

BASEL II PILLAR 3 DISCLOSURES

JPMorgan Chase Bank, N.A., Mumbai Branch

Financial year ending March 31, 2009

Disclosures under the New Capital Adequacy Framework (Basel II guidelines) for the year ended March 31, 2009

The Basel II Pillar 3 disclosures ("Basel P3") included herein are made solely to meet the requirements in India, and relate solely to the activities of the Mumbai Branch of JPMorgan Chase Bank, N.A, a wholly-owned bank subsidiary of JPMorgan Chase & Co. For a comprehensive discussion of risk management at JPMorgan Chase & Co., including its consolidated subsidiaries, please refer to Firm's Annual Report for the year ended December 31, 2008, which is available in the Investor Relations section of www.jpmorganchase.com

All quantitative disclosures are reported in rupees thousands.

I Scope of application

The New Capital Adequacy Framework ("Basel II") as prescribed by Reserve Bank of India is applied to the operations of JPMorgan Chase Bank, N.A., (a bank incorporated in the United States of America) in India, i.e. to JPMorgan Chase Bank, N.A., Mumbai Branch ("the Branch"); being its sole branch in India.

JPMorgan Chase Bank, National Association is one of the principal subsidiaries of JPMorgan Chase & Co. (collectively, "JPMC", "the Group" or "the Firm"), the financial holding company incorporated in the United States. JPMC operates in India through the Branch and through other subsidiaries owned by one or more of its principal subsidiaries.

Presently, the Accounting Standard (AS) 21 on Consolidation Accounting is not applicable to the India operations of JPMC since none of its Indian subsidiaries are owned by the Branch in Mumbai.

The Branch does not have any interest in insurance entities.

II Capital Structure

The capital of the Branch consists principally of the Head Office account representing Capital remitted by Head Office and remittable surplus retained in India.

Composition of Capital funds	
Tier I capital	
Head Office account	19,046,514
Statutory reserves	2,653,494
Other deductions from capital, if any	
Deferred tax asset	(202,455)
Tier I capital	21,497,553
Tier II capital	
General provision on standard assets	710,422
General provision for country risk	11,221
Investment Reserve	-
Tier II capital	721,643
Total Capital funds	22,219,196

III Capital Adequacy

On a group-wide basis, Firm's capital management framework is intended to ensure that there is sufficient capital to support the underlying risks of the Firm's business activities and to maintain "well-capitalized" status under US regulatory requirements. In addition, the Firm holds capital above these requirements as deemed appropriate to achieve management's regulatory and debt rating objectives. The Firm assesses its capital adequacy relative to the risks underlying the Firm's business activities, utilizing internal risk-assessment methodologies.

At local level, the Branch leverages as far as possible the group-wide capital management framework and risk assessment methodologies. These considerations are formalised as part of a local Internal Capital Adequacy Assessment Process, as required by local regulation.

The Capital Management process at branch level is coordinated within the Finance organisation with input from appropriate local and firmwide risk specialists, and is reviewed by the Branch management committee. It is the responsibility of local management to determine the appropriate level of capitalisation for the Branch and to ensure the businesses are managed within those capital limits or to request for additional capital in accordance with the Firm's Major Capital Infusion policy. In the normal course of events, management reviews the adequacy of capital quarterly, or with increased frequency if circumstances demand.

In view of its transitional arrangements to the Basel II framework, the RBI has prescribed a parallel run under which the Bank calculates capital adequacy under both Basel I and Basel II. Further at March 31, 2009, the Bank is required to maintain a capital adequacy based on the higher of the minimum capital required under Basel II or at 90% of the minimum capital requirement as compared to Basel I. The computation under Basel II guidelines results in a higher minimum capital requirement as compared to Basel I and hence as a result the capital adequacy as at March 31, 2009 has been maintained and reported by the Bank as per Basel II guidelines.

A summary of the Branch's capital requirement for credit risk, market risk and operational risk and the capital adequacy ratio as on March 31, 2009 is presented below.

Capital requirement for credit risk	
- Portfolios subject to standardised approach	8,456,632
- Securitisation exposure	-
Capital requirement for market risk	
Standardised duration method	
- Interest rate risk	2,228,086
- Foreign exchange risk	909,748
Capital requirement for operational risk	
- Basic indicator approach	983,528
Total capital requirement at 9%	12,577,994
Total capital funds of the Bank	22,219,196
Capital Adequacy Ratio of the Branch (%)	
CRAR	15.90%
Tier I CRAR	15.38%
Tier II CRAR	0.52%

IV Credit Risk

Credit Risk Management Policy

Credit risk can be defined as the risk to earnings or capital arising from an obligor's failure to meet the terms of any contract with the lender or otherwise fail to perform as agreed. The Firm provides credit (for example, through loans, lending-related commitments and derivatives) to customers of all sizes, from large corporate clients to the individual consumer¹. The Firm manages the risk/reward relationship of each credit and discourages the retention of assets that do not generate a positive return above the cost of risk-adjusted capital.

Credit risk organization

Credit risk management is overseen by the Chief Risk Officer, who reports to the Chief Executive Officer and is a member of the Firm's Operating Committee. The Firm's credit risk management governance consists of the following primary functions:

- establishing a comprehensive credit risk policy framework
- calculating the allowance for credit losses and ensuring appropriate credit risk-based capital management
- assigning and managing credit authorities in connection with the approval of all credit exposure
- approving, monitoring and managing credit risk across all portfolio segments, including geographic concentrations
- managing criticized exposures

Risk identification

The Firm is exposed to credit risk through lending and capital markets activities. Credit risk management works in partnership with the business segments in identifying and aggregating exposures across all lines of business.

Risk measurement

To measure credit risk, the Firm employs a detailed risk grading methodology for estimating the likelihood of obligor or counterparty default. Credit risk measurement is based upon the amount of exposure should the obligor or the counterparty default, the probability of default and the loss severity given a default event. These finally result in a facility grade for each facility sanctioned by the Firm to a customer. Risk measurement for the wholesale portfolio is assessed primarily on a risk-rated basis. Unexpected losses, reflected in the allocation of credit risk capital, represent the potential volatility of actual losses relative to the probable level of losses.

Probable and unexpected loss calculations are based upon estimates of probability of default and loss given default. Probability of default is the expected default calculated on an obligor basis. Loss given default is an estimate of losses that are based upon collateral and structural support for each credit facility. Calculations and assumptions are based upon management information systems and methodologies which are under continual review. Risk ratings are assigned and reviewed on an ongoing basis by Credit Risk Management and revised, if needed, to reflect the borrowers' current risk profiles and the related collateral and structural positions.

Risk monitoring

The Firm has developed policies and practices that are designed to preserve the independence and integrity of extending credit and are included to ensure credit risks are assessed accurately,

¹ In India, the client base only consists of large corporate and financial entities.

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. Wholesale credit risk is monitored regularly on both an aggregate portfolio level and on an individual customer basis through periodic and annual reviews. In order to meet credit risk management objectives, the Firm seeks to maintain a risk profile that is diverse in terms of borrower, product type, industry and geographic concentration. Management of the Firm's wholesale exposure is accomplished through loan syndication and participations, use of master netting agreements and collateral and other risk-reduction techniques.

At a local level, JPMCB monitors large exposures in accordance with RBI regulations on single / group obligor limits. This ensures that large single obligor / group exposures are managed within appropriate limits set in relation to our capital resources. The large exposure limit for single borrowers is 15% of the capital funds and 40% in case of borrower group. In exceptional circumstances, with the approval of the Management Committee the single and group borrower limit can be enhanced upto a further 5% of capital funds. When an exposure is reasonably close to the regulatory ceiling then the exposure is tracked closely to ensure that there are no breaches of the regulatory ceiling through fresh disbursements/transactions. The exposure monitoring is reviewed and reported by the external concurrent auditors on a monthly basis to the senior management. In addition, industry concentrations and risk mitigation through collateral are also addressed in the local JPMCB credit policy for funded / unfunded exposure. The local policy also specifically addresses exposure to sensitive sectors like Real Estate, and NBFC's, and policies governing purchase of distressed debt.

Risk reporting

To enable monitoring of credit risk and decision-making, aggregate credit exposure, credit quality forecasts, concentrations levels and risk profile changes are reported regularly to senior credit risk management. Detailed portfolio reporting of industry, customer and geographic concentrations occurs monthly, and the appropriateness of the allowance for credit losses is reviewed by senior management at least on a quarterly basis. Through the risk reporting and governance structure, credit risk trends and limit exceptions are provided regularly to, and discussed with, senior management.

The Credit Risk function is overseen in Mumbai by the Country Credit Officer (CCO). The CCO works closely with the regional as well as global Credit Risk Management (CRM) teams to ensure that the credit exposure taken at the Mumbai branch 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 India Credit Committee (ICC) approves the credit exposure that is to be booked in the Mumbai branch in accordance with the loan policy and the CCO is one of the members of this committee. The ICC meets as and when required to discuss and accord its decision on credit requests from the various business units at the Branch. Minutes of the ICC meetings are prepared and signed off by the Chairman of the ICC subsequently.

Definition of past due and impaired

In line with RBI directives, the "90 days' overdue" norm for identification of non-performing assets (NPA) has been adopted. Any amount due to the Branch under any credit facility is 'overdue' if it is not paid on the due date fixed by the Branch (i.e. is not paid as per the date the obligor is obligated to pay the Branch). A NPA shall be a loan or an advance or a derivative contract where any amount to be received (as per the contractual terms) remains overdue for a

period of more than 90 days or in respect of an Overdraft/Cash Credit the account remains 'out of order' for a period of more than 90 days.

Quantitative Disclosure		
Gross credit exposures*		
Fund based		8,278,458
Non fund based		282,673,180
Total		290,951,638
Geographic distribution of exposures*		
Fund based - domestic		8,278,458
Non fund based - domestic		282,673,180
Fund based - overseas		-
Non fund based - overseas		-
Total		290,951,638
Industry type disclosure of exposures*		
Industry	Fund Based	Non Fund Based
Banks	326,600	245,040,261
Chemical, dyes, paints- Drugs & pharma	1,022,141	11,327,850
Computer Software	2,028,800	4,502,806
Other Industries	955,202	5,223,842
NBFC	976,500	3,443,447
Chemical, dyes, paints – Petrochemicals	244,100	3,596,687
Mining	355,040	2,853,711
Construction	347,704	2,833,603
Iron and steel	-	1,221,237
All engineering- electronic	148,964	1,023,056
Infrastructure -Telecommunication	2,475	1,144,894
Food Processing	1,055,331	-
Cement	557,143	-
Automobile including trucks	220,798	177,438
All engineering	-	228,579
Petroleum	-	36,769
Chemical, dyes, paints – Fertilizers	25,000	-
Infrastructure	5,000	19,000
Other Textiles	7,600	-
Total	8,278,458	282,673,180

* excludes investments covered under specific market risk and other assets.

Residual contractual maturity breakdown of assets

Maturity Bucket	Investments	Advances
1 day	40,000,000	-
2 - 7 days	17,317,834	415,720
8 - 14 days	-	1,112,335
15 - 28 days	242,529	167,264
29 days - 3 months	4,935,374	419,074
3 - 6 months	1,623,804	2,413,053
6 - 12 months	2,054,100	1,410,871
1 - 3 years	770,365	1,027,143
3 - 5 years	-	-
Over 5 years	-	60,000
Total	66,944,006	7,025,460

Amount of NPAs (Gross)

Substandard	178,333
Doubtful 1	116,656
Doubtful 2	76,600
Doubtful 3	243,229
Loss	-

Gross NPAs **614,818**

Net NPAs **89,167**

NPA Ratios

Gross NPAs to gross advances	8.14%
Net NPAs to net advances	1.27%

Movement of NPAs (Gross)

Opening balance	1,214,339
Additions	294,989
Reductions	894,510
Closing balance	614,818

Movement of provisions for NPAs

Opening balance	990,229
Provisions made during the year	205,823
Write-off	4,700
Write-back of excess provisions	444,200
Closing balance*	747,152

Amount of non-performing investments	-
Amount of provisions held for non-performing investments	-

Movement of provisions for depreciation on investments

Opening balance	145,946
Provisions made during the year	369,895
Write-off	-
Write-back of excess provisions	-
Closing balance	515,841

* Includes excess provision amounting to rupees 221,500 on sale of non performing assets purchased which has not been reversed in accordance with RBI guidelines.

V Credit Risk : Standardised approach

The Branch is using issue ratings which are assigned by the accredited rating agencies viz. CRISIL, ICRA, Fitch and CARE and published in the public domain to assign risk-weights in terms of RBI guidelines for all its exposures. In respect of claims on non-resident corporates and foreign banks, ratings assigned by international rating agencies i.e. Standard & Poor's, Moody's and Fitch are used. For all exposures, where multiple ratings are available, the second worst rating has been considered.

Quantitative Disclosure	
Details of Credit Risk Exposure (fund based and non-fund based) based on Risk - Weight:*	
Below 100% risk weight	244,438,012
100% risk weight	47,830,325
More than 100% risk weight	-
Deducted	-
Total	292,268,337

* excludes investments covered under specific market risk.

VI Credit Risk Mitigation

The Branch has in place a Credit Risk Mitigation policy, which underlines the eligibility requirements for credit risk mitigants for capital computation as per Basel II guidelines. The Branch reduces its credit exposure to a counterparty with the value of eligible financial collateral to take account of the risk mitigating effect of the collateral.

To account for the volatility in the value of collateral, haircut is applied based on the type, issuer, maturity, rating and remarking / revaluation frequency of the collateral.

During the financial year ended March 31, 2009, the branch decided to use Credit Support Agreement (CSA) as a credit risk mitigant while dealing with select counterparties. In a CSA the counterparty agrees to post collateral whenever the marked to market (MTM) of the derivative trades increases beyond a certain specified level.

VII Securitisation

Globally, the Firm securitises and sells a variety of consumer and wholesale loans to make optimum use of capital. Locally, the Branch originates or purchases loans and securitizes the same in compliance with the guidelines issued by RBI. The Branch provides different roles in a securitization process as allowed by RBI.

The securitisation transactions are accounted for in accordance with RBI guidelines. The securitised assets are derecognised upon sale if the criteria for 'True sale' prescribed by RBI are met. Any profit/ premium arising on account of sale is amortised over the life of the securities issued or to be issued by the Special Purpose Vehicle and losses, if any, is recognised immediately in the profit and loss account.

Quantitative Disclosure

- a) Total outstanding exposures securitised by the Branch as of March 31, 2009 is Rs. 4,750,000
- b) For exposure securitised by the Branch
 - amount of impaired/past due assets securitised: Nil
 - net profit/(loss) recognised by the Branch during the current period: Rs. (35,760)

c) Aggregate amount of securitisation exposures retained / purchased: Nil

d) Summary of securitisation activity presenting a comparative position for two years

Particulars	Financial year ending	
	31-Mar-09	31-Mar-08
Total number loan assets securitised	5	2
Book value of loan assets securitised	7,067,583	1,395,596
Sale consideration	7,031,824	1,398,379
Gain/(loss) on sale on account of securitisation	(35,760)	2,783
Form and quantum of services provided		
- credit enhancement	-	-
- liquidity support	-	-
- post securitisation asset servicing	-	-

IX Market risk

Market risk management

The Firm takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. The Firm separates exposures to market risk into either trading or non-trading portfolios.

Trading portfolios include those positions arising from market-making transactions where the Firm acts as principal with clients or with the market. The Firm manages market risk mainly along lines of business. Non-trading portfolios primarily arise from the interest rate management of the Firm's banking assets and liabilities and foreign exchange risks arising from the Firm's investments.

Market risk management framework

At Firm level, market risk is identified, analysed, and controlled by an independent corporate risk governance function. Market risk management seeks to facilitate efficient risk/return decisions, reduce volatility in operating performance and make the Firm's market risk profile transparent to senior management, Board of Directors and regulators. Market risk management is overseen by the Chief Risk Officer and performs primary functions of (i) establishment of a comprehensive market risk policy framework; (ii) independent analysis, monitoring and control of business segment market risk; (iii) definition, approval and monitoring of limits; and (iv) performance of stress testing and qualitative risk assessments.

The Firm's business segments also have valuation teams whose function is to provide independent oversight for the accuracy of valuations of the positions that expose the Firm to market risk.

Market risk identification and classification

The market risk management group works in partnership with the business segments to identify market risks throughout the Firm to refine and monitor market risk policies and procedures. All business segments are responsible for comprehensive identification and verification of market risks within their units. Market risk management group is also responsible for identifying

exposures which may not be large within individual business segments, but which may be large for the Firm in aggregate. Regular meetings are held between market risk management and the head of risk-taking businesses to discuss and decide on risk exposure in the context of the market environment and client flows.

Market risk measurement

The Firm uses various metrics, both statistical and non-statistical, to measure and reflect all aspects of market risk.

(i) Non-statistical measures

Non-statistical risk measures include net open positions, basis point values, option sensitivities, market values, position concentrations and position turnover. These measures provide granular information on the Firm's market risk exposure.

(ii) Statistical measures

The Firm's primary statistical risk measure, Value-At-Risk ("VAR"), estimates the potential loss from adverse market moves in an ordinary market environment and provides a consistent cross-business measure of risk profiles and levels of diversification. VAR is used for comparing risk across businesses, monitoring limits, one-off approvals, and as an input to economic capital calculations. To calculate VAR, the Firm 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. The Firm calculates VAR using a one-day time horizon and an expected tail-loss methodology, which approximates a 99% confidence level.

While VAR reflects the risk of loss due to adverse changes in normal markets, stress testing captures the Firm's exposure to unlikely but plausible events in abnormal markets. Along with VAR, stress testing is important in measuring and controlling risk. Stress testing enhances the understanding of the Firm's risk profile and loss potential, and stress losses are monitored against limits. Stress-test results, trends and explanations are provided each month to the Firm's senior management and to the lines of business to help them better measure and manage risk and to understand event risk-sensitive positions. Periodically scenarios are reviewed and updated to reflect changes in the Firm's risk profile and economic events.

To evaluate the soundness of the VAR model, the Firm conducts daily back-testing of VAR against daily market risk-related revenue.

Loss advisories are tools used to highlight to senior management trading losses above certain levels and are used to initiate discussion of remedies.

The Firm conducts economic value stress tests for both its trading and non-trading activities at least every two weeks using multiple scenarios that assume credit spreads widen significantly, equity prices decline and interest rates rise in the major currencies. Stress testing enhances the understanding of the Firm's risk profile and loss potential, and stress losses are monitored against limits.

Market risk monitoring

Market risk is controlled primarily through a series of limits. Limits reflect the Firm's risk appetite in the context of the market environment and business strategy. In setting limits, the Firm takes into consideration factors such as market volatility, product liquidity, business trends and management experience.

Market risk management group regularly reviews and updates risk limits. Senior management, including the Group's Chief Executive Officer and Chief Risk Officer, is responsible for reviewing and approving risk limits at least once a year.

All non-statistical measures, statistical measures, loss advisories and limit excesses are reported daily to each lines of business at a Regional level. Limit breaches are reported in a timely manner to senior management, and the affected business segment is required to reduce trading positions or consult with senior management on the appropriate action.

Local Governance

Asset Liability Committee (ALCO) of the Branch is responsible for the overall management of risk limits and review of the risk reports. The committee discusses the market strategy at monthly ALCO meeting and reviews the reported VaR with the defined VaR limits. The reason for exceeding VaR limits, if any, is noted in the minutes of the ALCO meeting. Mumbai branch also performs quarterly stress testing of its trading portfolio and the results of the same are reviewed in ALCO.

Quantitative Disclosure	
Capital requirements for	
Interest rate risk	2,228,086
Equity position risk	-
Foreign exchange risk	909,748
Total	3,137,834

X Operational risk

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events.

To monitor and control operational risk, the Firm maintains a system of comprehensive policies and a control framework designed to provide a sound and well-controlled operational environment. The goal is to keep operational risk at appropriate levels, in light of the Firm's financial strength, the characteristics of its businesses, the markets in which it operates, and the competitive and regulatory environment to which it is subject. The Firm has implemented a software system to enhance its reporting and analysis of operational risk data by enabling risk identification, measurement, monitoring, reporting and analysis to be done in an integrated manner, thereby enabling efficiencies in the Firm's management of its operational risk.

In India, Location Operating Committee (LOC) chaired by the Chief Operating Officer of the Branch is responsible for the oversight and control of operating risk within the location. LOC meetings are held once in two months to review all operating risk, regulatory framework and general ledger controls.

The Branch has set capacity limit for handling transaction per day in each product. On a daily basis, information in the form of volumes of deals, outstanding nostro / bank balances, confirmations outstanding and reconciliation breaks are reported by Operations to the Asia Operating Risk Management group (ORM). The same is reviewed and compiled on fortnightly basis and reported by ORM to the regional management. In case of an operational risk event, businesses operating in the Branch are responsible for filing an error report for input into the Firm's risk event database.

Further the Management Committee consisting of senior management has been established to enable the management of JPMCB to discharge their responsibilities effectively. The Management Committee reviews business, operational and financial matters, as well as risk management.

Operation Risk Capital Assessment

As required by Reserve Bank of India, the Branch follows the Basic Indicator Approach to compute capital requirements for operational risk.

XI Interest rate risk in the banking book (IRRBB)

Interest rate risk management for the banking book is governed by the relevant Market Risk Management policies and framework as well as Asset/ Liability Committee (ALCO) policy at the Firm level. The risk management approach at the location or entity level is consistent with that of the corporate level.

BPV as a measure is used to calculate Interest Rate Risk in the Banking book. BPV quantifies the MTM impact to a portfolio of trades to a one basis point change parallel shift in the yield curve.

Currently the Interest Rate Risk in the Banking Book as of March 31, 2009 is around BPV INR1,920 thousand. A 200 bps stress will result in economic loss of Rs. 384,053 thousand which is not considered to be material given the size of the balance sheet and the capital position of the Branch.