

## J.P. MORGAN – 2011 UK COMPENSATION DISCLOSURE

### EXECUTIVE SUMMARY

J.P.Morgan Chase is the parent company of the J.P. Morgan entities based in the UK. The Firm continues to invest in our businesses and develop our people in order to have world-class franchises that provide great services to our customers and clients and make a positive impact in communities globally. The strength of the Firm globally and across the businesses continued to be reflected in our performance in 2011. A few highlights were:

- Record net income of \$19 billion, up 9% from 2010
- Earnings per share of \$4.48, up 13% from 2010
- Return on tangible common equity<sup>1</sup> in 2011 of 15%

In this section we briefly describe our philosophy and approach to compensation and our 2011 performance.

**Compensation Philosophy and Practices** — The performance of JPMorgan Chase depends on the quality of our people and strength of our leadership, both in the customer-facing areas and in the risk and control and other support functions essential to the business and our customers. Attracting, developing and retaining diverse talent and applying balanced compensation arrangements are essential to our success. Our global compensation philosophy, policies and practices drive accountability, and seek to reflect the interplay among risk, financial performance and compensation, especially as it relates to risk assessment and risk-adjusted performance.

The JPMorgan Chase Compensation practices and principles are provided in Appendix A and the major compensation elements we use in our programmes are summarized in Appendix B. The practices and principles set out key concepts and how the Firm implements them in controlling and administering compensation, including:

- Independent Board oversight of the Firm's global compensation practices and principles and their implementation.
- A recognition that competitive and reasonable compensation helps attract and retain the high quality people necessary to grow and sustain our business.
- A focus on multi-year, long-term, risk-adjusted performance and rewarding behavior that generates sustained value for the Firm through business cycles.
- A focus on the performance of the individual employee, the relevant line of business or function and the Firm as a whole.
- Performance assessments that are broad-based and balanced, including an emphasis on teamwork and a "shared success" culture.
- A significant stock component (with deferred vesting) for shareholder alignment and retention of top talent. For the CEO and other Named Executive Officers:
  - More than 90% of their 2011 total compensation was performance-based variable compensation.
  - 65% of their total compensation was in the form of long-term equity-based incentive awards, with the value ultimately dependent on stock price performance.
  - Shares received from equity awards are subject to robust retention requirements and a prohibition on hedging.
- Although awards are made with the expectation that they will vest in accordance with their terms, all awards contain strong recovery provisions, and additional risk-related recovery provisions apply to awards to the Operating Committee (the Firm's most senior management committee responsible for the major lines of business and functions of the Firm) and to a group of senior employees we refer to as Tier 1 employees with primary responsibility for risk positions and risk management. These provisions also apply to Code Staff, whether they are Tier 1 employees or not

- For awards made in 2012 (in respect of 2011), we also added protection-based vesting provisions to equity awards for the Operating Committee and other Tier 1 and Code Staff employees with specific financial thresholds that will result in formal compensation reviews and are designed to be effective in the event of material losses or earnings substantially below the Firm's potential. These and other provisions are described further at page 7.

**Pay for Performance** — The Compensation & Management Development Committee uses its business judgment to determine the compensation of the CEO and other members of the Operating Committee because it is important to focus on long-term results and a qualitative and quantitative view of their total contribution. In determining total compensation, the Compensation & Management Development Committee considers the overall scope of an executive's responsibilities, the executive's performance history with the Firm, comparisons with other executives within the Firm, external market compensation data, and the overall performance of the Firm and the LOB or function the executive leads.

The Board looks for executive performance to be appropriately sustained over multiple time periods, and superior performance to be achieved across multiple factors.

As Chairman and CEO, Mr. Dimon is responsible overall for guiding the Firm's financial performance and growth, its strategic and operational priorities, risk and control management, and management development and succession planning. Mr. Dimon reviews the priorities for the Firm with the Board of Directors and, in consultation with the Compensation & Management Development Committee and the Board, establishes the priorities for each LOB CEO annually, which are the priorities of the businesses they lead. Heads of functions also review and establish their priorities with the CEO.

Mr. Dimon discusses with the Compensation & Management Development Committee his assessment of the performance of each member of the Operating Committee with respect to individual contributions, and business or function performance, as well as overall Firm performance. Mr. Dimon makes compensation recommendations to the Compensation & Management Development Committee for their consideration as part of their approval process.

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## 2011 Business Performance Overview

Despite the continued challenges of our economic environment, the Firm achieved record net income of \$19 billion in 2011, or \$4.48 per share, on revenue of \$97.2 billion, and made significant investments to continue to build our market leading franchises. As described in "Management's Discussion and Analysis of Financial Conditions and Results of Operations" in our Annual Report, our 2011 financial results were stronger relative to 2010 results, which were also very strong. A few highlights are referenced below.

### Year-over-year performance comparison of key Firm financial metrics

Financial metrics	2011	2010	Change
Net Income (billions)	\$19.0	\$17.4	+9%
EPS	\$4.48	\$3.96	+13%
ROE	11%	10%	
ROTCE <sup>1</sup>	15%	15%	
Tier 1 Capital ratio	12.3%	12.1%	
Tier 1 Common capital ratio <sup>2</sup>	10.1%	9.8%	

- Strong client relationships and continued investments for growth resulted in good performance across most of the Firm's businesses.
  - #1 ranking for Global Investment Banking Fees for 2011
  - Credit card sales volume up 10% for 2011; net charge-offs improved
  - Commercial Banking reported record revenue and net income for 2011; strong loan growth, up 13%; record deposit balances, up 26%
  - Treasury & Securities Services reported record deposit balances, up 28% for 2011
  - Asset Management reported record revenue for 2011
  - Gained market share in the mortgage business
  - Recent Fortune ranking – #1 Bank; #22 Best Company in the world.
- The Firm maintained a fortress balance sheet:
  - Basel I Tier 1 Common of \$123 billion<sup>2</sup>, or 10.1%<sup>2</sup>, and estimated Basel III Tier 1 Common of 7.9%<sup>2</sup>
  - Credit reserves at \$28.3 billion, with loan loss coverage ratio at 3.35%<sup>3</sup> of total loans
  - Total deposits of \$1.1 trillion, up 21% from prior year

Throughout 2011, JPMorgan Chase continued to play a constructive and important leadership role in supporting consumers, businesses, and communities and in continuing to invest in the Firm's future.

Supporting consumers	Supporting businesses	Supporting our communities	Investing in the Firm's future
<ul style="list-style-type: none"> <li>• In 2011, we:               <ul style="list-style-type: none"> <li>◦ Provided \$252 billion of credit to consumers</li> <li>◦ Provided new credit cards to 8.5 million people</li> <li>◦ Originated over 765,000 mortgages</li> </ul> </li> <li>• Since 2009 we offered over 1.2 million mortgage modifications and completed approximately 452,000 to help struggling homeowners</li> </ul>	<ul style="list-style-type: none"> <li>• Provided \$545 billion of credit to businesses in 2011, up 28%, including:               <ul style="list-style-type: none"> <li>◦ \$257 billion for Investment Bank clients, up 29%</li> <li>◦ \$106 billion for Commercial Banking clients, up 18%</li> <li>◦ \$65 billion for Treasury &amp; Securities Services clients, up 14%</li> <li>◦ \$100 billion for Asset Management clients, up 48%</li> <li>◦ \$17 billion to U.S. small businesses clients, up 52%</li> </ul> </li> <li>• Raised \$1.0 trillion of capital for clients in 2011, up 23%</li> </ul>	<ul style="list-style-type: none"> <li>• In 2011, we:               <ul style="list-style-type: none"> <li>◦ Raised \$68 billion of capital for and provided credit to over 1,200 not-for-profit and government entities, including states, municipalities, hospitals and universities</li> <li>◦ Donated more than \$200 million to not-for-profits in our communities worldwide</li> <li>◦ Donated 85 homes to wounded veterans</li> <li>◦ Hired 3,000 U.S. Military veterans</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Consumer &amp; Business Banking opened 260 new branches; added 3,800 salespeople in 2011</li> <li>• Global Corporate Bank expanded to 250 bankers, covering 3,500 corporate clients around the world; opened more than 20 new offices outside the U.S. over the last two years</li> <li>• Asset Management added 160 private bank client advisors in 2011</li> <li>• The Firm added more than 17,000 jobs in the U.S. in 2011</li> <li>• Conducted on-going training, development, diversity and succession planning reviews across the Firm</li> </ul>

<sup>1</sup>Tangible common equity ("TCE"), a non-GAAP financial measure, represents common stockholders' equity (i.e., total stockholders' equity less preferred stock) less goodwill and identifiable intangible assets (other than MSRs), net of related deferred tax liabilities. ROTCE, a non-GAAP financial ratio, measures the Firm's earnings as a percentage of TCE. In management's view, these measures are meaningful to the Firm, as well as analysts and investors in assessing the Firm's use of equity, and in facilitating comparisons with competitors.

<sup>2</sup>Tier 1 common capital ratio ("Tier 1 common ratio") is Tier 1 common capital divided by risk-weighted assets. The Firm uses Tier 1 common capital ("Tier 1 common") along with the other capital measures to assess and monitor its capital position. For further discussion of Tier 1 common capital ratio, see Regulatory capital on pages 119–122 of our 2011 Annual Report.

<sup>3</sup>The ratio of the allowance for loan losses to end-of-period loans excludes the following: loans accounted for at fair value and loans held-for-sale; purchased credit-impaired ("PCI") loans; and the allowance for loan losses related to PCI loans. The allowance for loan losses related to the purchase credit-impaired portfolio totaled \$5.7 billion at December 31, 2011.

## Compensation Framework

**Corporate governance and Board oversight** — JPMorgan Chase’s global compensation framework is supported by our corporate governance and board oversight. The Board of Directors, through the Compensation & Management Development Committee, oversees our global compensation programmes, including overall accruals, mix of cash/stock, deferral percentages, and vehicles for delivering performance-based incentives, including equity and deferred cash award terms and conditions. The Board of Directors regularly reviews financial performance, risk management and incentive compensation.

Compensation is a focus of our regulators. The Compensation & Management Development Committee is periodically apprised of regulatory developments and compliance requirements in the principal jurisdictions in which we operate, including the UK. Our compensation programmes are intended to be consistent with applicable regulatory standards including the FSA’s Remuneration Code. In addition to approving compensation for Operating Committee members, the Compensation & Management Development Committee approves the formula, pool calculation and performance goals for the shareholder-approved Key Executive Performance Plan (“KEPP”) as required by Section 162(m)(1) of the U.S. Internal Revenue Code, reviews line of business total incentive accruals versus performance throughout the year, approves final aggregate incentive funding, and approves total equity grants under the Firm’s long-term incentive plan and the terms and conditions for each type of award. The Compensation & Management Development Committee also reviews the compensation of a number of highly compensated individuals across the Firm globally and reviews the compensation of certain covered employees, including the Code Staff and top paid employees in other locations around the world.

The Compensation & Management Development Committee each year reviews with the Chief Risk Officer the risks that the Firm faces and elements of our organizational structure, management practices and compensation programmes that would discourage unnecessary or excessive risk-taking. The Compensation & Management Development Committee also meets at least annually with one or more members of the Risk Policy Committee.

The Compensation & Management Development Committee does not require all compensation to be awarded in a tax-deductible manner, but it is their intent to do so when consistent with overall corporate goals. The Compensation & Management Development Committee has delegated authority to the Chief Human Resources Officer to administer and amend the compensation and benefits programmes.

As noted above, Mr. Dimon discusses with the Compensation & Management Development Committee his assessment of the performance of each member of the Operating Committee with respect to individual contributions, and business or function performance, as well as overall Firm performance. Mr. Dimon makes compensation recommendations to the Compensation & Management Development Committee for their approval. No member of the Operating Committee other than the CEO has a role in making a recommendation to the Compensation & Management Development Committee as to the compensation of any member of the Operating Committee.

Internal Audit conducts regular, independent audits of the Firm’s compliance with its established policies and controls and applicable regulatory requirements regarding incentive compensation management. Audit findings are reported to appropriate levels of management, and all adversely-rated audits are reported to the Audit Committee of the Board of Directors.

**Relevant competitor framework** — We view benchmarking against comparison groups as important for an understanding of practices of the market, to stay competitive and to use market factors to inform, but not override, our focus on pay for performance. The Compensation & Management Development Committee reviews actual compensation levels, typically from public data, for companies that either directly compete with us for business and/or talent or are general industry global organizations with similar scope, size or other characteristics to JPMorgan Chase. Because we view our executive officers as highly talented executives capable of rotating among the leadership positions of our businesses and key functions, we also place importance on the internal pay relationships among members of our Operating Committee.

As part of benchmarking for 2011 we considered the following companies in two different peer frames:

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**Primary, industry specific, competitor group:**

American Express	Goldman Sachs
Bank of America	Morgan Stanley
Citigroup	Wells Fargo

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**General industry global organizations including:**

Altria	GE	Pfizer
Boeing	Hewlett-Packard	Procter & Gamble
Chevron	IBM	Time Warner
Cisco	Johnson & Johnson	United Technologies
Comcast	Merck	Walmart
Disney	Oracle	3M
ExxonMobil	Pepsico	

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Due to the diverse business model and operations of our various lines of business, other firms considered for comparison by our LOBs were Barclays, BNY Mellon, Capital One Financial, Credit Suisse, Deutsche Bank, HSBC, and UBS.

The Compensation & Management Development Committee and Board of Directors did not engage the services of a compensation consultant in 2011. Management provides the Compensation & Management Development Committee with both internal and external compensation data.

**Integrated risk, compensation and financial management framework** — We approach our incentive compensation arrangements through an integrated risk, compensation and financial management framework. JPMorgan Chase has in place a robust risk management discipline to capture, monitor, and control the risks created by its business activities. The goal is to not only manage the dynamic risks of the Firm, but also to create a culture of risk awareness and personal accountability. This risk discipline seeks to ensure that the potential for excessive risk-taking by any individual, group, or business is controlled, regardless of the motivation.

Applying a disciplined financial management and measurement system is another important element that seeks to ensure that our financial performance results are risk-adjusted and can be measured objectively in light of performance targets, competitor performance, quality of earnings and the credit cycle. Our approach to financial measurement is based on two key principles:

- Earnings recognition, where appropriate, reflects the inherent risks of positions taken to generate profits.
- All LOBs are measured with earnings and balance sheets as though they were stand-alone companies. This approach is reflected in arms-length agreements and market-based pricing for revenue sharing among businesses, funds transfer pricing, expense allocations and capital allocations.

We use balancing mechanisms, such as risk-adjusted metrics, deferrals, clawbacks and protection-based and three- and five-year vesting on long-term incentives to seek to ensure that compensation considers the relationship of near-term rewards to longer-term risks:

- The use of risk-adjusted financial results in compensation arrangements seeks to ensure that longer-term risks are first quantified and then applied in current-year incentives. Therefore, a person's incentive compensation in the current year would be appropriately affected by a number of factors, such as capital charges, valuation adjustments, reserving, and other factors resulting from the consideration of long-term risks.

- The majority of compensation plans at JPMorgan Chase address potential timing conflicts by including payment deferral features. Deferred cash and equity awards have multi-year vesting. By staggering the vesting of deferred awards over time, the interests of employees to build long-term, sustainable performance (i.e., quality earnings) are better aligned with the long-term interests of both customers and shareholders.
- Incentives are generally split between cash and deferred equity, with the percentage being deferred and awarded in equity increasing as an employee's incentive compensation increases. For Code Staff, Incentives are split between cash, retained stock, deferred cash and deferred equity.
- Stringent recovery provisions are in place for incentive awards (cash and deferred incentive compensation).

As part of our control processes, compensation of risk and control professionals is determined by the functional leads (e.g., Head of Risk or Control functions).

**Pay mix** — Our compensation structure is designed to contribute to the achievement of the Firm's short-term and long-term strategic and operational objectives, while avoiding risk-taking inconsistent with the Firm's risk management strategy. This is accomplished through a balanced total compensation program comprised of a mix of fixed pay (base salary) and variable pay in the form of cash incentives and long-term incentives that vest over time. The percentage of deferred awards is higher for more highly compensated employees.

We also believe that providing the appropriate level of salary and annual cash incentive is important in ensuring that our senior officers are not overly focused on the short-term performance of our stock. With respect to 2011, in the Committee's judgment, striking the right balance between short-term and long-term incentives was accomplished by awarding 60% or more of incentive compensation in the form of long-term equity incentives to members of the Operating Committee.

**Equity grant practices** — Equity grants are awarded as part of the annual compensation process and as part of employment offers for new hires. Equity-based incentives are granted in the form of RSUs and SARs. RSU grants generally vest 50% after two years and 50% after three years. SARs become exercisable 20% per year over five years and any shares received upon exercise must be held for not less than five years from the grant date.

In each case, the grant price is not less than the average of the high and the low prices of JPMorgan Chase common stock on the grant date. Grants made as part of the annual compensation process are generally awarded in January after earnings are released and generally in the form of RSUs. RSUs carry no voting rights; however, dividend equivalents are paid on the RSUs at the time actual dividends are paid on shares of JPMorgan Chase common stock. The Firm does not grant options with restoration rights and prohibits repricing of stock options and SARs.

**Required share retention** — Share retention policies apply to our directors and members of the Operating Committee. Directors pledge to retain all shares of JPMorgan Chase while they serve as a director. Operating Committee members are expected to establish and maintain a significant level of direct ownership. For Mr. Dimon and other members of the Operating Committee, after-tax shares they receive from equity-based awards, including options, are subject to a 75% retention requirement during the first 10 years from grant of the award and 50% thereafter. Half of unvested RSUs (the approximate after tax-equivalent) are included as part of both the ownership and the retention calculation. Executives are subject to these retention requirements during their service on the Operating Committee; any exceptions are subject to approval by the General Counsel.

#### **No hedging —**

- Operating Committee and Executive Committee members and Directors: No hedging of the economic risk of their ownership of our shares is permitted, even for shares owned outright. No short sales, no hedging of unvested RSUs or unexercised options or SARs, no hedging of deferred compensation.
- Other employees: No short sales, no hedging of unvested RSUs or unexercised options or SARs, no hedging of deferred compensation. If they own shares outright and can sell them, they are permitted to hedge them, subject to compliance with window period policies that restrict transactions in JPMorgan Chase's shares pending the release of earnings and applicable preclearance rules.

**Long-standing recovery provisions** — Incentive awards are intended and expected to vest in accordance with their terms but we have long had strong recovery provisions that would permit recovery of incentive compensation awards in appropriate circumstances. We retain the right to reduce current year incentives to redress any prior imbalance that we have subsequently determined to have existed, and a clawback review or other recovery mechanism may be initiated as a result of a material restatement of earnings or by acts or omissions of employees as outlined below, including a failure to supervise in appropriate circumstances. Beyond the recovery provisions that apply to all employees, additional provisions apply to the Operating Committee and to other Tier 1 and Code Staff employees.

- The Firm may seek repayment of cash and deferred incentive compensation in the event of a material restatement of the Firm's financial results for the relevant period under our recoupment policy adopted in 2006.
- Equity and deferred cash awards vest over multiple years, with RSUs and cash generally vesting 50% after two years and 50% after three years and SARs becoming exercisable 20% per year over five years. Awards are subject to the Firm's right to cancel an unvested or unexercised award, and to require repayment of the value of certain shares distributed under awards already vested if:
  - the employee is terminated for cause or the Firm determines after termination that the employee could have been terminated for cause,
  - the employee engages in conduct that causes material financial or reputational harm to the Firm or its business activities,
  - the Firm determines that the award was based on materially inaccurate performance metrics, whether or not the employee was responsible for the inaccuracy,
  - the award was based on a material misrepresentation by the employee,
  - and for members of the Operating Committee, Tier 1 and Code Staff employees, such employees improperly or with gross negligence fail to identify, raise, or assess, in a timely manner and as reasonably expected, risks and/or concerns with respect to risks material to the Firm or its business activities.
- For members of the Operating Committee, all SARs and half of RSUs granted in 2012 are subject to possible cancellation or deferral in scheduled vesting or exercisability in the event the CEO determines that the performance of the executive in relation to the priorities for such executive's position, or the Firm's performance in relation to the priorities for which the executive shares responsibility as a member of the Operating Committee, have been unsatisfactory for a sustained period of time. Such determination is subject to ratification by (and for an award to the CEO would be made by) the Compensation & Management Development Committee.

**Protection-based vesting** — For awards granted in 2012 (in respect of 2011), we added provisions to our equity and deferred cash awards for the Operating Committee and other Tier 1 and Code Staff employees that we call protection-based vesting. These provisions add specific financial thresholds that will result in formal compensation reviews. If the business financial results are below the applicable threshold, formal reviews will be conducted to determine the action to be taken, if any, under the appropriate recovery provisions. These provisions were designed to be effective in the event of material losses or earnings substantially below the Firm's potential that could create substantial financial risk.

- For members of the Operating Committee and other Tier 1 and Code Staff employees, a protection-based vesting provision was added to awards made in 2012 (in respect of 2011) such that a portion of RSUs and deferred cash scheduled to vest in the third year may be cancelled if the business results of the employee's LOB does not meet an applicable financial threshold for any year during the vesting period. For most LOBs, the applicable financial threshold will be negative annual pre-provision net income.
- For the Operating Committee, the following protection-based vesting provisions were added to RSUs awarded in 2012 in respect of 2011:

- Half of RSUs may be cancelled if an employee in the LOB of the Operating Committee member had an award cancelled because the LOB business results are below the applicable financial threshold or if the Firm's reported net income is negative for any year during the vesting period.
- Half of RSUs scheduled to vest in 2015 will be cancelled, absent extraordinary circumstances, if the Firm does not meet a 15% Cumulative Return on Tangible Common Equity over the period 2012, 2013 and 2014 (the sum of the Firm's reported net income for all three years, divided by reported year-end tangible equity averaged over the three years).

In addition to formal recovery provisions and protection-based vesting, the Compensation & Management Development Committee believes that inappropriate risk-taking is also discouraged by management and compensation practices we have long employed. Employee performance is subject to frequent assessment, and we retain the flexibility to reduce current year incentives. Where warranted, individuals may be terminated for cause and may be required to forfeit unvested awards, with certain previously distributed shares also subject to recovery.

**There are no golden parachutes or special severance plans —**

- No golden parachutes for any executives.
- No special severance programmes for Operating Committee members; the Firm's policy limits severance to a maximum of 52 weeks salary based on years of service.
- Equity and deferred cash award terms provide that awards continue to vest on the original schedule, without acceleration and subject to additional restrictions, for employees who have resigned and meet the Firm's full-career eligibility requirements.



## Appendix A

### JPMorgan Chase Compensation principles and practices

<p>A focus on multi-year, long-term, risk-adjusted performance and rewarding behavior that generates sustained value for the Firm through business cycles means compensation should not be overly rigid, formulaic or short-term oriented.</p>	<p>Compensation programs should be designed as much as possible to allow for the Firm to exercise discretion and retain flexibility in compensation decisions. Multi-year guarantees should be kept to an absolute minimum. More generally, the assessment of performance should not be overly formulaic and should not overemphasize any single financial measure or single year, as that can result in unhealthy incentives and lead to unintended, undesirable results.</p> <p>Performance should be considered using a broad-based evaluation of people and their contributions to ensure that the right results are being encouraged. Factors such as integrity, compliance, institutionalizing customer relationships, recruiting and training a diverse, outstanding workforce, building better systems, innovation, and other outcomes should be included. Performance feedback should be obtained from multiple sources across the Firm to ensure it is both balanced and comprehensive.</p> <p>Commission-based incentives generally should be limited to sales- or production-oriented employees who do not control credit or investment decisions. The different risk profiles such as liquidity risk, time horizons for realized gains or losses, and reputational and operational risk all should be appropriately taken into account.</p> <p>In a fiduciary business, certain roles are evaluated solely on individual and business unit results. In addition, some of these roles are paid long-term compensation with incentives linked directly to their investment strategies in order to more fully align their interests with those of the clients.</p>
<p>An emphasis on teamwork and a “shared success” culture should be encouraged and rewarded</p>	<p>Contributions should be considered across the Firm, within business units, and at an individual level when evaluating an employee’s performance.</p> <p>Performance should be based on realized profits and risk-adjusted returns that add to the long-term value of the franchise, rather than just revenues. We adjust financial performance for risk and use of the Firm’s capital.</p>
<p>A significant stock component (with deferred vesting) should create a meaningful ownership stake in the Firm, shareholder alignment and retention of top talent.</p>	<p>A significant percentage of incentive compensation should be in stock that vests over multiple years.</p> <p>As the decision-making authority, importance, and impact of an employee’s role increases, a greater portion of total compensation should be awarded in stock.</p> <p>A proper balance between annual compensation and longer-term incentives should clearly delineate the importance of sustainable, realizable value. At JPMorgan Chase:</p> <p>Our Board of Directors is paid a majority of their compensation in stock and our directors have agreed not to sell any shares of stock (including any open market purchases) for as long as they serve on the Board.</p> <p>Senior executives receive at least 50% (and in some cases, substantially more) of their incentive compensation in stock.</p> <p>The officers who make up our Operating Committee are generally required to hold 75% of compensation-related stock awards until retirement, subject to the Firm’s share retention policy.</p> <p>Executives cannot short or hedge our stock, and even after retirement, executives typically continue to have substantial holdings of company stock.</p>

Disciplined risk management, compensation recovery, and recovery policies should be robust enough to deter excessive risk-taking and strike balance in the delivery of compensation.	Recoupment policies should go beyond Sarbanes-Oxley and other minimum requirements and include recovery of compensation paid for earnings that were never ultimately realized, or if it's determined that compensation was based on materially inaccurate performance metrics or a misrepresentation by an employee. We have in place recovery provisions for "cause" terminations, misconduct, detrimental behavior, and actions causing financial or reputational harm to the Firm or its business activities. For members of the Operating Committee and senior employees with primary responsibility for risk positions and risk management, the Firm may cancel or require repayment of shares if employees failed to properly identify, raise, or assess risks material to the Firm or its business activities.
Competitive and reasonable compensation should help attract and retain the best talent necessary to grow and sustain our business.	<p>Our long-term success depends in very large measure on the talents of our employees. Our compensation system plays a significant role in our ability to attract, motivate, and retain the highest quality management team and diverse workforce.</p> <p>Compensation should have an acute focus on meritocracy, shareholder alignment, sensitivity to the relevant market place, and disciplined processes to ensure it remains above reproach and can help build lasting value for our clients.</p> <p>For employees in good standing who have resigned and meet shareholder alignment, sensitivity to the relevant market place, and disciplined processes to ensure it time on their original schedule and be subject to continuing post-employment obligations to the Firm during this period.</p>
Strict limits and prohibitions eliminate executive perquisites, special executive retirement benefits, special severance plans and golden parachutes.	<p>An executive's compensation should be straightforward and consist primarily of cash and equity.</p> <p>We do not maintain special supplemental retirement or other special benefits just for executives.</p> <p>The Firm generally has not had any change in control agreements, golden parachutes, merger bonuses, or other special severance benefit arrangements for executives.</p>
Independent Board oversight of the Firm's compensation practices and principles and their implementation should ensure proper governance and regulatory compliance.	<p>Our Compensation &amp; Management Development Committee, which includes only independent directors, reviews and approves the Firm's overall compensation philosophy, principles and practices. The Committee reviews the Firm's compensation practices as they relate to risk and risk management in light of the Firm's objectives, including its safety and soundness and the avoidance of excessive risk.</p> <p>The Committee reviews and approves the terms of our compensation award programs, including recovery provisions, restrictive covenants and vesting periods.</p> <p>The Committee reviews and approves the Firm's overall incentive compensation pools and reviews those of each of the Firm's Lines of Businesses and of the Corporate Sector</p> <p>The Committee reviews the performance and approves all compensation awards for the Firm's Operating Committee on a name-by-name basis.</p> <p>The full Board's independent directors review the performance and approve the compensation of our CEO.</p>

## Appendix B

### Elements of compensation

<b>Compensation element</b>	<b>Description</b>	<b>Other features</b>
Base salary	The fixed portion of total compensation that provides a measure of certainty and predictability to meet living and other financial commitments.	Reviewed periodically and subject to increase if, among other reasons, the executive acquires additional responsibilities or the market changes substantially.
Annual variable compensation	Performance based incentives which can vary significantly from year to year.  JPMorgan Chase's principal discretionary incentive arrangement, which covers the majority of employees across virtually all of our LOBs	The Firm views incentive compensation in the context of total compensation and does not establish target levels of incentive compensation as a percentage of relevant employees' annual base compensation
– Short-term incentives	A cash portion is paid and the deferred incentive portion is awarded shortly following the performance year, generally in January.	
– Long-term incentives	Deferred compensation is awarded in the form of Restricted Stock Units ("RSUs") and, for Code Staff, deferred cash, determined by a mandatory deferral percentage representing a portion of the entire incentive award.	The vesting schedule of deferred compensation is generally 50% after two years and 50% after three years. No awards vest sooner than on a pro rata basis over a three year period. SARs become exercisable ratably on each of the first five anniversaries of the grant date and shares received upon exercise must be held for at least five years after the grant date Shares received upon vesting are subject to the retention policy applicable to senior management described at page 6. Equity-related compensation for Operating Committee members is subject to further restriction as described at page 7.
Pension and retirement	The Firm's UK Pension Plan is a defined contribution plan. Contributions were paid on salary up to a cap of £129,600 for 2011/12. Base contributions are 6% with up to a 6% matching contribution. Additional age related contributions are being phased out and will cease from April 2014.	Pension contributions are not paid in respect of incentive awards.
Health and welfare benefits	Firm-wide benefits such as life insurance, medical coverage, and disability insurance.	No special programmes for senior executives.
Severance plan	Firm-wide severance pay plan providing up to 52 weeks of base salary, based on years of service. Benefits paid in a lump sum payment following termination of employment, contingent on the signing of a Compromise Agreement	Continued eligibility for certain health and welfare plan benefits during severance pay period.

## J.P. Morgan UK operations – Code Staff Remuneration Disclosures

The following tables show the remuneration disclosures required by the FSA's prudential sourcebook for banks, building societies and investment firms (BIPRU) 11.5.18 (6) and (7) for Code Staff in post as at 31 December 2011.

Table 1: Aggregate remuneration for Code Staff

2011		
	Investment Bank	Other
Aggregate remuneration expenditure (£000's)	216,204	53,075

Includes salary and incentive awards in respect of performance year 2011 including deferred remuneration

Table 2: Analysis of remuneration between fixed and variable amounts (£000's)

2011			
	Senior management	Other Code Staff	Total
Number of Code Staff	21	98	119
	£	£	£
<b>Fixed remuneration</b>			
Cash	7,425	36,113	43,538
<b>Total fixed remuneration</b>			
<b>Variable remuneration</b>			
Cash	9,261	35,914	45,175
Retained stock	12,148	50,174	62,322
Deferred cash	9,261	35,640	44,901
Deferred stock	16,507	56,836	73,343
<b>Total variable remuneration</b>	47,177	178,564	225,741

Table 3: Analysis of deferred remuneration

2011			
	Senior management	Other Code Staff	Total
	No shares under award/option (000's shares)	No shares under award/option (000's shares)	No shares under award/option (000's shares)
<b>Deferred remuneration at 31 December 2011</b>			
Outstanding vested – SARs and options	2,554	1,732	4,286
Outstanding vested – RSUs	0	1	1
Outstanding unvested -RSUs	1,886	9,933	11,819
Outstanding unvested - SARs	1,809	3,412	5,221
Awarded during financial year - SARS	372	1,216	1,588
Awarded during the financial year - RSUs	806	3,513	4,319
Paid out - RSUs	1,779	8,090	9,869
Paid out – SARs and options	78	45	123
Reduced through performance adjustments	-	-	-

1. The average of high and low share price of J.P. Morgan Chase & Co. common stock as at 31 December 2011 was \$33.24.
2. Each RSU represents the right to receive one share of common stock on the vesting date and non-preferential dividend equivalents paid during the vesting period. RSUs have no voting rights. Additional conditions applicable to these awards are described at page 7
3. SARs are a form of option entitling the employee to receive an amount of shares equal to the positive difference between the Fair Market Value of common stock on the exercise date and the per share exercise price, multiplied by the number of shares of common stock with respect to which the SAR is exercised. SAR grants generally become exercisable over a five-year period and any shares received from exercise must be held at least until the fifth anniversary from the grant date. The exercise price of outstanding SARs and options range from \$19.49 to \$46.79.
4. The above tables relate to Code Staff as at 31 December 2011.

Table 4: Sign on Payments

2011		
	Total (£000's)	Number of recipients
Cash	40	1

Table 5: Severance Payments

2011			
	Total (£000's)	Number of recipients	Largest Payment (£000's)
Cash	1,357	5	380