J.P. Morgan – EU Compensation Disclosure

Executive Summary

JPMorgan Chase is the parent company of the J.P. Morgan entities based in the EU. The Firm has great businesses, exceptional people and a world-class franchise. The strength of the Firm globally and across the businesses was reflected in our performance in 2010. In this section we will briefly describe our 2010 performance and the Firm's philosophy and approach to compensation so the context for 2010 compensation decisions is clear.
Throughout the crisis and in 2010 as market conditions improved, JPMorgan Chase continued to invest in our businesses and our different lines of businesses stayed focused on and continued to seek to do what is right for our clients for the long run. In 2010, the Firm hired thousands of employees across the globe to serve our clients and customers and deliver shareholder value. The Firm maximized its huge client franchises and diverse business model and used its capital wisely to create effective solutions for our clients and invest in our growth. Our leaders and employees helped deliver another profitable year, continued to serve our clients and contributed to the stability of the global economy.

The Firm operates a global compensation philosophy and compensation decisions for our top leadership set the tone and framework for compensation of all our employees including employees located in the EU

The Board and the Compensation & Management Development Committee (Compensation Committee) believe that our compensation programs are well balanced and effective at attracting, motivating and retaining the best diverse talent through economic cycles. Because our CEO, the Board and the Compensation Committee focus on long-term profitability based on sound business strategy, compensation decisions are not based on short-term formulaic results. Instead, our compensation structure is designed to reward sustained performance over multiple years by delivering a higher percentage of total compensation in equity, which vests over several years, and lesser amounts annually in cash.

Compensation decisions in 2010 for our senior leaders were driven by return on investments based on balanced risk measures and long-term value creation for the Firm, our clients and our shareholders. Our CEO along with the Board and the Compensation Committee assessed all of the Operating Committee members against quantitative and qualitative priorities set early in 2010. The Board's determination of compensation for our CEO reflected his extraordinary contribution to the Firm and to global economy during 2010 and throughout the last several challenging years.

Our compensation philosophy, policies and practices drive accountability, are designed to link pay to performance, and balance rewards with sound business decisions and effective risk management. The recent crisis has focused attention on the incentive compensation practices in our industry and has prompted attention on balancing compensation structures that might encourage excessive risk-taking. And while many practices continue to be proposed, we continue to believe that our practices over the past several years have been prudent and effective, substantially consistent with the principles underlying regulatory concepts and very effective for the Firm..

We have long tried to maintain a set of practices and principles marked by fiscal discipline, sufficient flexibility to attract and retain talent, and attention to safety and soundness. We believe that we have been at the forefront of sensible compensation practices with well-designed incentives that can and should remain an effective component of our total compensation approach. Although we refine our compensation programs as conditions change, we strive to maintain consistency in our philosophy and approach.

We have a rigorous performance and compensation management system that we believe to be aligned with global regulatory principles. Appendix A is a statement of the Firm's Compensation practices and principles, which articulates how we operate and further demonstrates why we believe that our compensation processes and programs are aligned with safety and soundness principles. These beliefs help build the following foundation for our approach:

- **The Board of Directors provides independent oversight of our compensation policies and practices.**
- **Pay is linked to performance based on individual, business and overall Firm performance, but is not overly rigid or formulaic.**
- **We encourage, foster and reward a shared success environment and teamwork.**
- **A meaningful, long-term ownership stake in the Firm reinforces alignment with shareholders.**
- **Robust risk management and compensation recovery policies deter excessive risk-taking and improper risk management.**
- **Attracting, retaining and developing talent is critical to sustaining success.**

The remainder of this section provides a more detailed discussion and analysis of our compensation programmes.

2010 Performance

Against the backdrop of some improvement in the business environment, JPMorgan Chase significantly improved its operating performance and continued to support the global economic recovery by providing capital, financing and liquidity to its clients around the world. The Firm's financial results were strong relative to 2009. The highlights below illustrate some of the key metrics and results that we use in evaluating the Firm's performance for the purpose of making compensation decisions. During and for 2010:

- The Firm reported full-year 2010 net income of $17.4 billion, or $3.96 per share, on net revenue of $102.7 billion. Net income was up 48% compared with net income of $11.7 billion or $2.26 per share in 2009.
- Return on common equity was 10% for the year, compared with 6% in the prior year, and return on tangible common equity was 15% for the year, compared with 10% in 2009.
- The Firm continued to strengthen its fortress balance sheet during 2010, ending the year with a Tier 1 Common ratio of 9.8% and Tier 1 Capital ratio of 12.1%. Total stockholders' equity at December 31, 2010, was $176.1 billion.
- Strong client relationships and continued investments for growth resulted in good performance across most of the Firm's businesses globally:-
  - Investment Bank (IB) had its second best revenue in history with an ROE of 17%, in line with through-the-cycle targets. Ranked #1 for Global Investment Banking Fees based on revenue.
  - Commercial Banking reported record revenue and net income.
  - Treasury & Securities Services (TSS) grew assets under custody to $16.1 trillion.
  - Asset Management (AM) reported record revenue.

Philosophy and approach of our compensation framework

Our compensation philosophy, practices and principles are an important part of our business strategy. They help to attract and retain the employees we need and provide a control framework for the elements of compensation we use and the processes to maintain a balanced approach to compensation. Our current and potential talent pool is highly marketable and can be attracted to opportunities across a broad spectrum of regulated and unregulated financial services businesses. Our competition for talent includes not only other global banks, investments banks, regional/local banks, and asset managers, but also boutique investment firms, hedge funds and private equity firms.

Our actions are as important as our principles. In the past year, we undertook extensive internal reviews of our programs in light of the global economic environment, proposed and enacted legislation, and global regulatory initiatives. We have examined our policies and practices against multiple sources of regulatory guidance, and believe that our principles and practices are substantially consistent with recommended approaches.

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 unnecessary or excessive risk-taking. We do this through a total compensation program comprised of an appropriate mix of fixed pay (base salary) and variable pay in the form of cash incentives and long-term, equity-based incentives. We deliver a lesser portion of compensation paid in cash annually and a larger portion in equity delivered over time and subject to continued performance of the Firm.

We have taken a number of steps in recent years as described further below, to help mitigate risk and further our objective of sensible and sound compensation practices. These steps include adoption of new recoupment policies, furthering the role of risk management in our compensation processes and providing that the Compensation Committee now meets at least annually with one or more members of the Risk Policy Committee of the Board of Directors. In addition, beginning in 2010, employees across multiple businesses had the mix of their total compensation adjusted to provide more fixed compensation (i.e., salary) and less variable compensation (i.e., incentives) going forward.

Our compensation principles and practices are described below and are set forth in Appendix A. Compensation practices continue to evolve and we will aim to continue to be at the forefront of best compensation practices in the industry.

- **Independent Board oversight**

JPMorgan Chase's compensation framework is supported by our corporate governance and board oversight.

- The Board of Directors, through the Compensation Committee, oversees our compensation programs, including overall accruals, mix of cash/stock, deferral percentages, and vehicles for delivering equity including terms and conditions.
- The Board of Directors regularly reviews financial performance, risk management and incentive compensation.

Authorities and responsibilities – The Compensation Committee is periodically apprised of regulatory developments and requirements in the principal jurisdictions in which we operate. In addition to approving compensation for Operating Committee members, the Compensation 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 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 Committee also reviews the compensation of a number of highly compensated individuals across the Firm globally and reviews the compensation of Code Staff in the U.K. covered by the Financial Services Authority Remuneration Code.

The Compensation Committee has delegated authority to the Director Human Resources to administer and amend the compensation and benefits programs.

Compensation review processes – Compensation of Operating Committee members depends not only on how they as individuals perform, but also on how the Firm as a whole performs. We assess their specific performance based on short-, medium- and longer-term objectives tailored to specific lines of business and functional areas.

Our disciplined compensation processes involve a series of reviews and assessments by successive levels of management within lines of business, the Operating Committee, the CEO, the Compensation Committee and the Board of Directors. The Compensation Committee determines appropriate compensation for the CEO and makes a recommendation to the Board for its ratification. Mr. Dimon discusses with the Compensation 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. After the review and discussion, Mr. Dimon makes compensation recommendations to the Compensation Committee

for their approval. No member of the Operating Committee other than the CEO has a role in making a recommendation to the Compensation Committee as to the compensation of any member 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. 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.

- **Pay is linked to performance but not overly rigid or formulaic**
- **Encourage, foster and reward a shared success environment and teamwork**

For senior level employees, a significant portion of compensation should be, and is, variable, and the Firm seeks real differentiation in compensation among our most senior employees based on their accomplishments.

As a general matter, in assessing performance, we consider:

- Performance of the individual employee, the relevant line of business, and the Firm as a whole.
- Performance that is based on measurable and sustained financial results through the business cycle.
- Performance that is both relative and absolute, in that each year's performance is compared not just to our own prior performance or achievement of current goals, but also to appropriately chosen comparison companies that compete in similar markets and provide similar financial products and services.

The performance criteria we consider include a robust set of quantitative and qualitative factors focused on financial performance, leadership skills, proper investing in the business, innovation and risk/control management. While specific factors will differ from business to business, function to function, and during different business cycles, among the most important factors that commonly apply are:

- Financial performance – operating earnings; revenue growth; expense management; return on capital; capital and liquidity management; quality of earnings.
- Leadership skills – contribution across business lines; establishing, refining and executing long-term strategic plans; focusing on doing what's best for our clients and customers; attracting, developing and retaining highly effective and diverse leaders; executing acquisition integration tasks; building an inclusive culture; supporting the Firm's values.
- Investing in the business – investing for growth (business expansion and technology); executing other major projects; achieving and maintaining market leadership positions in key businesses; supporting and strengthening the communities we serve worldwide.
- Innovation – improving client satisfaction; improving operational efficiency; thinking beyond your own business.
- Risk and control management – credit and risk management; maintaining compliance and controls; protecting the Firm's integrity and reputation.

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. Any substantial introduction of emerging risks or increase in risks routinely taken would be either largely controlled by the risk limits in place or identified through the frequent risk reporting that occurs throughout the Firm. 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 "fully-loaded" 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 believe that no one, single performance metric should determine the level of incentives awarded, particularly since there needs to be a balance of short-term and long-term metrics and a focus on sustained performance. Likewise, more balanced incentives should use multiple levels of performance measurement to discourage decisions that would only benefit one of several key stakeholders, i.e., individual executives, teams, the Firm or shareholders.

- **A meaningful long-term ownership stake in the Firm to reinforce alignment with shareholders**

We believe that an ownership stake in the Firm best aligns our employees' interests with those of our shareholders. Our compensation programs are designed to annually deliver a meaningful portion of total compensation in equity to employees who can have the greatest impact on the bottom line and to increase for our most senior employees the equity portion of their compensation to strengthen the alignment with shareholder interests. JPMorgan Chase pays a significant portion of our executive compensation in equity-based long-term incentives. Approximately 30,000 employees globally receive a percentage of their compensation in deferred equity, subject to clawback provisions. That enhanced alignment to shareholder interests is deliberate and focuses executive activities and decisions on those areas that increase shareholder value. We further believe that competitive, annual equity awards subject to multi-year vesting and termination/forfeiture provisions effectively emphasize the long-term view of our business and bolster the retention of our top talent.

Our policies require share ownership for directors and executive officers and encourage continued ownership for others. Directors pledge to retain all shares of JPMorgan Chase while they serve as a director. Senior executives 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; members of the Executive Committee who are not members of the Operating Committee are required to retain at least 50% of such shares. Half of unvested RSUs (the approximate after tax-equivalent) are included as part of both the ownership and the retention calculation. The retention requirement does not apply to shares received as part of incentive compensation in excess of the percentage that would be received under the firmwide stock-cash table generally applicable to employees at such incentive compensation level. Executives are subject to these retention requirements during their service on the Operating Committee or the Executive Committee; any exceptions are subject to approval by the General Counsel. Beginning in 2011, the inclusion of half of RSUs in both the ownership and retention calculations and the reduction of the retention requirement from 75% to 50% for shares held more than 10 years from the original award date was approved by the Compensation Committee to strike a balance between the timing and amount of compensation awarded as equity and the long-term reward realization for the covered executives.

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.

- **Robust risk management and compensation recovery policies deter excessive risk-taking and improper risk management**

JPMorgan Chase seeks effective controls for designing, implementing, and monitoring incentive compensation.

- Incentive compensation is generally discretionary, based on individual, LOB and Firm performance.
- Our approach to financial measurement, risk and compensation management enables us to align employees' incentive compensation with their contributions to sustained, risk-adjusted financial performance.
- Incentive accruals are determined in the context of the Firm's capital and liquidity considerations.
- Incentives are based on risk-adjusted P&L and are calibrated to the underlying risk of the business activity.
- Beginning in 2008, the Compensation Committee reviewed with the Chief Risk Officer the risks that the Firm faces and elements of our organizational structure, management practices and compensation programs that would discourage unnecessary or excessive risk-taking, and will continue to do so going forward. In 2009, this review included the self-assessment of all incentive arrangements for the Firm. Beginning in 2009, the Compensation Committee determined to meet at least annually with one or more members of the Risk Policy Committee.
- There is appropriate separation between risk and control functions and the businesses they oversee, which is necessary to avoid potential conflicts of interest.
- Internal Audit conducts regular, independent audits of the Firm's compliance with its established policies and controls 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.

JPMorgan Chase believes its incentive compensation arrangements are fair and balanced.

- The Compensation Committee exercises its business judgment in determining the compensation of members of the Operating Committee, and members of the Operating Committee and other senior managers similarly exercise business judgment in determining the compensation of employees who report to them.
- Incentive compensation decisions are based on employees' contributions to sustained financial performance, adjusted for risk-taking and capital usage where appropriate.
- We do not rely on formulaic approaches tied to narrow measures. Performance evaluations consider multiple criteria – individual performance, business unit performance, Firm performance, controls, partnership and culture.
- Performance measures included in incentive plans are assessed for the potential to encourage or discourage employees to take excessive risks and assist in mitigating those risks.
- Incentive compensation decisions factor in the level and duration of risk taken.
- We use mechanisms, such as risk-adjusted metrics, deferrals, clawbacks 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 ensures 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. Awards that are deferred into equity have multi-year vesting. By staggering the vesting of equity 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 split between cash and deferred equity, with the percentage being deferred and awarded in equity increasing as an employee's incentive compensation increases.
  - Clawback/recovery provisions are in place for incentive awards (cash and equity incentive compensation).
- The Firm very rarely offers guarantees to employees in the EU and if it were to do so, such guarantees would comply with the requirements of the CEBS Guidelines on Remuneration Policies and Practices.
- There are no golden parachutes for executives and we do not use supplemental executive retirement plans.
- Compensation of risk and control professionals is not predominantly based on the performance of the business they oversee.

We strive for a long-term orientation both in the way we assess performance and in the way we structure compensation. The aim of our compensation programs and policies is to motivate all employees to attain strong and sustained performance, both on an absolute and relative basis. We achieve this through processes and tools that are clear, transparent and effective at driving behaviors that expand the depth and breadth of our positive impact on clients.

Certain features of our compensation programs are targeted to help us achieve individual objectives, and other elements help us achieve multiple objectives simultaneously. Our vesting periods for stock awards generally provide that one-half vests after two years and the balance vests after three years. As a result of these awards, employees share the same interest in the Firm's long-term success as other shareholders, and we believe that such ownership is a positive factor in retaining key employees. We also use these features to focus executives across all lines of business on longer-term strategy and the overall results of the Firm, particularly at more senior levels where executives can have a greater role in our long-term success.

JPMorgan Chase has policies that would permit recovery of incentive compensation awards in appropriate circumstances.

- Stock-based and deferred cash awards vest over multiple years, and such awards granted in 2010 and 2011 are subject to the Firm's right to cancel an unvested or unexercised award, and to require repayment of the value of certain shares or deferred cash 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 – the Firm's 15 most senior executives – and certain other employees, there is a failure to properly 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.
- Under our recoupment policy adopted in 2006, the Firm may seek repayment of incentive compensation (cash and equity) in the event of a material restatement of the Firm's financial results for the relevant period.

Additional conditions apply to RSUs and SARs granted to Operating Committee members.

- For members of the Operating Committee, half of all equity awards granted in 2011 provide that, although it is intended and expected that the RSU and SAR awards would vest and/or become exercisable as scheduled, the terms and conditions of the awards allow for reduction (and therefore forfeiture) or deferral in scheduled vesting or exercisability in the event the CEO determines that the performance of such 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. Among the factors the CEO may consider in assessing the Firm's financial performance are net income, total net revenue, return on equity, earnings per share

and capital ratios, both on an absolute basis and, as appropriate, relative to peer firms. Such determination is subject to ratification by the Compensation Committee. In the case of an award to the CEO, such determination would be made by the Compensation Committee.

- RSU grants vest 50% after two years and 50% after three years and SARs become exercisable 20% per year over five years, and the above condition applies throughout the vesting period of the grants.

- **Attracting, retaining and developing talent is critical to sustaining success**

Our compensation programs are intended to attract and retain employees with the skills and talent we need to create sustained value for the Firm and its shareholders. We believe our approach is simple, consistent, effective and understandable. As such, we rely on commonly recognized elements of compensation and we use various design mechanisms to seek to ensure our incentive compensation arrangements are sensitive to risk-taking. In determining our compensation elements and their design, we also review the competitive landscape.

Structure and design – The major elements we use in the core structure and design of our programs are summarized in Appendix B. Our salary programs, compensation levels, cash/stock mix, deferral rates, terms and conditions for equity awards, and the design of business-specific incentives are among the elements we frequently review.

Talent management, development and succession planning – As part of our resolve to focus on long-term sustained value, we look to ensure that we are developing leaders for the future. We have introduced a disciplined process of talent reviews focused on thorough assessments, enhanced executive development programs and rotations of top executives to prepare them for greater responsibility. We are committed to having a strong pipeline to deal with succession for our Operating Committee, including the CEO position. At least annually the independent directors make an evaluation of the Chairman and Chief Executive Officer, normally in connection with a review of executive officer annual compensation. Succession planning is also considered at least annually by the independent directors with the Chief Executive Officer. The Compensation Committee regularly discusses management development and provides updates to the full Board.

Relevant market place – We use comparison groups, or benchmarking, to understand market practices and trends, to evaluate the competitiveness of our programs and to assess the efficiency of these programs. Each of our lines of business operates under our overall compensation framework, but uses compensation programs appropriate to its competitive environment. Given the diversity of our businesses, our global operations and the complexity of the products and services we provide, our comparison group is also diverse, global and complex.

As a result, the Compensation Committee reviews actual compensation levels, typically from public data, for companies that either directly compete with us for business and/or talent or are 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.

Below the level of our most senior officers, our businesses generally benchmark against direct business competitors, while functional areas benchmark against a blend of financial services and large, globally integrated businesses. We view benchmarking as important for an understanding of the market, to stay competitive and to use market factors to inform, not override, our focus on pay for performance and internal equity. American Express, Bank of America, Citigroup, Goldman Sachs, Morgan Stanley and Wells Fargo are the companies JPMorgan Chase views to be the competitors while considering compensation for the CEO, CFO and other functional heads. JPMorgan Chase also considers other general industry peers like GE, IBM, HP, and Walt Disney for these roles. Due to the diverse business model and operations of our various lines of businesses other peer firms considered are Barclays, BNY Mellon, Credit Suisse, Deutsche Bank, Discover Financial Services, Fidelity, HSBC, T. Rowe Price and Vanguard.

The Compensation Committee and Board of Directors did not engage the services of a compensation consultant in 2010. The Firm provides the Compensation Committee with both internal and external compensation data.

- **Strict limits or prohibition on executive perquisites and special benefits**

There are no golden parachutes or special severance plans.

- No golden parachutes for any executives.
- No change in control agreements.
- No special severance programmes; the Firm's policy limits severance to a maximum of 52 weeks salary based on years of service.
- Equity 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.

There are no special executive benefits.

- Variable compensation is not pensionable
- No special medical, insurance or disability benefits for executives.
- No private club membership fees, car allowances, financial planning, tax gross-ups for benefits.

Appendix A

JPMorgan Chase Compensation practices and principles

We believe that JPMorgan Chase has consistently been at the forefront of sensible compensation practices. We have a rigorous performance and compensation management system that incorporates the following practices and principles:

- A focus on multi-year, long-term, risk-adjusted performance and rewarding behavior that generates sustained value for the Firm through business cycles.
- An emphasis on teamwork and a "shared success" culture.
- A significant stock component (with deferred vesting) for shareholder alignment and retention of top talent.
- Recoupment and clawback provisions in addition to disciplined risk management to deter excessive risk taking.
- A recognition that competitive and reasonable compensation helps attract and retain the best talent necessary to grow and sustain our business.
- Strict limits or prohibitions on executive perquisites, special executive retirement or severance plans.
- Independent Board oversight of the Firm's compensation practices and principles and their implementation.

These practices and principles are supported by additional beliefs that guide how we operate.
Compensation should not be overly rigid, formulaic or short-term oriented.

- 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.
- 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.
- 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.
- 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.

Teamwork and a shared success environment should be encouraged and rewarded.

- Contributions should be considered across the Firm, within business units, and at an individual level when evaluating an employee's performance.
- 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.
- All equity awards for executive officers should be subject to reduction, forfeiture, or additional deferred vesting if there is not satisfactory progress towards priorities.

A meaningful ownership stake in the Firm should be used to reinforce alignment with shareholders.

- A significant percentage of incentive compensation should be in stock that vests over multiple years.
- 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.

- A proper balance between annual compensation and longer-term incentives should clearly delineate the importance of sustainable, realizable value. At JPMorgan Chase:
  - 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.
  - Senior executives receive at least 50% (and in some cases, substantially more) of their incentive compensation in stock.
  - The officers who make up our Operating Committee are generally required to hold 75% of compensation-related stock awards during the period 10 years from grant of the underlying award and 50% thereafter, and the non-Operating Committee, Executive Committee officers are generally required to hold 50%.
  - Executives cannot sell short, buy puts, sell calls, enter into derivative contracts on, or otherwise hedge our stock, and even after retirement, executives typically continue to have substantial holdings of our company stock.

Risk management and compensation recovery policies should be robust enough to deter excessive risk taking and improper risk management.

- Risk disciplines and review processes should generate honest, fair and objective evaluations of where we stand and how we're doing. Variable compensation funding should be consistent with effective risk management and the timing of compensation payouts should be sensitive to the time horizon of associated risks.
- Final determinations of compensation in risk management and control functions should not be made solely in the business areas and should be less focused on outcomes in the area covered by the individual, and more aligned with the Firm's overall performance. Compensation of those functions should be less variable one year to the next when compared to the compensation of revenue-generating functions.
- 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 all senior managers and highly paid employees, 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.

Attracting, retaining and developing talent is critical to sustaining success.

- 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.
- 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.
- For employees in good standing who have resigned and meet "full career eligibility" or other acceptable criteria, awards generally should continue to vest over time on their original schedule and be subject to continuing post-employment obligations to the Firm during this period.

Strict limits or prohibition on executive perquisites and special benefits.

- An executive's compensation should be straightforward and consist primarily of cash and equity.
- We do not maintain special supplemental retirement or other special benefits just for executives.
- The Firm generally has not had any change in control agreements, golden parachutes, merger bonuses or other special severance benefit arrangements for executives.

Independent Board oversight.

- Our Compensation Committee, which includes only independent directors, reviews and approves the Firm's overall compensation philosophy, principles and practices.
- The Compensation 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.
- The Compensation Committee reviews and approves the terms of our compensation award programs, including recoupment provisions, restrictive covenants and vesting periods.
- The Compensation Committee reviews the Firm's overall incentive compensation pools and those of each of the Firm's Line of Businesses and the Corporate Sector.
- The Compensation Committee reviews the performance and approves all compensation awards for the Firm's Operating Committee on a name-by-name basis.
- The full Board's independent directors review the performance and approve the compensation of our CEO.

Appendix B
Elements of compensation

Compensation element	***Description***	***Other features***
Base salary	Typically the smallest component of total compensation for NEOS, members of the Operating Committee and other members of senior management. Provides a measure of certainty and predictability to meet certain 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 incentive which can vary significantly from year to year. The Firm views incentive compensation in the context of total compensation and does not establish target levels of incentive compensation as a percentage of the relevant employees' annual base compensation.	JPMorgan Chase's principal discretionary incentive arrangement, which covers the majority of employees across virtually all of our LOBs, incorporates several broad design features that seek to ensure incentive awards are appropriately risk-adjusted and relate to actual results achieved. Other business-specific incentive arrangements generally are also discretionary, and even where we budget or accrue incentive compensation off formulas or payout grids for these employees, we reserve the right to modify or curtail those incentives at any time.
– 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. For 2010, Operating Committee members received on average 67% of their total incentive award in the form of equity, including equity awards described below.	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. Shares received upon vesting are subject to the retention policy applicable to senior management described at page 5. Equity-related compensation for Operating Committee members is subject to further restriction as described at page 7.
Equity awards	The Firm grants equity awards as special leadership options to select senior officers to reward and encourage leadership, including awards made in the form of SARs settled in shares only.	The awards 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 exercise are subject to the retention policy applicable to senior management described at page 5.
Pension and retirement	Pension provisions vary by country	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 programs for senior executives.

Severance plan	Severance plans vary by country according to legal obligations and market practice.	