and ensures appropriate procedures exist for the identification of risks and that suitable mechanisms exist to ensure risks are controlled and reported to management, BRC and BOD on a timely basis.

At management level, the Location Management Committee ("LMC") has primary responsibility for corporate governance as well as to provide management oversight for the various businesses, from a performance, operational as well as control perspective.

The Audit Committee, supported by the Internal Audit Department, is responsible for oversight of guidelines and policies that govern the process by which risk assessment and management is undertaken. In addition, the Audit Committee reviews with management the system of internal controls and financial reporting that is relied upon to provide reasonable assurance of compliance with the Bank's operational risk management processes.

Risk Measurement

The Bank measures risk using a variety of methodologies, including calculating probable loss, unexpected loss and value-at-risk, and by conducting stress tests and making comparisons to external benchmarks. Measurement models and related assumptions are routinely reviewed with the goal of ensuring that the Bank's risk estimates are reasonable and reflect underlying positions.

Risk Reporting and Monitoring

Risk reporting and monitoring is executed on both a line of business and a consolidated basis. This information is reported to management on a regular basis. RMC reviews and monitors any significant risk issues and reports to the BRC.

5 CREDIT RISK

Credit risk is the risk of loss from obligor or counterparty default. The Bank provides credit (for example, through loans, lending-related commitments, guarantees and derivatives) to a variety of customers, from large corporate and institutional clients to the individual consumer. Credit risk management actively monitors the portfolio to ensure that it is well diversified across industry, geography, risk rating, maturity and individual client categories.

Credit Risk Management

The Bank follows the policies and practices established by JPMC's Credit Risk Policy Group and BNM's Best Practices for the Management of Credit Risk, to preserve the independence and integrity of the approval and decision-making process of extending credit, and to ensure credit risks are assessed accurately, approved properly, monitored regularly and managed actively at both the transaction and portfolio levels. The policy framework establishes credit approval authorities, concentration limits, risk-rating methodologies, portfolio review parameters and guidelines for management of distressed exposure. Management of the Bank's exposure is accomplished through a number of means including: loan syndication and participations, loan sales, use of master netting agreements and collaterals.

The Credit Risk function in the Bank is overseen by the Country Credit Officer ("CCO"). The CCO works closely with regional as well as Global Credit Risk Management teams to ensure that the credit exposure taken at the Bank is in line with the Bank's risk management policy framework.

There is a comprehensive credit authority framework in place which enables decision making to be escalated in response to the size and risk intensity of the request. There is adequate credit authority delegated to the CCO for smooth functioning of the overall portfolio and business needs. The CCO will review each new credit application and approve the credit if it is within the CCO's authority. If it is not within the CCO's authority, the CCO will make recommendation and submit to Regional, and the approval is subsequently ratified by the BOD.

Credit reviews varies with the profile of the exposure to a client, the internal risk grade for the client, and its risk dimensions such as industry and geography. Subject to these considerations, and the Credit Executive's judgement, credit reviews are usually expected to be done at least annually. Additional credit reviews may be triggered by Risk Reviews or external events.

5 CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures

(i) Geographical Distribution

Credit risk exposure analysed by country in respect of the Bank's financial assets, including off-balance sheet financial instruments, are set out in the following table.

The country exposure analysis is based on the residency of the borrowers and counterparties. In respect of derivatives financial instruments, the amount subject to, and hence disclosed as, credit risk is limited to the current fair value of the instruments that are favourable to the Bank (i.e. assets).

5 CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(i) Geographical Distribution (continued)

31.12.2012

	Short term funds and placements with financial institutions	Securities purchased under resale agreement	Deposits and placements with financial institutions	Financial assets held for trading	Derivative financial instruments	Financial assets available-for-sale	Loans and advances	Amount due from related parties	Other assets*	On balance sheet total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Malaysia	1,417,595	-	802,214	72,440	231,080	842,338	47,190	24,855	532,007	3,969,719	1,241,419
United Kingdom	-	-	-	-	172,206	-	-	30,490	-	202,696	604,016
USA	-	-	-	-	115,767	-	-	89,829	-	205,596	491,213
Hong Kong	-	-	-	-	48	-	-	1,289,660	-	1,289,708	36,256
Singapore	28,426	-	-	-	-	-	-	-	-	28,426	63,278
Others	22,784	-	-	20,213	5,001	-	18,717	63,990	-	130,705	65,669
	1,468,805	-	802,214	92,653	524,102	842,338	65,907	1,498,824	532,007	5,826,850	2,501,851

* Other assets include statutory deposits with Bank Negara Malaysia, tax recoverable, deferred tax assets and fixed assets.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances.

Company No.

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BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

5 CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(i) Geographical Distribution (continued)

											31.12.2011
	Short term funds and placements with financial institutions	Securities purchased under resale agreement	Deposits and financial placements with financial institutions	Financial assets held for trading	Derivative financial instruments	Financial assets available-for-sale	Loans and advances	Amount due from related parties	Other assets*	On balance sheet total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Malaysia	4,768,119	-	300,264	1,041,793	341,346	421,169	32,003	-	252,063	7,156,757	1,404,781
United Kingdom	-	-	-	-	53,129	-	-	6	-	53,135	341,049
USA	-	-	-	-	111,110	-	-	64,452	-	175,562	418,117
Hong Kong	-	-	-	-	977	-	-	447	-	1,424	994
Singapore	42,959	-	-	-	54,982	-	-	-	-	97,941	181,609
Others	65	-	-	20,444	9,564	-	-	693	-	30,766	37,607
	4,811,143	-	300,264	1,062,237	571,108	421,169	32,003	65,598	252,063	7,515,585	2,384,157

* Other assets include statutory deposits with Bank Negara Malaysia, tax recoverable and fixed assets.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances.

5 CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(ii) Industry Distribution

Credit risk exposure analysed by industry sectors in respect of the Bank's financial assets, including off-balance sheet financial instruments, are set out in the following table.

The industry sector exposure analysis is based on the industry sector of the borrowers and counterparties. In respect of derivatives financial instruments, the amount subject to, and hence disclosed as, credit risk is limited to the current fair value of the instruments that are favourable to the Bank (i.e. assets).

5 CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(ii) Industry Distribution (continued)

31.12.2012

	Short term funds and placements with financial institutions	Securities purchased under resale agreement	Deposits and placements with financial institutions	Financial assets held for trading	Derivative financial instruments	Financial assets available-for-sale	Loans and advances*	Amount due from related parties	Other assets**	On balance sheet total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agricultural	-	-	-	-	-	-	16,995	-	-	16,995	-
Manufacturing	-	-	-	-	-	-	11	-	-	11	13,970
Transport, storage and communications	-	-	-	-	-	-	-	-	-	-	413
Wholesale and retail	-	-	-	-	-	-	1,087	-	-	1,087	108
Finance, insurance and business services	446,595	-	802,214	20,213	524,102	-	39,672	1,498,824	7,322	3,338,942	2,484,654
Government and Government Agencies	1,021,523	-	-	72,440	-	842,338	-	-	520,797	2,457,098	-

5 CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(ii) Industry Distribution (continued)

31.12.2012

	Short term funds and placements with financial institutions RM'000	Securities purchased under resale agreement RM'000	Deposits and placements with financial institutions RM'000	Financial assets held for trading RM'000	Derivative financial instruments RM'000	Financial assets available-for-sale RM'000	Loans and advances* RM'000	Amount due from related parties RM'000	Other assets** RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Individual/Purchase of landed property - residential	-	-	-	-	-	-	7,158	-	-	7,158	2,644
Electricity, gas and water	-	-	-	-	-	-	-	-	-	-	62
Consumption credit	-	-	-	-	-	-	188	-	-	188	-
Others	-	-	-	-	-	-	1,205	-	-	1,205	-
	1,468,118	-	802,214	92,653	524,102	842,338	66,316	1,498,824	528,119	5,822,684	2,501,851
Assets not subject to credit risk	687	-	-	-	-	-	-	-	3,888	4,575	-
	1,468,805	-	802,214	92,653	524,102	842,338	66,316	1,498,824	532,007	5,827,259	2,501,851

* Excludes collective assessment allowance amounting to RM409,000.
** Other assets include tax recoverable, deferred tax assets, fixed assets and statutory deposits with Bank Negara Malaysia.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances.

5 CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(ii) Industry Distribution (continued)

31.12.2011

	Short term funds and placements with financial institutions	Securities purchased under resale agreement	Deposits and placements with financial institutions	Financial assets held for trading	Derivative financial instruments	Financial assets available-for-sale	Loans and advances*	Amount due from related parties	Other assets**	On balance sheet total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agricultural	-	-	-	-	-	-	-	-	-	-	4,098
Manufacturing	-	-	-	-	-	-	-	-	-	-	132,485
Transport, storage and communications	-	-	-	-	-	-	-	-	-	-	135,957
Wholesale and retail	-	-	-	-	-	-	1,267	-	-	1,267	-
Finance, insurance and business services	1,401,173	-	300,264	20,444	571,108	-	20,880	65,598	5,491	2,384,958	2,108,960
Government and Government Agencies	3,409,355	-	-	1,041,793	-	421,169	-	-	241,957	5,114,274	-

5 CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(ii) Industry Distribution (continued)

31.12.2011

	Short term funds and placements with financial institutions	Securities purchased under resale agreement	Deposits and placements with financial institutions	Financial assets held for trading	Derivative financial instruments	Financial assets available-for-sale	Loans and advances*	Amount due from related parties	Other assets**	On balance sheet total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Individual/Purchase of landed property - residential	-	-	-	-	-	-	8,561	-	-	8,561	2,657
Consumption credit	-	-	-	-	-	-	813	-	-	813	-
Others	-	-	-	-	-	-	903	-	-	903	-
	4,810,528	-	300,264	1,062,237	571,108	421,169	32,424	65,598	247,448	7,510,776	2,384,157
Assets not subject to credit risk	615	-	-	-	-	-	-	-	4,615	5,230	-
	4,811,143	-	300,264	1,062,237	571,108	421,169	32,424	65,598	252,063	7,516,006	2,384,157

* Excludes collective assessment allowance amounting to RM421,000.
** Other assets include tax recoverable, deferred tax assets, fixed assets and statutory deposits with Bank Negara Malaysia.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances.

5 CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(iii) Residual Contractual Maturity

Credit risk exposure analysed by residual contractual maturity in respect of the Bank's financial assets, including off-balance sheet financial instruments, are set out in the following table.

	Less than 1 year RM'000	1 – 5 years RM'000	Over 5 years RM'000	Total RM'000
2012				
On-balance sheet exposures				
Cash and short-term funds	1,468,805	-	-	1,468,805
Deposits and placements with banks and other financial institutions	802,214	-	-	802,214
Financial assets held for trading	38,760	35,345	18,548	92,653
Derivative financial instruments	89,995	171,418	262,689	524,102
Financial assets available-for-sale	364,909	412,894	64,535	842,338
Loans and advances	49,382	10,195	6,330	65,907
Amount due from related parties	1,498,824	-	-	1,498,824
Total on-balance sheet exposures	4,312,889	629,852	352,102	5,294,843
Off-balance sheet exposures				
Over-the-counter ('OTC') derivatives	313,924	844,356	1,021,179	2,179,459
Off balance sheet exposures other than OTC derivatives	50,220	253,674	18,498	322,392
Total off-balance sheet exposures	364,144	1,098,030	1,039,677	2,501,851
Total on and off-balance sheet exposures	4,677,033	1,727,882	1,391,779	7,796,694

5 CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(iii) Residual Contractual Maturity (continued)

2011	Less than 1 year RM'000	1 – 5 years RM'000	Over 5 years RM'000	Total RM'000
On-balance sheet exposures				
Cash and short-term funds	4,811,143	-	-	4,811,143
Deposits and placements with banks and other financial institutions	300,264	-	-	300,264
Financial assets held for trading	1,022,232	26,034	13,971	1,062,237
Derivative financial instruments	197,338	210,782	162,988	571,108
Financial assets available-for-sale	10,295	167,205	243,669	421,169
Loans and advances	22,151	1,946	7,906	32,003
Amount due from related parties	65,598	-	-	65,598
Total on-balance sheet exposures	6,429,021	405,967	428,534	7,263,522
Off-balance sheet exposures				
Over-the-counter ('OTC') derivatives	446,943	1,219,957	597,397	2,264,297
Off balance sheet exposures other than OTC derivatives	36,826	72,822	10,212	119,860
Total off-balance sheet exposures	483,769	1,292,779	607,609	2,384,157
Total on and off-balance sheet exposures	6,912,790	1,698,746	1,036,143	9,647,679

5 CREDIT RISK (CONTINUED)

5.2 Past Due and Impaired Loans and Advances

Past due accounts are loan accounts with any interest or principal payments due and not paid, but are not classified as impaired. Loans are classified as impaired if the judgemental or mandatory triggers are triggered.

Impairment losses are incurred if there is objective evidence of impairment as a result of one or more loss events that occurred. Evidence of impairment may include indications that the borrower is experiencing significant financial difficulty, delinquency in interest or principal payments, probability that they will enter bankruptcy and where observable data indicating that there is a measurable decrease in the estimated future cash flows.

The Bank first assesses whether objective evidence of impairment exists individually for loans and advances that are individually significant, and individually or collectively for loans and advances that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loans and advances, whether significant or not, it includes the asset in a group of loans and advances with similar credit risk characteristics and collectively assesses them for impairment.

For the collective evaluation of impairment, loans and advances are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty’s ability to pay all amounts due according to the contractual terms of the assets being evaluated.

5 CREDIT RISK (CONTINUED)

5.2 Past Due and Impaired Loans and Advances (continued)

(i) Industry Distribution

The sectoral analysis of past due and impaired loans and advances and the individual and collective assessment allowance by sectors are set out in the following table:

	Past due loans and advances RM'000	Impaired loans and advances RM'000	Individual impairment allowance RM'000	Collective impairment allowance RM'000	Individual impairment written back during the year RM'000	Write offs during the year RM'000
2012						
Agricultural	-	-	-	-	-	-
Mining and Quarrying	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-
Construction	-	-	-	-	-	-
Transport, storage and communications	-	-	-	-	-	-
Finance, insurance, business services	-	-	-	-	-	-
Government and Government Agencies	-	-	-	-	-	-
Individual/Purchase of landed property – residential	599	400	147	409	(150)	-
Electricity, gas and water	-	-	-	-	-	-
Household	-	-	-	-	-	-
Others	-	-	-	-	-	-
	599	400	147	409	(150)	-
2011						
Agricultural	-	-	-	-	-	-
Mining and Quarrying	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-
Construction	-	-	-	-	-	-
Transport, storage and communications	-	-	-	-	-	-
Finance, insurance, business services	-	-	-	-	-	-
Government and Government Agencies	-	-	-	-	-	-
Individual/Purchase of landed property - residential	479	826	297	421	(99)	(5)
Electricity, gas and water	-	-	-	-	-	-
Household	-	-	-	-	-	-
Others	-	-	-	-	-	-
	479	826	297	421	(99)	(5)

5 CREDIT RISK (CONTINUED)

5.2 Past Due and Impaired Loans and Advances (continued)

(ii) Geographical Distribution

The geographical analysis of past due and impaired loans and advances and the individual and collective assessment allowance are set out in the following table:

	Past due loans and advances RM'000	Impaired loans and advances RM'000	Individual impairment allowance RM'000	Collective impairment allowance RM'000
2012				
Malaysia	599	400	147	409
2011				
Malaysia	479	826	297	421

(iii) Movements in allowance for impaired loans and advances

	2012 RM'000	2011 RM'000
Individual assessment allowance		
At 1 January		
- as previously reported	335	418
- effects of adoption of MFRS	(38)	92
- as restated	297	510
Write back made during the financial year	(150)	(208)
Amount written off	-	(5)
At 31 December	147	297
Collective assessment allowance		
At 1 January		
- as previously reported	486	403
- effects of adoption of MFRS	(65)	(53)
- as restated	421	350
Allowance made during the financial year	-	71
Write back made during the financial year	(12)	-
At 31 December	409	421

5 CREDIT RISK (CONTINUED)

5.3 Credit Risk Exposures under Standardised Approach

The Bank applies external ratings assigned by recognised External Credit Assessment Institutions (“ECAIs”) in determining risk weight for credit exposure classes and are recognised by BNM in RWCAF. The Bank uses ratings assigned by Standard & Poor’s (“S&P”), Moody’s Investors Service (“Moody’s”) and Fitch Ratings (“Fitch”).

The following tables set out the credit exposures by risk weights and after credit risk mitigation:

2012

Risk Weighted	Sovereigns & Central bank RM’000	Banks RM’000	Insurance companies, securities firms and fund managers RM’000	Corporates RM’000	Residential mortgages RM’000	Higher risk assets RM’000	Other assets RM’000	Total exposures after netting and credit risk RM’000	Total risk weighted assets RM’000
0%	2,391,895	-	-	-	-	-	687	2,392,582	-
20%	-	4,641,173	48,138	-	-	-	-	4,689,311	937,862
35%	-	-	-	-	5,444	-	-	5,444	1,905
50%	-	30,668	-	-	670	-	-	31,338	15,669
75%	-	-	-	396	-	-	-	396	297
100%	-	177	49,452	534,255	218	-	8,437	592,539	592,539
150%	-	-	-	178	-	19	-	197	296
Total	2,391,895	4,672,018	97,590	534,829	6,332	19	9,124	7,711,807	1,548,568

5 CREDIT RISK (CONTINUED)

5.3 Credit Risk Exposures under Standardised Approach (continued)

2011

Risk Weighted	Central banks RM'000	Banks RM'000	Insurance companies, securities firms and fund managers RM'000	Corporates RM'000	Residential mortgages RM'000	Higher risk assets RM'000	Other assets RM'000	Total exposures after netting and credit risk RM'000	Total risk weighted assets RM'000
0%	4,080,316	-	-	163	117	19	621	4,081,236	-
20%	-	3,117,628	51,865	-	-	-	-	3,169,493	633,899
35%	-	-	-	-	6,346	-	-	6,346	2,221
50%	-	499,011	-	19	893	-	-	499,923	249,962
75%	-	-	-	779	-	-	-	779	584
100%	-	-	54,046	452,274	448	-	7,531	514,299	514,299
150%	-	-	-	36	-	-	-	36	54
Total	4,080,316	3,616,639	105,911	453,271	7,804	19	8,152	8,272,112	1,401,019

5 CREDIT RISK (CONTINUED)

5.3 Credit Risk Exposures under Standardised Approach (continued)

The following tables set out the rated exposures according to rating by ECAIs:

(i) Ratings of corporate by approved ECAIs

	Moody	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S & P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
Exposure class		RM'000	RM'000	RM'000	RM'000	RM'000
2012						
On and Off: Balance Sheet Exposures						
Insurance companies, securities firms and fund managers		-	70,076	27,514	-	-
Corporates		9,825	53,816	264,465	199,231	7,492
		9,825	123,892	291,979	199,231	7,492
2011						
On and Off: Balance Sheet Exposures						
Insurance companies, securities firms and fund managers		-	-	105,911	-	-
Corporates		-	2,504	204,421	238,680	7,666
		-	2,504	310,332	238,680	7,666

Company No.

316347	D

J.P. MORGAN CHASE BANK BERHAD
(Incorporated in Malaysia)

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

5 CREDIT RISK (CONTINUED)

5.3 Credit Risk Exposures under Standardised Approach (continued)

(ii) Ratings of Sovereigns/Central Banks and Banking Institutions by approved ECAIs:

	Moody	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S & P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
Exposure class		RM'000	RM'000	RM'000	RM'000	RM'000
2012						
On and Off: Balance Sheet Exposures						
Sovereigns/Central Banks		864,434	1,527,461	-	-	-
Banks		29,464	3,195,264	1,332,956	114,334	-
		893,898	4,722,725	1,332,956	114,334	-
2011						
On and Off: Balance Sheet Exposures						
Sovereigns/Central Banks		432,357	3,647,959	-	-	-
Banks		966,138	101,446	2,068,025	481,030	-
		1,398,495	3,749,405	2,068,025	481,030	-

5 CREDIT RISK (CONTINUED)

5.4 Credit Risk Mitigation ("CRM")

Management of the Bank's exposure is accomplished through a number of means including: loan syndication and participations, loan sales, use of master netting agreements and collaterals.

(a) Collateral

The Bank takes collateral as a secondary recourse to the borrower. Collaterals include cash, securities and guarantees. The Bank may also take fixed and floating charges on assets of borrowers. It has put in place policies which governs the determination of eligibility of various collaterals to be considered for credit risk mitigation which includes the minimum operational requirements that are required for the specific collateral to be considered as effective risk mitigants. The collateral is revalued periodically depending on the type of collateral. The Bank generally considers the collateral assets to be diversified.

(b) Master netting arrangements

Master netting agreement is an agreement between two counterparties who have multiple derivative contracts with each other that provides for the net settlement of all contracts, as well as cash collateral, through a single payment, in a single currency, in the event of default on or termination of any one contract. It does not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. The Bank's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

The Bank participates in the Derivative Credit Risk Master Insurance Policy where it pays a credit charge to its Head Office as a credit insurance protection for its derivative transactions. The head office credit portfolio management process includes entering into hedges using Credit Default Swaps ("CDS"), CDS Indices, Foreign Exchange, Interest Rate Swaps and through loan sales.

5 CREDIT RISK (CONTINUED)

5.4 Credit Risk Mitigation ("CRM") (continued)

The following tables set out the credit exposures that are covered by eligible guarantees and collaterals as allowed under the RWCAF.

2012	Exposures before CRM RM'000	Exposures covered by guarantees/ credit derivatives RM'000	Exposures covered by eligible financial collateral RM'000
Exposure Class			
On-balance sheet exposures			
Sovereigns/central banks	2,391,895	-	-
Banks	2,761,189	-	-
Insurance companies, securities firms and fund managers	20,139	-	-
Corporates	21,080	-	-
Residential mortgages	6,114	-	-
Higher risk assets	15	-	-
Other assets	9,124	-	-
Defaulted exposures	400	-	-
Total on-balance sheet exposures	5,209,956	-	-
Off-balance sheet exposures			
Over-the-counter ('OTC') derivatives	2,179,459	-	-
Off balance sheet exposures other than OTC derivatives	322,392	-	-
Total off-balance sheet exposures	2,501,851	-	-
Total on and off-balance sheet exposures	7,711,807	-	-

5 CREDIT RISK (CONTINUED)

5.4 Credit Risk Mitigation ("CRM") (continued)

2011	Exposures before CRM RM'000	Exposures covered by guarantees/ credit derivatives RM'000	Exposures covered by eligible financial collateral RM'000
Exposure Class			
On-balance sheet exposures			
Sovereigns/central banks	4,080,316	-	-
Banks	1,766,766	-	-
Insurance companies, securities firms and fund managers	20,146	-	-
Corporates	4,496	-	-
Residential mortgages	7,238	-	-
Higher risk assets	15	-	-
Other assets	8,152	-	-
Defaulted exposures	826	-	-
Total on-balance sheet exposures	5,887,955	-	-
Off-balance sheet exposures			
Over-the-counter ('OTC') derivatives	2,264,297	-	-
Off balance sheet exposures other than OTC derivatives	119,860	-	-
Total off-balance sheet exposures	2,384,157	-	-
Total on and off-balance sheet exposures	8,272,112	-	-

5 CREDIT RISK (CONTINUED)

5.5 Off-Balance Sheet Exposures and Counterparty Credit Risk

Counterparty Credit Risk ("CCR") is the risk that the counterparty to a transaction involving financial instruments such as foreign exchange and derivatives, could default before the final settlement of the transaction's cash flows.

For derivatives, the Bank is not exposed to credit risk for the full face value of the contracts. The CCR is limited to the potential cost of replacing the cash-flow if the counterparty defaults. As such, the credit equivalent amount will depend on the maturity of the contract and on the volatility of the rates underlying that type of instrument.

Counterparty limits for the Bank are established at the individual counterparty level and are set based on the counterparty's credit rating, tenor and size.

To mitigate the counterparty risk for derivative transactions, the Bank participates in the Derivative Credit Risk Master Insurance Policy where it pays a credit charge to its Head Office as a credit insurance protection for its derivative transactions. The head office credit portfolio management process includes entering into hedges using CDS, CDS Indices, Foreign Exchange, Interest Rate Swaps and through loan sales.

The counterparty risk is further mitigated via master netting agreements. Master netting agreement is an agreement between two counterparties who have multiple derivative contracts with each other that provides for the net settlement of all contracts, as well as cash collateral, through a single payment, in a single currency, in the event of default on or termination of any one contract. It does not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. The Bank's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

5 CREDIT RISK (CONTINUED)

5.5 Off-Balance Sheet Exposures and Counterparty Credit Risk (continued)

The following tables set out the off-balance sheet exposures and counterparty credit risk.

	Principal amount	Positive fair value of derivative contracts	Credit equivalent amount*	Risk weighted amount
	RM'000	RM'000	RM'000	RM'000
2012				
Direct credit substitutes	36,621	-	36,621	8,808
Transaction-related contingent items	364,724	-	182,362	63,458
Short-term self-liquidating trade related contingencies	53,479	-	10,696	2,902
Foreign exchange related contracts:				
- less than one year	12,825,066	65,607	219,893	90,512
- one year to less than five years	2,389,815	76,250	289,192	155,212
- more than five years	491,629	5,151	78,895	72,777
Interest rate related contracts:				
- less than one year	4,896,524	12,965	34,635	6,927
- one year to less than five years	11,438,369	90,691	529,313	105,863
- more than five years	3,422,315	257,538	942,284	305,761
Equity related contracts				
- less than one year	704,342	11,423	59,396	24,108
- one year to less than five years	180,585	4,477	25,851	9,362
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	170,586	-	85,293	85,293
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	37,101	-	7,420	7,420
	37,011,156	524,102	2,501,851	938,403

* The credit equivalent amount is arrived at using the credit conversion factors as per Bank Negara Malaysia guidelines.

5 CREDIT RISK (CONTINUED)

5.5 Off-Balance Sheet Exposures and Counterparty Credit Risk (continued)

	Principal amount RM'000	Positive fair value of derivative contracts RM'000	Credit equivalent amount* RM'000	Risk weighted amount RM'000
2011				
Direct credit substitutes	67,370	-	67,370	44,512
Transaction-related contingent items	33,319	-	16,660	13,299
Short-term self-liquidating trade related contingencies	10,068	-	2,013	403
Foreign exchange related contracts:				
- less than one year	20,750,554	177,857	388,301	105,590
- one year to less than five years	2,952,486	65,574	339,222	171,446
- more than five years	772,379	16,741	142,785	102,294
Interest rate related contracts:				
- less than one year	8,955,161	12,796	29,718	7,857
- one year to less than five years	14,894,671	139,573	821,645	319,869
- more than five years	1,996,507	146,248	454,611	171,453
Equity related contracts				
- less than one year	463,821	6,684	28,924	15,734
- one year to less than five years	458,298	5,635	59,091	26,197
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	62,321	-	31,161	31,161
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	13,281	-	2,656	2,656
	51,430,236	571,108	2,384,157	1,012,471

* The credit equivalent amount is arrived at using the credit conversion factors as per Bank Negara Malaysia guidelines.

6 MARKET RISK

Market risk comes mainly from trading and investing in client-focused activities, and is the risk of losses arising from adverse movements in market prices. Market risks are most commonly sub-divided into interest rate risk, equity risk, foreign exchange risk and commodity risk, depending on whether the risk factor is an interest rate, a stock price, etc.

Market Risk Management

Market risk is identified, measured, monitored and controlled by an independent corporate risk governance function. Market Risk Management is responsible for the establishment of market risk policies and monitoring of risk limits.

The portfolio effect of holding different instruments across a variety of business activities and asset classes helps to diversify the market risk the Bank is exposed to and reduces the potential losses from market risk.

The Bank’s ability to measure and monitor potential losses that could arise from adverse changes in market conditions is key to managing market risks. Quantitative and qualitative measures are an integral and crucial part in the Bank’s assessment of market risks.

The Bank’s primary tool for the systematic measuring and monitoring of market risk is the Value at Risk (“VAR”) calculation, which is measured and monitored at the regional level by lines of businesses. VAR is an estimate of the expected loss in the value of the various regional lines of businesses’ activities, where the Bank’s activities are rolled up into, over a one-day time horizon. VAR allows for a consistent and uniform measure of market risk across all applicable products and activities. To calculate VAR, the Bank uses historical simulation, which measures risk across instruments and portfolios in a consistent and comparable way. This approach assumes that historical changes in market values are representative of future changes. The simulation is based upon data for the previous twelve months.

Besides VAR, other non-statistical limits such as basis point value and net open positions are used as market risk tools to limit the risk to which the businesses can be exposed to.

The quality of the VAR model is monitored by back-testing the VAR results for trading books. All back-testing exceptions are investigated, and all back-testing results are reported to senior management.

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Market Risk Management include: risk factor stress testing, where stress movements are applied to each risk category; emerging market stress testing, where emerging market portfolios are subject to stress movements; and ad hoc stress testing. The results of the stress tests are reviewed by senior management and by the Board of Directors.

6 MARKET RISK (CONTINUED)

The risk weighted assets and capital requirements for the various categories of risk under Market risk are set out in the following table:

2012	Long position	Short position	Risk weighted assets RM'000	Capital requirements RM'000
Interest rate risk	30,877,913	30,713,117	852,437	68,195
Foreign currency risk	-	108,390	108,390	8,671
Options risk			610,188	48,815
			1,571,015	125,681
2011				
Interest rate risk	58,140,476	57,182,635	807,313	64,585
Foreign currency risk	-	10,811	10,811	865
Options risk			83,422	6,674
			901,546	72,124

7 OPERATIONAL RISK

Operational risk is an inherent risk element in each of the Bank's business and support activities.

Operational Risk Management

The Bank maintains a system of comprehensive policies and control framework designed to provide a sound and well-controlled operational environment.

Primary responsibility for managing operating risk rests with the business managers. These individuals, with the support of their staff, are responsible for establishing and maintaining internal control procedures that are appropriate for their operating environments. To this end, the objectives of each business activities are identified and the risks associated with those objectives are assessed. The business managers institute a series of standards and procedures to manage these risks and to comply with the Bank's operational risk related policies, considering their nature and magnitude.

At the operational level, Internal Audit conducts annual audits and reviews on key operation areas. The focus of the audit is to provide assurance to management on the compliance with statutory requirements, laws, corporate policies and internal guidelines.

The Bank adopts the Basic Indicator Approach in calculating the operational risk RWA.

8 INTEREST RATE RISK/RATE OF RETURN RISK IN THE BANKING BOOK

Interest rate risk/rate of return risk in the banking book ("IRRBB") arise from exposures of banking book products to changes in the level, slope and curvature of the yield curve and the volatility of interest rates. Interest rate risk is one of the categories of market risk.

IRRBB Management

Treasury manages the funding activities of the Bank and serves as a funds clearing house for the various lines of businesses; businesses with excess cash from deposit raising activities sell those funds to Treasury, while businesses with funding requirements purchase those funds from Treasury. The funds are transacted using market based rates established in accordance with funds transfer pricing procedures employed by the firm and with the objectives of insulating the business from interest rate risk and transfer any such risk arising from the business activities to Treasury.

As lines of businesses transfer all interest rate risk arising from business activities to Treasury, Treasury subsequently manages the banking book interest rate risk for the bank in conjunction with its investment activities, subject to the limits governing the activities/positions at the Bank.

The limit structure in place uses Basis Point Value ("BPV") as a measure of IRRBB. BPV is used to quantify the change in value of the balance sheet across all accrual positions to a one basis point change in interest rates. The greater the BPV, the greater the sensitivity of the balance sheet and therefore earnings to changes in interest rates.

The sensitivity of the Bank's positions in banking book to interest rate changes are set out in the following table:

	Increase/(Decrease)	
2012	+100bps	-100 bps
	RM'000	RM'000
Impact on Economic Value		
MYR	(9,653)	9,653
CAD	(30)	30
USD	(117)	117
	(9,800)	9,800

	Increase/(Decrease)	
2011	+100bps	-100 bps
	RM'000	RM'000
Impact on Economic Value		
MYR	(26,055)	26,055
USD	(470)	470
	(26,525)	26,525