

**BASEL II – PILLAR 3 DISCLOSURES**

**JPMorgan Chase Bank, National Association, Madrid Branch**

**Financial year ending December 31, 2011**

STRICTLY PRIVATE AND CONFIDENTIAL

## Disclosures under the New Capital Adequacy Framework (Basel II guidelines) for the year ended December 31, 2011

The Basel II Pillar 3 disclosures ("Basel P3") included herein is made solely to meet the requirements in Spain, and relate solely to the activities of the Madrid Branch of JPMorgan Chase Bank, National Association, 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, 2011, which is available in the Investor Relations section of [www.jpmorganchase.com](http://www.jpmorganchase.com)

All quantitative disclosures are reported in euros thousands.

### I Scope of application

The New Capital Adequacy Framework ("Revised Framework") as prescribed by Bank of Spain is applied to the operations of JPMorgan Chase Bank, National Association, (a bank incorporated in the United States of America) in Spain, i.e. to JPMorgan Chase Bank, National Association, Madrid Branch ("the Branch"); being its sole branch in Spain.

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 Spain through the Branch and through other subsidiaries owned by one or more of its principal subsidiaries.

Presently, **Consolidation Accounting** is not applicable to the Spain operations of JPMC since none of its Spanish subsidiaries are owned by the Branch in Madrid.

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 Spain.

Composition of Capital funds	
Head Office account	117,648
Statutory reserves	260,717
<b>Tier I capital</b>	<b>378,365</b>
Loan loss provision	13,260
<b>Tier II capital</b>	<b>13,260</b>
<b>Total Capital funds</b>	<b>391,625</b>

### 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, supplemented where appropriate by a consideration of branch-specific issues including local stress tests. 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 annually or with increased frequency if circumstances demand.

A summary of the Branch's capital requirement for credit risk, market risk and operational risk and the capital adequacy ratio as on December 31, 2011 is presented below.

Capital Requirements	
<b>Counterparty credit risk</b>	
- Standardised approach	127,424
thereof:	
Central governments or central banks	0
Institutions	8,326
Corporates	118,386
Retail	0
Other items	712
<b>Market risk</b>	
- Standardised approach	0
<b>Operational risk</b>	
- Basic indicator approach	6,912
<b>Total Capital requirements</b>	<b>134,336</b>
<b>Capital Adequacy Ratios (%)</b>	
Total Capital ratio	23.32%
Tier I Capital ratio	22.53%
Tier II Capital ratio	0.79%

## IV Credit Risk

### Credit Risk Management Policy

Credit risk is the risk of loss from obligor or counterparty default. Globally, the Firm provides credit (for example, through loans, lending-related commitments and derivatives) to corporate customers of all sizes. The Firm manages the risk/reward relationship of each credit extension through a shareholder value added parameter, which also includes a hurdle risk adjusted return on capital metric. In addition, credit risk management includes the distribution of the Firm's wholesale syndicated loan originations into the marketplace, with retained exposure held by the Firm pegged at a prudently low level. Wholesale loans generated by Commercial Banking are generally retained on the balance sheet and are mostly guaranteed by a strong overseas parent, who is monitored by the Firm's overseas branch in the same jurisdiction.

### Credit risk organization

Credit risk management is overseen by the Chief Risk Officer and implemented within the lines of business. The Firm's credit risk management governance consists of the following 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
- Monitoring and managing credit risk across all portfolio segments
- Managing criticized exposures

### Risk identification

The Bank 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, 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. 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.

### Risk reporting

To enable monitoring of credit risk and decision-making, aggregate credit exposure, credit metric forecasts, hold-limit exceptions 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.

Locally at Madrid branch, all proposals with relevant details of exposure, industry exposures etc. are subject to the relevant credit authority approval in accordance with the Global Credit Policy and follows the global risk management process outlined above.

### Definition of past due and impaired

In line with Bank of Spain directives (CBE 4/2004 ), 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 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.

The majority of risks faced by the Branch can be considered counterparty credit risks. Below disclosures show exposures broken down by class, counterparty and residual terms.

Total Exposures by counterparty	Loans & credit facilities	Guarantees	Unused loan commitments
Central governments or central banks	10,936	0	0
Regional or Local Governments	0	0	0
Institutions	495,676	317	9,553
Corporates	1,130,815	109,864	669,161
Retail	0	0	0
Other items	9,072	0	0
<b>Total</b>	<b>1,646,499</b>	<b>110,181</b>	<b>678,714</b>

Loans & credit facilities by residual maturity	
1 Year or Less	913,780
Over 1 year through 5 years	641,852
Over 5 years	90,867
<b>Total</b>	<b>1,646,499</b>

Guarantees by type	
Financial	47,514
Performance	62,667
<b>Total</b>	<b>110,181</b>

Unused loan commitments by maturity	
Less than 1 year	0
Over 1 year	678,714
<b>Total</b>	<b>678,614</b>

Pending

## V Credit Risk: Standardised approach

The Branch is using issue ratings which are assigned by the accredited rating agencies Standard & Poor's, Moody's and Fitch to assign risk-weights in terms of Bank of Spain guidelines for all its exposures.

Credit risk weight	
Below 100% risk weight	781,875
100% risk weight	1,527,865
More than 100% risk weight	125,654
<b>Total</b>	<b>2,435,394</b>

## 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 remargining / revaluation frequency of the collateral.

During the financial year 2011 JPMorgan Chase Bank, National Association, Madrid Branch has used cash collateral and financial collateral as risk mitigation techniques for the purpose of calculating capital under Basel II.

Credit risk - mitigation techniques	Cash Collateral	Guarantees
Institutions	0	537
Corporates	-31,383	-537
Other items	31,383	0

## VII Securitisation

Globally, the Firm securitizes and sells a variety of consumer and wholesale loans to make optimum use of capital. Locally, the Branch has not participated in securitisations.

## VIII Market risk

### Market risk management

The Group 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 Group separates exposures to market risk into either trading or non-trading portfolios.

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

### Market risk management framework

At group level, market risk is identified, measured, monitored, 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 Group'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 measurement, 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 Group's business segments have valuation teams which provide independent oversight for the accuracy of valuations of the positions that expose the Group 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 Group 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 Group 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 Group 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 Group's market risk exposure.

- (ii) Statistical measures

The Group'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 Group 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 Group 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 Group'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 Group'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 Group'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 Group'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.

### Market risk monitoring

Market risk is controlled primarily through a series of limits. Limits reflect the Group's risk appetite in the context of the market environment and business strategy. In setting limits, the Group 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 designating approved financial instruments and tenors for each business segment.

All non-statistical measures, statistical measures, loss advisories and limit excesses are reported daily to each lines of business.

### Market Risk Capital Assessment

JPMorgan Chase Bank, National Association, Madrid Branch follows the Standardised Approach to calculate capital requirements for market risks and foreign exchange risks.

## IX 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 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.

In Spain, 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 a month to review all operating risk, regulatory framework and general ledger controls.

The Branch has defined processes and controls to monitor and identify potential capacity issues. On a periodic basis, information in the form of volumes of deals, outstanding nostro / bank balances, confirmations outstanding and reconciliation breaks are reported by Operations to the Operating Risk Management group (ORM) and on a monthly basis metrics are reviewed by the Location Operating Committee (LOC). In case of an operational risk event, businesses operating in the Branch are responsible for escalation and filing an error report for input into the Firm's risk event database, as well as for completing an action plan to resolve underlying cause.

### Operation Risk Capital Assessment

JPMorgan Chase Bank, National Association, Madrid Branch follows the Basic Indicator Approach to compute capital requirements for operational risk.

Operational Risk - Basic indicator approach	
2011 - Annual Gross Income	34,880
2010 - Annual Gross Income	47,678
2009 - Annual Gross Income	55,682
<b>Capital Requirement</b>	<b>6,912</b>