2009 BASEL II PILLAR 3 DISCLOSURES

J.P. Morgan Luxembourg-regulated entities

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J.P.Morgan

2009 Basel II Pillar 3 qualitative disclosures

JPMorgan Chase & Co's view is that the full force of Basel II should apply at the consolidated level. We believe that the application of Pillar 3 at the individual entity level is unduly burdensome and potentially misleading. In accordance with the guidance of the Commission de Surveillance du Secteur Financier (CSSF), J.P. Morgan Bank Luxembourg S.A. is making Pillar 3 "Light" disclosures in 2009, i.e. paragraphs 20 and 21 of Circular CSSF 06/273. We do not believe these disclosures to be an accurate reflection of the risk profile of our Luxembourg entities, as J.P. Morgan manages its risks on a Line of Business basis. Users are advised that the information should not be used for decision-making purposes.

The Basel II Pillar 3 disclosures included herein are made solely to meet the requirements in Luxembourg, and relate to the activities of the following Luxembourg entity:

- J.P. Morgan Bank Luxembourg S.A.

Pillar 3 disclosures comprise two types:

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

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

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

JPMorgan Chase & Co. 2008 Annual Report

JPMorgan Chase & Co. Form 10-Q: 30 September 2009

Additional qualitative disclosures applicable only to relevant Luxembourg entities

Pillar 1 Operational Risk Capital Requirement

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

Nominated ECAIs for Pillar 1 Standardised Credit Risk Capital Requirement

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

Quantitative disclosures

Capital Resources

As at 31 December 2008, J.P. Morgan Bank Luxembourg S.A. had capital resources which were more than the required minimum.

The following table shows the Company's capital resources as at 31 December 2008.

Minimum Capital Requirements

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

Tier 1, Tier 2 and Tier 3 Capital Resources

	As at 31 Dec 08
	$MM
Tier 1 Capital (excluding innovative tier 1)	
Called-up share capital	11
Eligible reserves	462
Minority interests	-
Tier 1 Notes	-
Perpetual non-cumulative preference shares	-
Total Tier 1 capital before deductions (excluding innovative Tier 1)	473
Deductions from Tier 1	
None	-
Total deductions from Tier 1	-
Total Tier 1 capital after deductions and restrictions	**473**
Tier 2 Capital	
None	-
Total Tier 2 capital before deductions	-
Deductions from Tier 2	
None	-
Total deductions from Tier 2	-
Total Tier 2 capital after deductions and restrictions	**-**

Regulatory deductions from Tier 1 and Tier 2 capital	
None	-
Total deductions from Tier 1 and Tier 2	-
Tier 3 Capital	
None	**-**
Total net capital resources	**473**

Minimal Capital Requirements for Credit Risk under the Standardised Approach

	Minimum Capital **As at 31 Dec 08 $MM**
Credit Risk Exposure: Analysis by Exposure Class	
Institutions	223
Corporates	5
Other items	7
Total - Standardised Approach Requirement	**235**

The entities under scope do not have any minimum capital requirements for market risk, counterparty risk and concentration risk.

Minimum Capital Requirement for Operational Risk

	Minimum Capital **As at 31 Dec 08 $MM**
Operational Risk - Basic Indicator Approach	39
Total Operational Risk Capital Requirement	**39**

Methodology for determining impairment provisions

Primary responsibility for determining impairment provisions is managed centrally according to the Firm's Credit Policy. Specifically, responsibility resides with Global Credit Risk Management (credit analysis) and Credit Executives (credit approval). In respect of advised and unadvised overdraft lines available at the Bank, the Firm has given a guarantee in favour of the Bank resulting in any credit loss being borne by the Firm rather than the Bank.

Credit Risk Exposures before Credit Risk Mitigation (CRM)

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

Credit risk exposure under the Standardised approach

	Exposure Pre CRM	Average Exposure Pre CRM over the year
As at 31 Dec 08	**$MM**	**$MM**
Credit Risk Exposure Class Pre CRM		
Central governments or central banks	77	63
Institutions	13,902	6,046
Corporates	120	598
Collective investment undertakings (CIUs)	-	-
Other items	91	117
Total Standardised Approach Credit Risk Exposure	**14,190**	**6,824**

Geographical analysis of Credit risk exposure under the Standardised approach

As at 31 Dec 08	Luxembourg $MM	Other European Union $MM	United States $MM	Asia $MM	Rest of the World $MM	Total $MM
Credit Risk Exposure Class Pre CRM						
Central governments or central banks	77	-	-	-	-	77
Institutions	5	7,297	3	21	6,576	13,902
Corporates	95	10	-	-	15	120
Other items	91	-	-	-	-	91
Total Standardised Approach Credit Risk Exposure	**268**	**7,307**	**3**	**21**	**6,591**	**14,190**

Industry analysis of Credit risk exposure under the Standardised approach

As at 31 Dec 08	Banks $MM	Mutual Funds $MM	Other $MM	Total $MM
Credit Risk Exposure Class Pre CRM				
Central governments or central banks	77	-	-	77
Institutions	13,902	-	-	13,902
Corporates	-	114	6	120
Other items	-	-	91	91
Total Standardised Approach Credit Risk Exposure	**13,979**	**114**	**97**	**14,190**

Residual maturity analysis of Credit risk exposure under the Standardised approach

	Exposure Pre CRM Standardised Approach Credit Risk Exposure Class						
	On demand and qualifying revolving	Under one year	Over one year but not more than three years	Over three years but not more than five years	Over five years but not more than ten years	Over ten years or undated	Total
As at 31 Dec 08	**$MM**	**$MM**	**$MM**	**$MM**	**$MM**	**$MM**	**$MM**
Credit Risk Exposure Class Pre CRM							
Central governments or central banks	77	-	-	-	-	-	77
Institutions	13,902	-	-	-	-	-	13,902
Corporates	120	-	-	-	-	-	120
Other items	-	91	-	-	-	-	91
Total Standardised Approach Credit Risk Exposure	**14,099**	**91**	**-**	**-**	**-**	**-**	**14,190**

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

As at 31 Dec 08	Impaired exposures $MM	Past Due exposures $MM	Provision $MM
Banks	-	-	-
Corporates	16	-	5
Other	-	-	-
Total	**16**	**-**	**5**

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

As at 31 Dec 08	Impaired exposures $MM	Past Due exposures $MM	Provision $MM
Other European Union	16	-	5
Total	**16**	**-**	**5**

Analysis of movement on impairment and amounts taken directly to the income statement

Impairment Movement	**Provision**
Year ended 31 Dec 08	**$MM**
As at 31 Dec 07	**-**
Amounts charged against profit	5
As at 31 Dec 08	**5**

Direct Income Statement Impacts	**Income Statement Impact**
Year ended 31 Dec 08	**$MM**
Direct write-offs	5

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

Credit quality step analysis of Pre CRM exposure and capital deductions under the Standardised Approach

	Credit exposure								Capital
Credit Exposure / Capital Pre CRM	**Credit Quality Step 1**	**Credit Quality Step 2**	**Credit Quality Step 3**	**Credit Quality Step 4**	**Credit Quality Step 5**	**Credit Quality Step 6**	**Unrated**	**Total**	**Deducted from Capital Resources**
As at 31 Dec 08	**$MM**	**$MM**	**$MM**	**$MM**	**$MM**	**$MM**	**$MM**	**$MM**	**$MM**
Central governments or central banks	77	-	-	-	-	-	-	77	-
Institutions	12,728	1,174	-	-	-	-	-	13,902	-
Corporates	10	-	-	-	-	-	110	120	-
Other items	-	-	-	-	-	-	91	91	-
Total Standardised Approach Credit Risk Exposure / Capital	**12,815**	**1,174**	-	-	-	-	**201**	**14,190**	-

Credit quality step analysis of Post CRM exposure and capital deductions under the Standardised Approach

	Credit exposure								Capital
Credit Exposure / Capital Post CRM	**Credit Quality Step 1**	**Credit Quality Step 2**	**Credit Quality Step 3**	**Credit Quality Step 4**	**Credit Quality Step 5**	**Credit Quality Step 6**	**Unrated**	**Total**	**Deducted from Capital Resources**
As at 31 Dec 08	**$MM**	**$MM**	**$MM**	**$MM**	**$MM**	**$MM**	**$MM**	**$MM**	**$MM**
Central governments or central banks	77	-	-	-	-	-	-	77	-
Institutions	12,779	1,174	-	-	-	-	-	13,953	-
Corporates	10	-	-	-	-	-	59	69	-
Other items	-	-	-	-	-	-	91	91	-
Total Standardised Approach Credit Risk Exposure / Capital	**12,866**	**1,174**	**-**	**-**	**-**	**-**	**150**	**14,190**	**-**

Non Trading Book exposures in Equities

The following shows the exposures in equities in regards to the Non Trading Book.

Fair value of and gains and losses on equity investments

Non Trading Book Equity Investments	**As at 31 Dec 08**
Fair Value	**$MM**
Exchange Traded	-
Private Equity	-
Other	-
Total	**-**
Cumulative Realised Gains / Losses from Sale and Liquidations of equity investments	**-**
Unrealised gains/(losses)	
Total Gains or Losses	**-**
Amount included in Tier 1,2 or 3 Capital	**-**
Latent Revaluation gains/(losses)	
Total Gains or Losses	**-**
Amount included in Tier 1,2 or 3 Capital	**-**

Exposures in equities consist exclusively of available-for-sale non exchange traded shares.

Sensitivity of the Banking Book to interest rate changes

Sensitivity of the Banking Book to interest rate changes

As at 31 Dec 08	Change in Economic Value of Equity $MM	$MM
Currency	**+ 200 basis points**	**- 200 basis points**
EUR	-	-
USD	-	-
GBP	-	-
Other	-	-
Total Economic Value of Equity (EVE)	**-**	**-**
Percentage of EVE to Tier 1 and Tier 2 Capital	**-**	**-**

Collateral and Guarantees for Standardised Approach

Collateral and Guarantees for Standardised Approach

	Total Exposure after netting and volatility adjustments covered by Eligible Financial Collateral	Total Exposure after netting and volatility adjustments covered by Other (Non-Financial) Eligible Collateral	Total Exposure - after netting covered by Guarantees and Credit Derivatives
As at 31 Dec 08	**$MM**	**$MM**	**$MM**
Standardised Approach Credit Risk Exposure Class			
Central governments or central banks	-	-	-
Institutions	-	-	-
Corporates	-	-	51
Retail	-	-	-
Collective investment undertakings (CIUs)	-	-	-
Other items	-	-	-
Total	**-**	**-**	**51**

Internal Capital Adequacy Assessment Process (ICAAP, Pillar 2)

Besides the regulatory capital requirement, J.P. Morgan Bank Luxembourg S.A. (“JPMBL”) performs an internal capital adequacy assessment process in accordance with circulars CSSF 06/273, 07/290 and 07/301.

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

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

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

For the purposes of pillar 2 **operational risk** quantification the corresponding operational risk weighting factor for each line of business is used, known as a 'beta'. The beta is defined as the line of business operational risk capital divided by the line of business operating revenue. Security Services is allocated a 9.04% beta.

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

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

All activities of the Bank fall under the same line of business (Security Services), and therefore it has been concluded that it is appropriate to use the 'beta' applicable to the line of business.

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

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

Furthermore, as at June 30, 2009, the actual capital of JPMBL represented 4.36 times the Pillar I and operational risk capital requirements. This highlights the fact that JPMBL is well capitalised relative to its risks.

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